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Mueller Water Products, Inc.  
Form 10-Q  
August 09, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

Commission File Number 001-32892

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MUELLER WATER PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

20-3547095

(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a 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

There were 156,800,818 shares of Series A common stock of the registrant outstanding at July 31, 2012.



## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|                                                                                                                                                            | June 30,<br>2012<br>(in millions) | September 30,<br>2011 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------|
| Assets:                                                                                                                                                    |                                   |                       |
| Cash and cash equivalents                                                                                                                                  | \$53.7                            | \$61.0                |
| Receivables, net                                                                                                                                           | 156.5                             | 147.4                 |
| Inventories                                                                                                                                                | 196.9                             | 175.9                 |
| Deferred income taxes                                                                                                                                      | 21.5                              | 28.7                  |
| Other current assets                                                                                                                                       | 49.2                              | 43.8                  |
| Current assets held for sale                                                                                                                               | —                                 | 142.0                 |
| Total current assets                                                                                                                                       | 477.8                             | 598.8                 |
| Property, plant and equipment, net                                                                                                                         | 140.5                             | 145.7                 |
| Identifiable intangible assets                                                                                                                             | 580.4                             | 602.4                 |
| Other noncurrent assets                                                                                                                                    | 33.1                              | 30.4                  |
| Noncurrent assets held for sale                                                                                                                            | —                                 | 107.7                 |
| Total assets                                                                                                                                               | \$1,231.8                         | \$1,485.0             |
| Liabilities and stockholders' equity:                                                                                                                      |                                   |                       |
| Current portion of long-term debt                                                                                                                          | \$1.3                             | \$0.9                 |
| Accounts payable                                                                                                                                           | 74.9                              | 59.1                  |
| Other current liabilities                                                                                                                                  | 72.6                              | 77.9                  |
| Current liabilities held for sale                                                                                                                          | —                                 | 56.9                  |
| Total current liabilities                                                                                                                                  | 148.8                             | 194.8                 |
| Long-term debt                                                                                                                                             | 621.5                             | 677.4                 |
| Deferred income taxes                                                                                                                                      | 135.6                             | 154.2                 |
| Other noncurrent liabilities                                                                                                                               | 60.0                              | 79.6                  |
| Total liabilities                                                                                                                                          | 965.9                             | 1,106.0               |
| Commitments and contingencies (Note 12)                                                                                                                    |                                   |                       |
| Common stock:                                                                                                                                              |                                   |                       |
| Series A common stock: 600,000,000 shares authorized; 156,800,818 and 155,793,612 shares outstanding at June 30, 2012 and September 30, 2011, respectively | 1.6                               | 1.6                   |
| Additional paid-in capital                                                                                                                                 | 1,588.9                           | 1,593.2               |
| Accumulated deficit                                                                                                                                        | (1,273.5)                         | (1,161.6)             |
| Accumulated other comprehensive loss                                                                                                                       | (51.1)                            | (54.2)                |
| Total stockholders' equity                                                                                                                                 | 265.9                             | 379.0                 |
| Total liabilities and stockholders' equity                                                                                                                 | \$1,231.8                         | \$1,485.0             |

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



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

|                                                        | Three months ended<br>June 30,          |          | Nine months ended<br>June 30, |          |
|--------------------------------------------------------|-----------------------------------------|----------|-------------------------------|----------|
|                                                        | 2012                                    | 2011     | 2012                          | 2011     |
|                                                        | (in millions, except per share amounts) |          |                               |          |
| Net sales                                              | \$275.9                                 | \$259.6  | \$742.8                       | \$708.3  |
| Cost of sales                                          | 196.3                                   | 186.5    | 548.3                         | 525.1    |
| Gross profit                                           | 79.6                                    | 73.1     | 194.5                         | 183.2    |
| Operating expenses:                                    |                                         |          |                               |          |
| Selling, general and administrative                    | 53.2                                    | 48.1     | 150.3                         | 140.3    |
| Restructuring                                          | 0.7                                     | 0.3      | 2.0                           | 2.4      |
| Total operating expenses                               | 53.9                                    | 48.4     | 152.3                         | 142.7    |
| Operating income                                       | 25.7                                    | 24.7     | 42.2                          | 40.5     |
| Interest expense, net                                  | 14.9                                    | 16.8     | 46.1                          | 49.0     |
| Loss on early extinguishment of debt                   | 1.5                                     | —        | 1.5                           | —        |
| Income (loss) before income taxes                      | 9.3                                     | 7.9      | (5.4)                         | (8.5)    |
| Income tax expense (benefit)                           | 3.4                                     | 1.0      | 4.1                           | (4.3)    |
| Income (loss) from continuing operations               | 5.9                                     | 6.9      | (9.5)                         | (4.2)    |
| Income (loss) from discontinued operations, net of tax | 3.9                                     | (9.6)    | (102.4)                       | (24.3)   |
| Net income (loss)                                      | 9.8                                     | (2.7)    | (111.9)                       | (28.5)   |
| Other comprehensive income (loss):                     |                                         |          |                               |          |
| Natural gas hedges                                     | 0.3                                     | —        | —                             | —        |
| Income tax effects                                     | (0.1)                                   | ) —      | —                             | —        |
| Interest rate swap contracts                           | 1.3                                     | 2.1      | 4.3                           | 6.0      |
| Income tax effects                                     | (0.5)                                   | ) (0.8)  | (1.7)                         | (2.3)    |
| Foreign currency translation                           | (1.6)                                   | ) (0.1)  | 0.4                           | 3.1      |
| Minimum pension liability                              | (1.0)                                   | ) 0.3    | 0.3                           | 34.7     |
| Income tax effects                                     | 0.2                                     | (0.3)    | (0.2)                         | (13.7)   |
| Other                                                  | (1.4)                                   | ) —      | —                             | (0.3)    |
| Comprehensive income (loss)                            | \$8.4                                   | \$(1.5)  | \$(108.8)                     | \$(1.0)  |
| Net income (loss) per basic share:                     |                                         |          |                               |          |
| Continuing operations                                  | \$0.04                                  | 0.04     | \$(0.06)                      | \$(0.03) |
| Discontinued operations                                | 0.02                                    | (0.06)   | (0.66)                        | (0.15)   |
| Net income (loss) per basic share                      | \$0.06                                  | \$(0.02) | \$(0.72)                      | \$(0.18) |
| Net income (loss) per diluted share:                   |                                         |          |                               |          |
| Continuing operations                                  | \$0.04                                  | \$0.04   | \$(0.06)                      | (0.03)   |
| Discontinued operations                                | 0.02                                    | (0.06)   | (0.66)                        | (0.15)   |
| Net income (loss) per diluted share                    | \$0.06                                  | \$(0.02) | \$(0.72)                      | \$(0.18) |
| Weighted average shares outstanding:                   |                                         |          |                               |          |
| Basic                                                  | 156.7                                   | 155.5    | 156.4                         | 155.2    |
| Diluted                                                | 158.0                                   | 156.6    | 156.4                         | 155.2    |

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|                              |          |          |          |          |
|------------------------------|----------|----------|----------|----------|
| Dividends declared per share | \$0.0175 | \$0.0175 | \$0.0525 | \$0.0525 |
|------------------------------|----------|----------|----------|----------|

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

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

|                                                                                           | Nine months ended<br>June 30, |           |
|-------------------------------------------------------------------------------------------|-------------------------------|-----------|
|                                                                                           | 2012                          | 2011      |
|                                                                                           | (in millions)                 |           |
| Operating activities:                                                                     |                               |           |
| Net loss                                                                                  | \$(111.9                      | ) \$(28.5 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                               |           |
| Loss from discontinued operations                                                         | 102.4                         | 24.3      |
| Loss from continuing operations                                                           | (9.5                          | ) (4.2    |
| Depreciation                                                                              | 23.2                          | 25.3      |
| Amortization                                                                              | 22.0                          | 21.9      |
| Loss on early extinguishment of debt                                                      | 1.5                           | —         |
| Stock-based compensation                                                                  | 3.8                           | 4.9       |
| Deferred income taxes                                                                     | 12.9                          | (14.5     |
| Retirement plans                                                                          | 4.1                           | 6.2       |
| Interest rate swap contracts                                                              | 4.3                           | 6.0       |
| Other, net                                                                                | 2.1                           | 1.5       |
| Changes in assets and liabilities, net of acquisitions:                                   |                               |           |
| Receivables                                                                               | (9.2                          | ) (18.0   |
| Inventories                                                                               | (21.0                         | ) 7.2     |
| Other assets                                                                              | (0.7                          | ) (2.0    |
| Liabilities                                                                               | (9.0                          | ) (34.5   |
| Net cash provided by (used in) operating activities from continuing operations            | 24.5                          | (0.2      |
| Investing activities:                                                                     |                               |           |
| Capital expenditures                                                                      | (19.5                         | ) (15.9   |
| Acquisitions                                                                              | 0.5                           | (7.9      |
| Proceeds from sales of assets                                                             | 0.4                           | 1.1       |
| Net cash used in investing activities from continuing operations                          | (18.6                         | ) (22.7   |
| Financing activities:                                                                     |                               |           |
| Debt borrowings                                                                           | 0.4                           | 0.5       |
| Debt payments                                                                             | (57.2                         | ) —       |
| Common stock issued                                                                       | 0.3                           | —         |
| Deferred financing fees paid                                                              | —                             | (0.4      |
| Dividends paid                                                                            | (8.2                          | ) (8.1    |
| Other                                                                                     | 0.3                           | 0.6       |
| Net cash used in financing activities from continuing operations                          | (64.4                         | ) (7.4    |
| Net cash flows from discontinued operations:                                              |                               |           |
| Operating activities                                                                      | (36.6                         | ) (3.0    |
| Investing activities                                                                      | 87.4                          | (6.1      |
| Net cash provided by (used in) discontinued operations                                    | 50.8                          | (9.1      |
| Effect of currency exchange rate changes on cash                                          | 0.4                           | 1.1       |
| Net change in cash and cash equivalents                                                   | (7.3                          | ) (38.3   |
| Cash and cash equivalents at beginning of period                                          | 61.0                          | 84.0      |

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|                                            |        |        |
|--------------------------------------------|--------|--------|
| Cash and cash equivalents at end of period | \$53.7 | \$45.7 |
|--------------------------------------------|--------|--------|

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

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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 NINE MONTHS ENDED JUNE 30, 2012  
 (UNAUDITED)

|                                                | Common<br>stock | Additional<br>paid-in<br>capital | Accumulated<br>deficit | Accumulated<br>other<br>comprehensive<br>loss | Total     |   |
|------------------------------------------------|-----------------|----------------------------------|------------------------|-----------------------------------------------|-----------|---|
|                                                | (in millions)   |                                  |                        |                                               |           |   |
| Balance at September 30, 2011                  | \$1.6           | \$1,593.2                        | \$(1,161.6             | ) \$(54.2                                     | ) \$379.0 |   |
| Net loss                                       | —               | —                                | (111.9                 | ) —                                           | (111.9    | ) |
| Dividends declared                             | —               | (8.2                             | ) —                    | —                                             | (8.2      | ) |
| Stock-based compensation                       | —               | 3.6                              | —                      | —                                             | 3.6       |   |
| Stock issued under stock<br>compensation plans | —               | 0.3                              | —                      | —                                             | 0.3       |   |
| Derivative instruments                         | —               | —                                | —                      | 2.6                                           | 2.6       |   |
| Foreign currency translation                   | —               | —                                | —                      | 0.4                                           | 0.4       |   |
| Minimum pension liability                      | —               | —                                | —                      | 0.1                                           | 0.1       |   |
| Balance at June 30, 2012                       | \$1.6           | \$1,588.9                        | \$(1,273.5             | ) \$(51.1                                     | ) \$265.9 |   |

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

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## MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Organization

Mueller Water Products, Inc., a Delaware corporation, together with its consolidated subsidiaries, operates in two business segments: Mueller Co. 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 broad range of metering, leak detection and pipe condition assessment products for the water infrastructure industry. Anvil manufactures and sources a broad range of products, including a variety of fittings, couplings, hangers, nipples and related products. The "Company," "we," "us" or "our" refer to Mueller Water Products, Inc. and its 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 April 1, 2012, we sold the businesses comprising our former U.S. Pipe segment. U.S. Pipe's results of operations have been reclassified as discontinued operations, and its assets and liabilities reclassified as held for sale, for all prior periods presented.

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which require us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses and the disclosure of contingent assets and liabilities for the reporting periods. Actual results could differ from those estimates. All significant intercompany balances and transactions have been eliminated. In our opinion, all normal and recurring adjustments that we consider necessary for a fair financial statement presentation have been made. Certain reclassifications have been made to previously reported amounts to conform to the current presentation. The condensed consolidated balance sheet data at September 30, 2011 was derived from audited financial statements, but does not include all disclosures required by GAAP.

Unless the context indicates otherwise, whenever we refer to a particular year, we mean the fiscal year ended or ending September 30 in that particular calendar year.

## Note 2. Acquisition

On December 14, 2010, we acquired Echologics Engineering Inc., a leak detection and pipe condition assessment company headquartered in Toronto, Canada, for \$7.9 million in cash, which included \$1.5 million placed in escrow related primarily to sale contingencies. During the quarter ended December 31, 2011, we resolved one of these contingencies in our favor and reduced the purchase price by \$0.5 million, which reduced the associated goodwill balance to zero. During the quarter ended March 31, 2012, we released \$0.5 million from escrow to the sellers. In July 2012, we released the final \$0.5 million to the sellers. We have included the operating results of this business in Mueller Co.'s results effective December 14, 2010. The final allocation of the purchase price of the related assets and liabilities is presented below, in millions.

## Assets:

|                                |       |
|--------------------------------|-------|
| Receivables                    | \$0.3 |
| Inventories                    | 0.1   |
| Other current assets           | 0.2   |
| Property, plant and equipment  | 0.1   |
| Identifiable intangible assets | 7.3   |

## Liabilities:

|                                                |       |   |
|------------------------------------------------|-------|---|
| Accounts payable and other current liabilities | (0.2) | ) |
| Deferred income taxes                          | (0.4) | ) |
|                                                | \$7.4 |   |

Identifiable intangible assets consist of trade names and trademarks of \$0.6 million that have indefinite useful lives and technology of \$6.7 million that has an estimated useful life of 15 years.

Goodwill of \$0.5 million was included in other noncurrent assets at September 30, 2011.

## Note 3. Discontinued Operations and Assets Held for Sale

On April 1, 2012, we sold the businesses comprising our former U.S. Pipe segment and received proceeds of \$94.0 million in cash, subject to adjustments, and the agreement by the purchaser to reimburse us for expenditures to settle certain previously-existing liabilities estimated at \$10.1 million at March 31, 2012. We believe there are net additional purchase price

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adjustments related to net working capital that would increase the purchase price by \$9.2 million. However, the purchaser has claimed net purchase price adjustments related to net working capital that would reduce the purchase price by \$5.2 million. This dispute will be resolved by an independent auditor who has been selected by the parties, and we cannot make a reliable estimate of what the resolution may be. The resolution of this purchase price adjustment dispute will result in an adjustment to our recorded loss on sale of discontinued operations.

There were no assets or liabilities held for sale at June 30, 2012. The table below presents the components of the balance sheet accounts classified as assets and liabilities held for sale at September 30, 2011, in millions.

## Assets:

|                                       |         |
|---------------------------------------|---------|
| Cash                                  | \$0.2   |
| Receivables, net                      | 73.4    |
| Inventories                           | 61.8    |
| Other current assets                  | 6.6     |
| Total current assets held for sale    | \$142.0 |
| Property, plant and equipment, net    | \$98.1  |
| Identifiable intangible assets        | 8.5     |
| Other noncurrent assets               | 1.1     |
| Total noncurrent assets held for sale | \$107.7 |

## Liabilities:

|                                         |        |
|-----------------------------------------|--------|
| Accounts payable                        | \$48.5 |
| Other current liabilities               | 8.4    |
| Total current liabilities held for sale | \$56.9 |

The table below represents a summary of the operating results for the U.S. Pipe discontinued operations. These operating results do not reflect what they would have been had U.S. Pipe not been classified as discontinued operations.

|                                                        | Three months ended<br>June 30, |         | Nine months ended<br>June 30, |          |
|--------------------------------------------------------|--------------------------------|---------|-------------------------------|----------|
|                                                        | 2012                           | 2011    | 2012                          | 2011     |
|                                                        | (in millions)                  |         |                               |          |
| Net sales                                              | \$—                            | \$107.1 | \$197.0                       | \$257.3  |
| Cost of sales                                          | —                              | 109.9   | 197.9                         | 270.6    |
| Gross loss                                             | —                              | (2.8)   | (0.9)                         | (13.3)   |
| Operating expenses (benefits)                          | (1.8)                          | 8.0     | 8.9                           | 24.5     |
| Operating income (loss)                                | 1.8                            | (10.8)  | (9.8)                         | (37.8)   |
| Interest expense                                       | —                              | —       | 0.3                           | —        |
| Loss on sale of discontinued operations                | 2.2                            | —       | 118.7                         | —        |
| Income tax benefit                                     | (4.3)                          | (1.2)   | (26.4)                        | (13.5)   |
| Income (loss) from discontinued operations, net of tax | \$3.9                          | \$(9.6) | \$(102.4)                     | \$(24.3) |

## Note 4. Income Taxes

After including the tax effect of the loss on the sale of U.S. Pipe, our deferred tax liabilities are insufficient to fully support our deferred tax assets, which include net operating loss carryforwards. Accordingly, we recorded income tax expense to establish valuation allowances related to deferred tax assets during the quarter ended March 31, 2012.

GAAP requires us to allocate a portion of the valuation allowance charge relating to deferred tax assets at September 30, 2011 to continuing operations. Our net operating loss carryforwards remain available to offset future taxable earnings.



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The components of income tax expense (benefit) are provided below.

|                                               | Three months ended<br>June 30, 2012       |                            | Nine months ended<br>June 30, 2012 |                            |
|-----------------------------------------------|-------------------------------------------|----------------------------|------------------------------------|----------------------------|
|                                               | Continuing<br>operations<br>(in millions) | Discontinued<br>operations | Continuing<br>operations           | Discontinued<br>operations |
| Expense (benefit) from operations             | \$3.8                                     | \$(0.1 )                   | \$(2.4 )                           | \$(50.7 )                  |
| Valuation allowance-related expense (benefit) | —                                         | (4.2 )                     | 5.9                                | 24.3                       |
| Other discrete items                          | (0.4 )                                    | —                          | 0.6                                | —                          |
| Income tax expense (benefit)                  | \$3.4                                     | \$(4.3 )                   | \$4.1                              | \$(26.4 )                  |

At June 30, 2012 and September 30, 2011, the gross liabilities for unrecognized income tax benefits were \$4.9 million and \$7.8 million, respectively. The decrease is primarily related to the settlement of state audits and the expiration of the statute of limitations on a foreign issue.

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 expense. At June 30, 2012 and September 30, 2011, we had \$1.0 million and \$1.8 million, respectively, of accrued interest expense related to uncertain tax positions.

Generally, our state income tax returns are closed for years prior to 2007 and our Canadian income tax returns are closed for years prior to 2005. We concluded an audit by the Internal Revenue Service (the "IRS") for the years 2007 through 2010 with no adverse changes. We are also under audit by several states at various levels of completion. We do not have any material unpaid assessments.

#### Note 5. Borrowing Arrangements

The components of long-term debt are presented below.

|                                  | June 30,<br>2012<br>(in millions) | September 30,<br>2011 |
|----------------------------------|-----------------------------------|-----------------------|
| ABL Agreement                    | \$—                               | \$34.0                |
| 8.75% Senior Unsecured Notes     | 199.8                             | 221.7                 |
| 7.375% Senior Subordinated Notes | 420.0                             | 420.0                 |
| Other                            | 3.0                               | 2.6                   |
|                                  | 622.8                             | 678.3                 |
| Less current portion             | (1.3 )                            | (0.9 )                |
| Long-term debt                   | \$621.5                           | \$677.4               |

ABL Agreement. At June 30, 2012, our asset based lending agreement (the "ABL Agreement") consisted of a revolving credit facility for up to \$275 million of revolving credit borrowings, swing line loans and letters of credit. The ABL Agreement also permits us to increase the size of the credit facility by an additional \$150 million in certain circumstances subject to adequate borrowing base availability. We may borrow up to \$25 million through swing line loans and may have up to \$60 million of letters of credit outstanding.

Borrowings under the ABL Agreement bear interest at a floating rate equal to LIBOR plus a margin ranging from 275 to 325 basis points, or a base rate, as defined in the ABL Agreement, plus a margin ranging from 175 to 225 basis points. At June 30, 2012, the applicable rates were LIBOR plus 300 basis points and the base rate plus 200 basis points.

The ABL Agreement terminates in August 2015. We pay a commitment fee of 50 basis points for any unused borrowing capacity and our obligations are secured by a first-priority perfected lien on all of our U.S. receivables and inventory, certain cash and other supporting obligations. Borrowings are not subject to any financial maintenance covenants unless excess availability is less than the greater of \$34 million and 12.5% of the aggregate commitments under the ABL Agreement. As measured using June 30, 2012 data, excess availability as reduced by outstanding letters of credit and accrued fees and expenses of \$37.9 million was \$141.3 million and our borrowing capacity was also \$141.3 million.

8.75% Senior Unsecured Notes. The 8.75% Senior Unsecured Notes (the “Senior Unsecured Notes”) mature in September 2020 and bear interest at 8.75%, paid semi-annually. Based on quoted market prices, the outstanding Senior

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Unsecured Notes had a fair value of \$226.3 million at June 30, 2012.

On May 18, 2012, we redeemed \$22.5 million aggregate principal amount for \$23.2 million, plus accrued interest, and recorded a loss on early extinguishment of debt of \$1.5 million. We may redeem up to \$22.5 million aggregate principal amount of the Senior Unsecured Notes at a redemption price of 103% plus accrued and unpaid interest once in the year ending September 1, 2013. We may also redeem up to \$78.8 million aggregate principal amount of the Senior Unsecured Notes at a redemption price of 108.75%, plus accrued and unpaid interest, with the net cash proceeds from certain equity offerings prior to September 2013, provided that at least \$146.2 million aggregate principal amount remains outstanding immediately after such redemption. After August 2015, we may redeem the Senior Unsecured Notes at specified redemption prices plus accrued and unpaid interest. Upon a Change of Control (as defined in the indenture securing the Senior Unsecured Notes), we are required to offer to purchase the outstanding Senior Unsecured Notes at a purchase price of 101% plus accrued and unpaid interest. The Senior Unsecured Notes are subordinate to borrowings under the ABL Agreement.

The indenture securing the Senior Unsecured 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 U.S. subsidiaries guarantee the Senior Unsecured Notes. We believe we were compliant with these covenants at June 30, 2012 and expect to remain in compliance through June 30, 2013.

**7.375% Senior Subordinated Notes.** The 7.375% Senior Subordinated Notes (the "Senior Subordinated Notes") mature in June 2017 and bear interest at 7.375%, paid semi-annually. Based on quoted market prices, the outstanding Senior Subordinated Notes had a fair value of \$420.0 million at June 30, 2012.

We may redeem any portion of the Senior Subordinated Notes at specified redemption prices plus accrued and unpaid interest, subject to limitations under our ABL agreement and the indenture related to our Senior Unsecured Notes. Upon a Change of Control (as defined in the indenture securing the Senior Subordinated Notes), we are required to offer to purchase the outstanding Senior Subordinated Notes at a purchase price of 101%, plus accrued and unpaid interest. The Senior Subordinated Notes are subordinate to borrowings under the ABL Agreement and the Senior Unsecured Notes.

The indenture securing the Senior Subordinated 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 U.S. subsidiaries guarantee the Senior Subordinated Notes. We believe we were compliant with these covenants at June 30, 2012 and expect to remain in compliance through June 30, 2013.

**Note 6. Derivative Financial Instruments**

Our business operations expose us to commodity price risk, which we managed to some extent using derivative instruments. We entered into natural gas swap contracts to manage the price risk associated with future purchases of natural gas used in certain of U.S. Pipe's manufacturing processes. We terminated all remaining natural gas swaps in the quarter ended June 30, 2012. We have used interest rate swap contracts to manage interest rate risk associated with our variable-rate borrowings in the past, but no such contracts have been outstanding since prior to September 30, 2010.

We designated our natural gas swap contracts and interest rate swap contracts as cash flow hedges of our purchases of natural gas and future interest payments, respectively. As a result, to the extent the hedges were effective, the changes in the fair value of these contracts prior to settlement were reported as a component of other comprehensive loss and reclassified into earnings in the periods during which the hedged transactions affected earnings. Gains and losses on those contracts representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness were recognized in earnings as they occur.

Our derivative contracts were recorded at fair value using publicly observable data such as market natural gas prices and market interest rates. We did not have any derivative contracts outstanding at June 30, 2012.



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The effects of our natural gas swap contracts on the consolidated statements of operations are presented below, net of tax.

|                                                                                | Three months ended<br>June 30, |          | Nine months ended<br>June 30, |          |
|--------------------------------------------------------------------------------|--------------------------------|----------|-------------------------------|----------|
|                                                                                | 2012                           | 2011     | 2012                          | 2011     |
|                                                                                | (in millions)                  |          |                               |          |
| Gain (loss) recognized in other comprehensive income (loss)                    | \$0.5                          | \$(0.1 ) | \$—                           | \$(0.1 ) |
| Gain (loss) reclassified from accumulated other comprehensive loss into income | (0.2 )                         | 0.1      | —                             | 0.1      |
| Ineffectiveness loss recognized in income                                      | —                              | (0.1 )   | —                             | (0.1 )   |

**Interest Rate Swap Contracts.** In the quarters ended June 30, 2012 and 2011, we reclassified \$1.3 million and \$2.1 million, respectively, related to previously terminated interest rate swap contracts to interest expense from accumulated other comprehensive loss. In the nine months ended June 30, 2012 and 2011, we reclassified \$4.3 million and \$6.0 million, respectively, related to previously terminated interest rate swap contracts to interest expense from accumulated other comprehensive loss. The unamortized portion remaining in accumulated other comprehensive loss was \$0.4 million, net of tax, at June 30, 2012, and the pre-tax component is scheduled to be amortized to interest expense through September 30, 2012.

#### Note 7. Retirement Plans

The components of net periodic benefit cost allocated to continuing operations for defined benefit pension plans are as follows.

|                                       | Three months ended<br>June 30, |        | Nine months ended<br>June 30, |        |
|---------------------------------------|--------------------------------|--------|-------------------------------|--------|
|                                       | 2012                           | 2011   | 2012                          | 2011   |
|                                       | (in millions)                  |        |                               |        |
| Service cost                          | \$0.7                          | \$0.3  | \$1.3                         | \$0.8  |
| Interest cost                         | 7.5                            | 2.3    | 12.7                          | 7.6    |
| Expected return on plan assets        | (7.7 )                         | (2.6 ) | (13.5 )                       | (8.4 ) |
| Amortization of prior service cost    | 0.2                            | 0.1    | 0.4                           | 0.3    |
| Amortization of actuarial net loss    | 0.2                            | 0.6    | 1.8                           | 2.2    |
| Loss due to settlement or curtailment | —                              | —      | —                             | 0.7    |
| Net periodic benefit cost             | \$0.9                          | \$0.7  | \$2.7                         | \$3.2  |

The amortization of unrecognized prior service cost and of actuarial losses, net of tax, are recorded as components of accumulated other comprehensive loss.

During the nine months ended June 30, 2012, we contributed \$12.7 million to our defined benefit pension plans. We expect to contribute a total of \$20 million to \$22 million to our pension plans during 2012.

On April 1, 2012, we changed certain provisions of our pension and postretirement benefit plans affecting U.S. Pipe participants in these plans. These changes vested all accumulated pension benefits and then froze the plan such that no additional pension benefits would accumulate. Postretirement medical benefits will substantially cease on December 31, 2012. As a result of these provision changes, we remeasured the funded status of our U.S. pension plan and our other postretirement benefit plans in the quarter ended June 30, 2012. We recorded a pension curtailment expense of \$0.2 million and an other postretirement benefit plan curtailment gain of \$2.4 million, which are included in net income (loss) from discontinued operations for the three and nine months ended June 30, 2012.

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The assets of the defined benefit pension plans at June 30, 2012 and September 30, 2011, by level within the fair value hierarchy, are presented below.

|                        | June 30, 2012      |         |         |         |
|------------------------|--------------------|---------|---------|---------|
|                        | Level 1            | Level 2 | Level 3 | Total   |
|                        | (in millions)      |         |         |         |
| Equity funds:          |                    |         |         |         |
| International funds    | \$—                | \$21.3  | \$—     | \$21.3  |
| Large cap growth funds | —                  | 7.0     | —       | 7.0     |
| Large cap value funds  | —                  | 36.3    | —       | 36.3    |
| Midcap index funds     | —                  | 4.9     | —       | 4.9     |
| Smallcap index funds   | —                  | 29.6    | —       | 29.6    |
| Mutual funds           | 116.7              | —       | —       | 116.7   |
| Total equity funds     | 116.7              | 99.1    | —       | 215.8   |
| Bond funds             | —                  | 144.5   | —       | 144.5   |
| Cash                   | 0.2                | 4.3     | —       | 4.5     |
| Other                  | —                  | —       | 1.5     | 1.5     |
| Total                  | \$116.9            | \$247.9 | \$1.5   | \$366.3 |
|                        | September 30, 2011 |         |         |         |
|                        | Level 1            | Level 2 | Level 3 | Total   |
|                        | (in millions)      |         |         |         |
| Equity funds:          |                    |         |         |         |
| Large cap growth funds | \$—                | \$7.5   | \$—     | \$7.5   |
| Large cap value funds  | —                  | 7.3     | —       | 7.3     |
| Midcap index funds     | —                  | 2.2     | —       | 2.2     |
| Mutual funds           | 137.1              | —       | —       | 137.1   |
| Total equity funds     | 137.1              | 17.0    | —       | 154.1   |
| Bond funds             | —                  | 172.7   | —       | 172.7   |
| Cash                   | 0.2                | 3.3     | —       | 3.5     |
| Other                  | —                  | —       | 1.5     | 1.5     |
| Total                  | \$137.3            | \$193.0 | \$1.5   | \$331.8 |

#### Note 8. Stock-based Compensation Plans

During the quarter ended December 31, 2011, the Company adopted the Mueller Water Products, Inc. Phantom Plan (the "Phantom Plan"). Phantom Plan awards entitle a recipient to a cash payment equal to the number of awards vesting multiplied by the closing price per share of our common stock on the vesting date. Awards generally vest in thirds on successive anniversaries of the grant date. Compensation expense for Phantom Plan awards is charged against income over the vesting period, based on the closing stock price at each balance sheet date until vested. Outstanding Phantom Plan awards had a fair value of \$3.46 per instrument and a total fair value of \$1.2 million at June 30, 2012.

We recorded stock-based compensation expense of \$1.4 million and \$4.2 million during the three and nine months ended June 30, 2012, respectively, and \$0.8 million and \$4.3 million during the three and nine months ended June 30, 2011, respectively. At June 30, 2012, there was approximately \$4.3 million of unrecognized compensation expense related to stock-based awards.

Because the effect of including normally dilutive securities in the earnings per share calculation would have been antidilutive in loss periods, we excluded all stock-based compensation instruments from the calculations of diluted earnings per share in such periods. We excluded 5.0 million and 6.0 million of such instruments from the calculation of diluted earnings per share for the three months ended June 30, 2012 and 2011, respectively, because the impact of including them would have been antidilutive.



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We granted equity awards under our Mueller Water Products, Inc. Amended and Restated 2006 Stock Incentive Plan, Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan and Phantom Plan during the nine months ended June 30, 2012 as follows.

|                                          | Number of<br>instruments<br><br>(in millions, except per instrument value) | Weighted<br>average grant<br>date fair value<br>per instrument | Total grant date<br>fair value |
|------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------|
| Quarter ended December 31, 2011:         |                                                                            |                                                                |                                |
| Restricted stock units                   | 1.2                                                                        | \$2.04                                                         | \$2.4                          |
| Non-qualified stock options              | 0.6                                                                        | 1.23                                                           | 0.7                            |
| Employee stock purchase plan instruments | 0.1                                                                        | 1.95                                                           | 0.3                            |
| Phantom Plan awards                      | 0.4                                                                        | 2.03                                                           | 0.7                            |
| Quarter ended March 31, 2012:            |                                                                            |                                                                |                                |
| Restricted stock units                   | 0.1                                                                        | 2.79                                                           | 0.4                            |
| Non-qualified stock options              | 0.1                                                                        | 1.67                                                           | 0.1                            |
| Employee stock purchase plan instruments | 0.1                                                                        | 2.14                                                           | 0.2                            |
| Quarter ended June 30, 2012:             |                                                                            |                                                                |                                |
| Restricted stock units                   | 0.1                                                                        | 3.46                                                           | 0.3                            |
| Non-qualified stock options              | —                                                                          | —                                                              | —                              |
| Employee stock purchase plan instruments | 0.1                                                                        | 2.94                                                           | 0.3                            |
|                                          |                                                                            |                                                                | \$5.4                          |

Note 9. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is presented below.

|                                      | June 30,<br>2012<br>(in millions) | September 30,<br>2011 |
|--------------------------------------|-----------------------------------|-----------------------|
| Net unrecognized loss on derivatives | \$(0.4)                           | ) \$(3.0 )            |
| Foreign currency translation         | 6.7                               | 6.3                   |
| Minimum pension liability            | (57.4)                            | ) (57.5 )             |
|                                      | \$(51.1)                          | ) \$(54.2 )           |

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## Note 10. Supplemental Balance Sheet Information

Selected supplemental balance sheet information is presented below.

|                                           | June 30,<br>2012<br>(in millions) | September 30,<br>2011 |
|-------------------------------------------|-----------------------------------|-----------------------|
| Inventories:                              |                                   |                       |
| Raw materials and purchased parts         | \$74.5                            | \$56.2                |
| Work in process                           | 28.9                              | 34.9                  |
| Finished goods                            | 93.5                              | 84.8                  |
|                                           | \$196.9                           | \$175.9               |
| Other current assets:                     |                                   |                       |
| Prepaid income taxes                      | \$13.8                            | \$12.6                |
| Maintenance and repair tooling            | 23.7                              | 24.2                  |
| Other                                     | 11.7                              | 7.0                   |
|                                           | \$49.2                            | \$43.8                |
| Property, plant and equipment:            |                                   |                       |
| Land                                      | \$12.3                            | \$13.5                |
| Buildings                                 | 70.4                              | 70.2                  |
| Machinery and equipment                   | 284.0                             | 273.1                 |
| Construction in progress                  | 12.6                              | 10.4                  |
|                                           | 379.3                             | 367.2                 |
| Accumulated depreciation and amortization | (238.8)                           | (221.5)               |
|                                           | \$140.5                           | \$145.7               |
| Other current liabilities:                |                                   |                       |
| Compensation and benefits                 | \$34.6                            | \$31.6                |
| Customer rebates                          | 10.8                              | 13.2                  |
| Interest                                  | 8.9                               | 13.0                  |
| Taxes other than income taxes             | 3.7                               | 3.5                   |
| Warranty                                  | 1.5                               | 2.0                   |
| Severance                                 | 0.6                               | 1.5                   |
| Income taxes                              | 1.6                               | 1.9                   |
| Restructuring                             | 1.2                               | 1.4                   |
| Environmental                             | 0.3                               | 0.3                   |
| Other                                     | 9.4                               | 9.5                   |
|                                           | \$72.6                            | \$77.9                |

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## Note 11. Segment Information

Summarized financial information for our segments is presented below.

|                                          | Three months ended<br>June 30,<br>2012      2011 |         | Nine months ended<br>June 30,<br>2012      2011 |         |
|------------------------------------------|--------------------------------------------------|---------|-------------------------------------------------|---------|
|                                          | (in millions)                                    |         |                                                 |         |
| Net sales, excluding intersegment sales: |                                                  |         |                                                 |         |
| Mueller Co.                              | \$182.6                                          | \$165.8 | \$465.2                                         | \$444.5 |
| Anvil                                    | 93.3                                             | 93.8    | 277.6                                           | 263.8   |
|                                          | \$275.9                                          | \$259.6 | \$742.8                                         | \$708.3 |
| Intersegment sales:                      |                                                  |         |                                                 |         |
| Mueller Co.                              | \$1.5                                            | \$2.1   | \$5.3                                           | \$6.7   |
| Anvil                                    | 0.1                                              | —       | 0.1                                             | 0.1     |
|                                          | \$1.6                                            | \$2.1   | \$5.4                                           | \$6.8   |
| Operating income (loss):                 |                                                  |         |                                                 |         |
| Mueller Co.                              | \$23.9                                           | \$22.6  | \$36.8                                          | \$40.9  |
| Anvil                                    | 9.9                                              | 9.5     | 27.5                                            | 21.8    |
| Corporate                                | (8.1)                                            | (7.4)   | (22.1)                                          | (22.2)  |
|                                          | \$25.7                                           | \$24.7  | \$42.2                                          | \$40.5  |
| Depreciation and amortization:           |                                                  |         |                                                 |         |
| Mueller Co.                              | \$11.3                                           | \$11.8  | \$34.1                                          | \$35.7  |
| Anvil                                    | 3.6                                              | 3.7     | 10.7                                            | 10.9    |
| Corporate                                | 0.1                                              | 0.2     | 0.4                                             | 0.6     |
|                                          | \$15.0                                           | \$15.7  | \$45.2                                          | \$47.2  |
| Restructuring:                           |                                                  |         |                                                 |         |
| Mueller Co.                              | \$0.7                                            | \$0.2   | \$1.9                                           | \$1.2   |
| Anvil                                    | —                                                | 0.1     | 0.2                                             | 1.2     |
| Corporate                                | —                                                | —       | (0.1)                                           | —       |
|                                          | \$0.7                                            | \$0.3   | \$2.0                                           | \$2.4   |
| Capital expenditures:                    |                                                  |         |                                                 |         |
| Mueller Co.                              | \$4.8                                            | \$4.1   | \$12.0                                          | \$11.0  |
| Anvil                                    | 2.6                                              | 1.8     | 7.5                                             | 4.4     |
| Corporate                                | —                                                | —       | —                                               | 0.5     |
|                                          | \$7.4                                            | \$5.9   | \$19.5                                          | \$15.9  |

## Note 12. Commitments and Contingencies

We are involved in various legal proceedings that have arisen in the normal course of operations, including the proceedings summarized below. 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 operations at many of our properties and with respect to remediating environmental conditions that may exist at our own or 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, New Jersey property, which 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 completed, and received final approval on, the soil cleanup required by the ACO. We expect ground-water issues as well as issues associated with the demolition of former manufacturing facilities at this site will continue and remediation by us could be required. Long-term ground-water monitoring

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may also be required, but we do not know how long such monitoring would be required and do not believe monitoring or further remediation costs, if any, will have a material adverse effect on our financial condition or results of operations.

On July 13, 2010, Rohcan Investments Limited (“Rohcan”), the former owner of property leased by Mueller Canada Ltd. and located in Milton, Ontario, filed suit against Mueller Canada Ltd. and its directors seeking C\$10 million in damages arising from the defendants' alleged environmental contamination of the property and breach of lease. Mueller Canada Ltd. leased the property from 1988 through 2008. We are pursuing indemnification from a former owner for certain potential liabilities that are alleged in this lawsuit, and we have accrued for other liabilities not covered by indemnification. On December 7, 2011, the Court denied the plaintiff's motion for summary judgment. In the acquisition agreement pursuant to which a predecessor to Tyco sold our Mueller Co. and Anvil businesses to the prior owners of these businesses in August 1999, Tyco agreed to indemnify us and our affiliates, among other things, for all “Excluded Liabilities.” Excluded Liabilities include, among other things, substantially all liabilities relating to the time prior to August 1999, including environmental liabilities. The indemnity survives indefinitely. Tyco's indemnity does not cover liabilities to the extent caused by us or the operation of our businesses after August 1999, nor does it cover liabilities arising with respect to businesses or sites acquired after August 1999. In June 2007, Tyco was separated into three separate publicly traded companies. In September 2011, Tyco International Ltd., one of the companies that was separated in the June 2007 split, announced it would split into three separate companies. Should Tyco's successors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

**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 1980 through 1994 allegedly owed by the Walter Energy consolidated group. 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 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 favorable adjustments 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 through December 31, 2005. Walter Energy filed a formal protest with the IRS, but had not reached a final resolution with the Appeals Division at June 30, 2012. 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, we are jointly and severally liable for any final tax determination for any year in which any of our subsidiaries were members of the Walter Energy consolidated group, which means that we would be liable in the event Walter Energy is unable to pay any amounts owed. 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 separation of the Company from Walter Energy on December 14, 2006 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, 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

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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 recorded this receivable in other noncurrent assets.

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

Additionally, in connection with the sale of assets and the divestiture of businesses, such as the divestiture of our U.S. Pipe business (see Note 3. Discontinued Operations and Assets Held for Sale), we may agree to indemnify buyers and related parties for certain losses or liabilities incurred by these parties with respect to: (i) the representations and warranties made by us to these parties in connection with the sale and (ii) liabilities related to the pre-closing operations of the assets or business sold. Indemnities related to pre-closing operations generally include certain environmental and tax liabilities and other liabilities not assumed by these parties in the transaction.

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

**Other Matters.** We are party to a number of other lawsuits arising in the ordinary course of our businesses, including product liability cases for products manufactured by us or third parties. We provide for costs relating to these matters when a loss is probable and the amount is reasonably estimable. Administrative costs related to these matters are expensed 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. While the results of litigation cannot be predicted with certainty, we believe that the final outcome of such other litigation is not likely to have a materially adverse effect on our consolidated financial statements.

**Note 13. Subsequent Events**

On July 25, 2012 our board of directors declared a dividend of \$0.0175 per share on our Series A common stock, payable on or about August 20, 2012 to stockholders of record at the close of business on August 10, 2012.

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Note 14. 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 (“Guarantor Companies”) of the Senior Unsecured Notes and the Senior Subordinated Notes. None of our other subsidiaries guarantee the Senior Unsecured Notes or the Senior Subordinated Notes. Each of the guarantees is joint and several and full and unconditional. Fast Fabricators, LLC and United States Pipe and Foundry Company, LLC were released as Guarantor Companies in connection with the sale of U.S. Pipe and related balances are included with the Issuer financial information in the following tables.

Guarantor Companies are listed below.

|                                         | State of<br>incorporation<br>or organization |
|-----------------------------------------|----------------------------------------------|
| Anvil International Holdings, LLC       | Delaware                                     |
| Anvil International, LLC                | Delaware                                     |
| AnvilStar, LLC                          | Delaware                                     |
| Echologics, LLC                         | Delaware                                     |
| Henry Pratt Company, LLC                | Delaware                                     |
| Henry Pratt International, 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. International Holdings, LLC | Delaware                                     |
| Mueller Co. LLC                         | Delaware                                     |
| Mueller Financial Services, LLC         | Delaware                                     |
| Mueller Group Co-Issuer, Inc.           | Delaware                                     |
| Mueller Group, LLC                      | Delaware                                     |
| Mueller International, LLC              | Delaware                                     |
| Mueller Service California, Inc.        | Delaware                                     |
| Mueller Service Co., LLC                | Delaware                                     |
| Mueller Systems, LLC                    | Delaware                                     |
| U.S. Pipe Valve & Hydrant, LLC          | Delaware                                     |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Balance Sheet  
June 30, 2012

|                                            | Issuer   | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total       |
|--------------------------------------------|----------|------------------------|-------------------------------------------------|--------------|-------------|
| Assets:                                    |          |                        |                                                 |              |             |
| Cash and cash equivalents                  | \$30.9   | \$(4.7                 | ) \$27.5                                        | \$—          | \$53.7      |
| Receivables, net                           | —        | 137.9                  | 18.6                                            | —            | 156.5       |
| Inventories                                | —        | 180.0                  | 16.9                                            | —            | 196.9       |
| Deferred income taxes                      | 21.0     | —                      | 0.5                                             | —            | 21.5        |
| Other current assets                       | 21.4     | 26.8                   | 1.0                                             | —            | 49.2        |
| Total current assets                       | 73.3     | 340.0                  | 64.5                                            | —            | 477.8       |
| Property, plant and equipment, net         | 1.9      | 130.2                  | 8.4                                             | —            | 140.5       |
| Identifiable intangible assets             | —        | 578.9                  | 1.5                                             | —            | 580.4       |
| Other noncurrent assets                    | 30.9     | 0.9                    | 1.3                                             | —            | 33.1        |
| Investment in subsidiaries                 | (6.8     | ) 40.0                 | —                                               | (33.2        | ) —         |
| Total assets                               | \$99.3   | \$1,090.0              | \$75.7                                          | \$(33.2      | ) \$1,231.8 |
| Liabilities and stockholders' equity:      |          |                        |                                                 |              |             |
| Current portion of long-term debt          | \$0.3    | \$1.0                  | \$—                                             | \$—          | \$1.3       |
| Accounts payable                           | 8.2      | 60.8                   | 5.9                                             | —            | 74.9        |
| Other current liabilities                  | 27.9     | 41.0                   | 3.7                                             | —            | 72.6        |
| Total current liabilities                  | 36.4     | 102.8                  | 9.6                                             | —            | 148.8       |
| Long-term debt                             | 619.8    | 1.7                    | —                                               | —            | 621.5       |
| Deferred income taxes                      | 135.3    | —                      | 0.3                                             | —            | 135.6       |
| Other noncurrent liabilities               | 50.7     | 8.6                    | 0.7                                             | —            | 60.0        |
| Intercompany accounts                      | (1,008.8 | ) 983.7                | 25.1                                            | —            | —           |
| Total liabilities                          | (166.6   | ) 1,096.8              | 35.7                                            | —            | 965.9       |
| Stockholders' equity                       | 265.9    | (6.8                   | ) 40.0                                          | (33.2        | ) 265.9     |
| Total liabilities and stockholders' equity | \$99.3   | \$1,090.0              | \$75.7                                          | \$(33.2      | ) \$1,231.8 |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Balance Sheet  
September 30, 2011

|                                            | Issuer     | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total     |
|--------------------------------------------|------------|------------------------|-------------------------------------------------|--------------|-----------|
| Assets:                                    |            |                        |                                                 |              |           |
| Cash and cash equivalents                  | \$36.2     | \$(3.8 )               | \$28.6                                          | \$—          | \$61.0    |
| Receivables, net                           | —          | 131.8                  | 15.6                                            | —            | 147.4     |
| Inventories                                | —          | 163.4                  | 12.5                                            | —            | 175.9     |
| Deferred income taxes                      | 28.1       | —                      | 0.6                                             | —            | 28.7      |
| Other current assets                       | 15.4       | 27.3                   | 1.1                                             | —            | 43.8      |
| Current assets held for sale               | 142.0      | —                      | —                                               | —            | 142.0     |
| Total current assets                       | 221.7      | 318.7                  | 58.4                                            | —            | 598.8     |
| Property, plant and equipment, net         | 3.9        | 132.7                  | 9.1                                             | —            | 145.7     |
| Identifiable intangible assets             | —          | 600.9                  | 1.5                                             | —            | 602.4     |
| Other noncurrent assets                    | 27.6       | 0.9                    | 1.9                                             | —            | 30.4      |
| Noncurrent assets held for sale            | 107.7      | —                      | —                                               | —            | 107.7     |
| Investment in subsidiaries                 | (23.9 )    | 23.8                   | —                                               | 0.1          | —         |
| Total assets                               | \$337.0    | \$1,077.0              | \$70.9                                          | \$0.1        | \$1,485.0 |
| Liabilities and stockholders' equity:      |            |                        |                                                 |              |           |
| Current portion of long-term debt          | \$—        | \$0.9                  | \$—                                             | \$—          | \$0.9     |
| Accounts payable                           | 6.1        | 49.3                   | 3.7                                             | —            | 59.1      |
| Other current liabilities                  | 30.1       | 44.9                   | 2.9                                             | —            | 77.9      |
| Current liabilities held for sale          | 56.9       | —                      | —                                               | —            | 56.9      |
| Total current liabilities                  | 93.1       | 95.1                   | 6.6                                             | —            | 194.8     |
| Long-term debt                             | 676.0      | 1.4                    | —                                               | —            | 677.4     |
| Deferred income taxes                      | 153.8      | —                      | 0.4                                             | —            | 154.2     |
| Other noncurrent liabilities               | 71.0       | 7.9                    | 0.7                                             | —            | 79.6      |
| Intercompany accounts                      | (1,035.9 ) | 996.5                  | 39.4                                            | —            | —         |
| Total liabilities                          | (42.0 )    | 1,100.9                | 47.1                                            | —            | 1,106.0   |
| Stockholders' equity                       | 379.0      | (23.9 )                | 23.8                                            | 0.1          | 379.0     |
| Total liabilities and stockholders' equity | \$337.0    | \$1,077.0              | \$70.9                                          | \$0.1        | \$1,485.0 |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
Three months ended June 30, 2012

|                                                 | Issuer | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total   |   |
|-------------------------------------------------|--------|------------------------|-------------------------------------------------|--------------|---------|---|
| Net sales                                       | \$—    | \$238.7                | \$37.2                                          | \$—          | \$275.9 |   |
| Cost of sales                                   | —      | 167.7                  | 28.6                                            | —            | 196.3   |   |
| Gross profit                                    | —      | 71.0                   | 8.6                                             | —            | 79.6    |   |
| Operating expenses:                             |        |                        |                                                 |              |         |   |
| Selling, general and administrative             | 8.1    | 40.9                   | 4.2                                             | —            | 53.2    |   |
| Restructuring                                   | —      | 0.6                    | 0.1                                             | —            | 0.7     |   |
| Total operating expenses                        | 8.1    | 41.5                   | 4.3                                             | —            | 53.9    |   |
| Operating income (loss)                         | (8.1   | ) 29.5                 | 4.3                                             | —            | 25.7    |   |
| Interest expense, net                           | 14.8   | 0.1                    | —                                               | —            | 14.9    |   |
| Loss on early extinguishment of debt            | 1.5    | —                      | —                                               | —            | 1.5     |   |
| Income (loss) from before income taxes          | (24.4  | ) 29.4                 | 4.3                                             | —            | 9.3     |   |
| Income tax expense (benefit)                    | (9.0   | ) 10.7                 | 1.7                                             | —            | 3.4     |   |
| Equity in income of subsidiaries                | 21.3   | 2.6                    | —                                               | (23.9        | ) —     |   |
| Income from continuing operations               | 5.9    | 21.3                   | 2.6                                             | (23.9        | ) 5.9   |   |
| Income from discontinued operations, net of tax | 3.9    | —                      | —                                               | —            | 3.9     |   |
| Net income                                      | 9.8    | 21.3                   | 2.6                                             | (23.9        | ) 9.8   |   |
| Other comprehensive income (loss):              |        |                        |                                                 |              |         |   |
| Natural gas hedges, net of tax                  | 0.2    | —                      | —                                               | —            | 0.2     |   |
| Interest rate swap contracts, net of tax        | 0.8    | —                      | —                                               | —            | 0.8     |   |
| Foreign currency translation                    | —      | —                      | (1.6                                            | ) —          | (1.6    | ) |
| Minimum pension liability, net of tax           | (0.8   | ) —                    | —                                               | —            | (0.8    | ) |
|                                                 | 0.2    | —                      | (1.6                                            | ) —          | (1.4    | ) |
| Comprehensive income                            | \$10.0 | \$21.3                 | \$1.0                                           | \$(23.9      | ) \$8.4 |   |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
Three months ended June 30, 2011

|                                               | Issuer | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total    |   |
|-----------------------------------------------|--------|------------------------|-------------------------------------------------|--------------|----------|---|
| Net sales                                     | \$—    | \$222.1                | \$37.5                                          | \$—          | \$259.6  |   |
| Cost of sales                                 | 0.2    | 155.8                  | 30.5                                            | —            | 186.5    |   |
| Gross profit (loss)                           | (0.2   | ) 66.3                 | 7.0                                             | —            | 73.1     |   |
| Operating expenses:                           |        |                        |                                                 |              |          |   |
| Selling, general and administrative           | 6.9    | 37.8                   | 3.4                                             | —            | 48.1     |   |
| Restructuring                                 | —      | 0.2                    | 0.1                                             | —            | 0.3      |   |
| Total operating expenses                      | 6.9    | 38.0                   | 3.5                                             | —            | 48.4     |   |
| Operating income (loss)                       | (7.1   | ) 28.3                 | 3.5                                             | —            | 24.7     |   |
| Interest expense, net                         | 16.8   | —                      | —                                               | —            | 16.8     |   |
| Income (loss) before income taxes             | (23.9  | ) 28.3                 | 3.5                                             | —            | 7.9      |   |
| Income tax expense (benefit)                  | (25.6  | ) 24.5                 | 2.1                                             | —            | 1.0      |   |
| Equity in income of subsidiaries              | 5.2    | 1.4                    | —                                               | (6.6         | ) —      |   |
| Income from continuing operations             | 6.9    | 5.2                    | 1.4                                             | (6.6         | ) 6.9    |   |
| Loss from discontinued operations, net of tax | (9.6   | ) —                    | —                                               | —            | (9.6     | ) |
| Net income (loss)                             | (2.7   | ) 5.2                  | 1.4                                             | (6.6         | ) (2.7   | ) |
| Other comprehensive income (loss):            |        |                        |                                                 |              |          |   |
| Interest rate swap contracts, net of tax      | 1.3    | —                      | —                                               | —            | 1.3      |   |
| Foreign currency translation                  | —      | —                      | (0.1                                            | ) —          | (0.1     | ) |
|                                               | 1.3    | —                      | (0.1                                            | ) —          | 1.2      |   |
| Comprehensive income (loss)                   | \$(1.4 | ) \$5.2                | \$1.3                                           | \$(6.6       | ) \$(1.5 | ) |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
Nine months ended June 30, 2012

|                                               | Issuer    | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total       |
|-----------------------------------------------|-----------|------------------------|-------------------------------------------------|--------------|-------------|
| Net sales                                     | \$—       | \$660.8                | \$82.0                                          | \$—          | \$742.8     |
| Cost of sales                                 | —         | 483.1                  | 65.2                                            | —            | 548.3       |
| Gross profit                                  | —         | 177.7                  | 16.8                                            | —            | 194.5       |
| Operating expenses:                           |           |                        |                                                 |              |             |
| Selling, general and administrative           | 21.8      | 117.7                  | 10.8                                            | —            | 150.3       |
| Restructuring                                 | (0.1)     | ) 2.0                  | 0.1                                             | —            | 2.0         |
| Total operating expenses                      | 21.7      | 119.7                  | 10.9                                            | —            | 152.3       |
| Operating income (loss)                       | (21.7)    | ) 58.0                 | 5.9                                             | —            | 42.2        |
| Interest expense, net                         | 46.1      | 0.2                    | (0.2)                                           | ) —          | 46.1        |
| Loss on early extinguishment of debt          | 1.5       | —                      | —                                               | —            | 1.5         |
| Income (loss) before income taxes             | (69.3)    | ) 57.8                 | 6.1                                             | —            | (5.4)       |
| Income tax expense (benefit)                  | (17.2)    | ) 19.3                 | 2.0                                             | —            | 4.1         |
| Equity in income (loss) of subsidiaries       | 42.6      | 4.1                    | —                                               | (46.7)       | ) —         |
| Income (loss) from continuing operations      | (9.5)     | ) 42.6                 | 4.1                                             | (46.7)       | ) (9.5)     |
| Loss from discontinued operations, net of tax | (102.4)   | ) —                    | —                                               | —            | (102.4)     |
| Net income (loss)                             | (111.9)   | ) 42.6                 | 4.1                                             | (46.7)       | ) (111.9)   |
| Other comprehensive income (loss):            |           |                        |                                                 |              |             |
| Interest rate swap contracts, net of tax      | 2.6       | —                      | —                                               | —            | 2.6         |
| Foreign currency translation                  | —         | —                      | 0.4                                             | —            | 0.4         |
| Minimum pension liability, net of tax         | 0.1       | —                      | —                                               | —            | 0.1         |
|                                               | 2.7       | —                      | 0.4                                             | —            | 3.1         |
| Comprehensive income (loss)                   | \$(109.2) | ) \$42.6               | \$4.5                                           | \$(46.7)     | ) \$(108.8) |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
Nine months ended June 30, 2011

|                                               | Issuer | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total    |   |
|-----------------------------------------------|--------|------------------------|-------------------------------------------------|--------------|----------|---|
| Net sales                                     | \$—    | \$618.1                | \$90.2                                          | \$—          | \$708.3  |   |
| Cost of sales                                 | 0.1    | 448.0                  | 77.0                                            | —            | 525.1    |   |
| Gross profit (loss)                           | (0.1   | ) 170.1                | 13.2                                            | —            | 183.2    |   |
| Operating expenses:                           |        |                        |                                                 |              |          |   |
| Selling, general and administrative           | 21.8   | 109.8                  | 8.7                                             | —            | 140.3    |   |
| Restructuring                                 | —      | 2.0                    | 0.4                                             | —            | 2.4      |   |
| Total operating expenses                      | 21.8   | 111.8                  | 9.1                                             | —            | 142.7    |   |
| Operating income (loss)                       | (21.9  | ) 58.3                 | 4.1                                             | —            | 40.5     |   |
| Interest expense, net                         | 49.0   | 0.1                    | (0.1                                            | ) —          | 49.0     |   |
| Income (loss) before income taxes             | (70.9  | ) 58.2                 | 4.2                                             | —            | (8.5     | ) |
| Income tax expense (benefit)                  | (42.0  | ) 35.3                 | 2.4                                             | —            | (4.3     | ) |
| Equity in income of subsidiaries              | 24.7   | 1.8                    | —                                               | (26.5        | ) —      |   |
| Income (loss) from continuing operations      | (4.2   | ) 24.7                 | 1.8                                             | (26.5        | ) (4.2   | ) |
| Loss from discontinued operations, net of tax | (24.3  | ) —                    | —                                               | —            | (24.3    | ) |
| Net income (loss)                             | (28.5  | ) 24.7                 | 1.8                                             | (26.5        | ) (28.5  | ) |
| Other comprehensive income (loss):            |        |                        |                                                 |              |          |   |
| Interest rate swap contracts, net of tax      | 3.7    | —                      | —                                               | —            | 3.7      |   |
| Foreign currency translation                  | —      | —                      | 3.1                                             | —            | 3.1      |   |
| Minimum pension liability, net of tax         | 20.7   | —                      | —                                               | —            | 20.7     |   |
|                                               | 24.4   | —                      | 3.1                                             | —            | 27.5     |   |
| Comprehensive income (loss)                   | \$(4.1 | ) \$24.7               | \$4.9                                           | \$(26.5      | ) \$(1.0 | ) |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Cash Flows  
Nine months ended June 30, 2012

|                                                                                | Issuer | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total  |
|--------------------------------------------------------------------------------|--------|------------------------|-------------------------------------------------|--------------|--------|
| Operating activities:                                                          |        |                        |                                                 |              |        |
| Net cash provided by (used in) operating activities from continuing operations | \$9.5  | \$16.0                 | \$(1.0)                                         | ) \$—        | \$24.5 |
| Investing activities:                                                          |        |                        |                                                 |              |        |
| Capital expenditures                                                           | (0.5)  | ) (18.5                | ) (0.5                                          | ) —          | (19.5) |
| Acquisitions                                                                   | —      | 0.5                    | —                                               | —            | 0.5    |
| Proceeds from sales of assets                                                  | —      | 0.4                    | —                                               | —            | 0.4    |
| Net cash used in investing activities from continuing operations               | (0.5)  | ) (17.6                | ) (0.5                                          | ) —          | (18.6) |
| Financing activities:                                                          |        |                        |                                                 |              |        |
| Debt borrowings                                                                | —      | 0.4                    | —                                               | —            | 0.4    |
| Debt payments                                                                  | (57.2) | ) —                    | —                                               | —            | (57.2) |
| Common stock issued                                                            | 0.3    | —                      | —                                               | —            | 0.3    |
| Dividends paid                                                                 | (8.2)  | ) —                    | —                                               | —            | (8.2)  |
| Other                                                                          | —      | 0.3                    | —                                               | —            | 0.3    |
| Net cash provided by (used in) financing activities from continuing operations | (65.1) | ) 0.7                  | —                                               | —            | (64.4) |
| Net cash flows from discontinued operations:                                   |        |                        |                                                 |              |        |
| Operating activities                                                           | (36.6) | ) —                    | —                                               | —            | (36.6) |
| Investing activities                                                           | 87.4   | —                      | —                                               | —            | 87.4   |
| Net cash provided by discontinued operations                                   | 50.8   | —                      | —                                               | —            | 50.8   |
| Effect of currency exchange rate changes on cash                               | —      | —                      | 0.4                                             | —            | 0.4    |
| Net change in cash and cash equivalents                                        | (5.3)  | ) (0.9                 | ) (1.1                                          | ) —          | (7.3)  |
| Cash and cash equivalents at beginning of period                               | 36.2   | (3.8)                  | ) 28.6                                          | —            | 61.0   |
| Cash and cash equivalents at end of period                                     | \$30.9 | \$(4.7)                | ) \$27.5                                        | \$—          | \$53.7 |

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Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Cash Flows  
Nine months ended June 30, 2011

|                                                                                | Issuer | Guarantor<br>companies | Non-<br>guarantor<br>companies<br>(in millions) | Eliminations | Total    |
|--------------------------------------------------------------------------------|--------|------------------------|-------------------------------------------------|--------------|----------|
| Operating activities:                                                          |        |                        |                                                 |              |          |
| Net cash provided by (used in) operating activities from continuing operations | \$(9.5 | ) \$21.2               | \$(11.9                                         | ) \$—        | \$(0.2 ) |
| Investing activities:                                                          |        |                        |                                                 |              |          |
| Capital expenditures                                                           | (0.6   | ) (15.0                | ) (0.3                                          | ) —          | (15.9 )  |
| Acquisitions                                                                   | —      | (7.9                   | ) —                                             |              | (7.9 )   |
| Proceeds from sales of assets                                                  | —      | 1.1                    | —                                               | —            | 1.1      |
| Net cash used in investing activities from continuing operations               | (0.6   | ) (21.8                | ) (0.3                                          | ) —          | (22.7 )  |
| Financing activities:                                                          |        |                        |                                                 |              |          |
| Debt borrowings                                                                | —      | 0.5                    | —                                               | —            | 0.5      |
| Deferred financing fees paid                                                   | (0.4   | ) —                    | —                                               | —            | (0.4 )   |
| Dividends paid                                                                 | (8.1   | ) —                    | —                                               | —            | (8.1 )   |
| Other                                                                          | 0.6    | —                      | —                                               | —            | 0.6      |
| Net cash provided by (used in) financing activities from continuing operations | (7.9   | ) 0.5                  | —                                               | —            | (7.4 )   |
| Net cash flows from discontinued operations:                                   |        |                        |                                                 |              |          |
| Operating activities                                                           | (3.0   | ) —                    | —                                               | —            | (3.0 )   |
| Investing activities                                                           | (6.1   | ) —                    | —                                               | —            | (6.1 )   |
| Net cash used in discontinued operations                                       | (9.1   | ) —                    | —                                               | —            | (9.1 )   |
| Effect of currency exchange rate changes on cash                               | —      | —                      | 1.1                                             | —            | 1.1      |
| Net change in cash and cash equivalents                                        | (27.1  | ) (0.1                 | ) (11.1                                         | ) —          | (38.3 )  |
| Cash and cash equivalents at beginning of period                               | 51.3   | (2.1                   | ) 34.8                                          | —            | 84.0     |
| Cash and cash equivalents at end of period                                     | \$24.2 | \$(2.2                 | ) \$23.7                                        | \$—          | \$45.7   |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto that appear elsewhere in this report. This report contains certain statements that may be deemed "forward-looking statements" within the meaning the Private Securities Litigation Reform Act of 1995. All statements that address activities, events or developments that the Company's management intends, expects, plans, projects, believes or anticipates will or may occur in the future are forward-looking statements. An example of a forward-looking statement is a statement we make regarding trending of end markets. Forward-looking statements are based on certain assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ materially from those contemplated by the forward-looking statements due to a number of factors, including regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- the spending level for water and wastewater infrastructure;
- the level of manufacturing and construction activity;
- our ability to service our debt obligations; and
- the other factors that are described in the section entitled "RISK FACTORS" in Item 1A. of annual report on Form 10-K for the year ended September 30, 2011 ("Annual Report").

Undue reliance should not be placed on any forward-looking statements. The Company does not have any intention or obligation to update forward-looking statements, except as required by law.

Overview

Organization

On October 3, 2005, Walter Energy acquired all outstanding shares of capital stock representing the Mueller Co. and Anvil businesses and contributed them to its U.S. Pipe business to form the Company. In June 2006, we completed an initial public offering of 28,750,000 shares of Series A common stock and in December 2006, Walter Energy distributed to its shareholders all of its equity interests in the Company, consisting of all of the Company's outstanding shares of Series B common stock. On January 28, 2009, each share of Series B common stock was converted into one share of Series A common stock.

On April 1, 2012, we sold the businesses comprising our former U.S. Pipe segment. U.S. Pipe's results of operations have been reclassified as discontinued operations for all prior periods presented.

Unless the context indicates otherwise, whenever we refer to a particular year, we mean the fiscal year ended or ending September 30 in that particular calendar year. We manage our businesses and report operations through two business segments, Mueller Co. and Anvil, based largely on the products sold and the customers served.

Business

Consolidated net sales for the quarter ended June 30, 2012 of \$275.9 million increased \$16.3 million, or 6.3%, from the prior year period net sales of \$259.6 million. Net sales increased due to higher shipment volumes at Mueller Co. and higher prices at both Mueller Co. and Anvil.

Most of the net sales of Mueller Co. are for water infrastructure related directly to municipal spending and residential construction activity in the United States.

Spending on water infrastructure by municipalities is based on the condition of their infrastructure systems and their access to funding. Funding generally comes from their overall fiscal condition and the availability of additional funds from the issuance of debt, higher tax rates or increased water rates. Municipalities may find it challenging to increase tax or water rates. We believe the general municipal spending environment continues to remain stable although budget pressures and economic uncertainty persist. According to U.S. Census Bureau data at June 30, 2012, state and local tax receipts grew at over 4% year-over-year for the fourth consecutive quarter. While both are showing improving trends, local tax receipt improvement is much weaker than state.

We believe residential construction activity measures indicate the housing market may be stabilizing. U.S. Census Bureau data for housing starts, on a seasonally adjusted annualized basis, indicates that housing starts in June 2012 represented the sixth consecutive month of greater than 700,000 units. June 2012 housing permit activity was above

750,000 seasonally adjusted annualized starts for the first time since October 2008. Furthermore, June 2012 single family housing starts were above 500,000 seasonally adjusted annualized units for the third consecutive month and the 539,000 seasonally adjusted

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annualized units reading was the strongest since April 2010.

As another potential future indicator, U.S. Census Bureau data shows housing permits in June 2012 above 700,000 seasonally adjusted annualized units for the fifth consecutive month. Both total and single family permits in June 2012 grew close to 20% on a year-over-year basis.

We believe an improving housing market would also bolster municipalities' fiscal condition, since local governments benefit from increased property taxes as well as connection and other ancillary fees associated with residential construction.

We believe that our operating results benefited from a warmer winter in 2012 than 2011 in many of our markets, but we had been uncertain of the extent to which our increased shipment volume of valves and hydrants in the quarter ended March 31, 2012 was simply due to an earlier start to the construction season. Based on third quarter results, we are more confident that volume increases in the quarter ended March 31, 2012 were not solely a pull forward of construction activity due to weather, but also resulted from growth in our end markets.

Overall we think the signs we are seeing in our water markets are mostly positive, giving us more confidence that our markets have stabilized and we could see some continued growth.

Most of Anvil's net sales are driven by commercial construction. Anvil has experienced growth in its oil & gas market since early calendar 2011, and we believe its other markets are relatively stable, though there was some decline during the quarter ended June 30, 2012 in its addressed industrial markets. We expect Anvil's oil & gas and fire protection markets to remain stable while we expect its industrial markets to remain soft in the quarter ending September 30, 2012.

Generally, raw material costs for both segments have continued to be relatively stable year-over-year, and we generally expect raw material costs to be slightly lower year-over-year in the quarter ending September 30, 2012.

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## Results of Operations

Three months ended June 30, 2012 compared to three months ended June 30, 2011

|                                                 | 2012          |        |           |          |   |
|-------------------------------------------------|---------------|--------|-----------|----------|---|
|                                                 | Mueller Co.   | Anvil  | Corporate | Total    |   |
|                                                 | (in millions) |        |           |          |   |
| Net sales                                       | \$182.6       | \$93.3 | \$—       | \$275.9  |   |
| Gross profit                                    | \$51.6        | \$28.0 | \$—       | \$79.6   |   |
| Operating expenses:                             |               |        |           |          |   |
| Selling, general and administrative             | 27.0          | 18.1   | 8.1       | 53.2     |   |
| Restructuring                                   | 0.7           | —      | —         | 0.7      |   |
| Total operating expenses                        | 27.7          | 18.1   | 8.1       | 53.9     |   |
| Operating income (loss)                         | \$23.9        | \$9.9  | \$(8.1)   | ) 25.7   |   |
| Interest expense, net                           |               |        |           | 14.9     |   |
| Loss on early extinguishment of debt            |               |        |           | 1.5      |   |
| Income before income taxes                      |               |        |           | 9.3      |   |
| Income tax expense                              |               |        |           | 3.4      |   |
| Income from continuing operations               |               |        |           | 5.9      |   |
| Income from discontinued operations, net of tax |               |        |           | 3.9      |   |
| Net income                                      |               |        |           | \$9.8    |   |
|                                                 | 2011          |        |           |          |   |
|                                                 | Mueller Co.   | Anvil  | Corporate | Total    |   |
|                                                 | (in millions) |        |           |          |   |
| Net sales                                       | \$165.8       | \$93.8 | \$—       | \$259.6  |   |
| Gross profit                                    | \$46.7        | \$26.6 | \$(0.2)   | ) \$73.1 |   |
| Operating expenses:                             |               |        |           |          |   |
| Selling, general and administrative             | 23.9          | 17.0   | 7.2       | 48.1     |   |
| Restructuring                                   | 0.2           | 0.1    | —         | 0.3      |   |
| Total operating expenses                        | 24.1          | 17.1   | 7.2       | 48.4     |   |
| Operating income (loss)                         | \$22.6        | \$9.5  | \$(7.4)   | ) 24.7   |   |
| Interest expense, net                           |               |        |           | 16.8     |   |
| Income before income taxes                      |               |        |           | 7.9      |   |
| Income tax expense                              |               |        |           | 1.0      |   |
| Income from continuing operations               |               |        |           | 6.9      |   |
| Loss from discontinued operations, net of tax   |               |        |           | (9.6)    | ) |
| Net loss                                        |               |        |           | \$(2.7)  | ) |

## Consolidated Analysis

Net sales for the quarter ended June 30, 2012 increased to \$275.9 million from \$259.6 million in the prior year period. Net sales increased due to higher shipment volumes and higher pricing.

Gross profit for the quarter ended June 30, 2012 increased to \$79.6 million from \$73.1 million in the prior year period. Gross margin improved 70 basis points to 28.9% in the quarter ended June 30, 2012 from 28.2% in the prior year period and was positively impacted primarily by higher sales prices in both segments as well as higher shipment volumes at Mueller Co.

Selling, general and administrative expenses ("SG&A") in the quarter ended June 30, 2012 increased to \$53.2 million from \$48.1 million in the prior year period. SG&A increased primarily due to higher employee-related expenses at Mueller Co. and Corporate, investments associated with Mueller Systems and Echologics and other costs.

Interest expense, net was \$14.9 million in the quarter ended June 30, 2012 compared to \$16.8 million in the prior year period. Interest rate swap contract expense represents the amortization of unrecognized expense related to interest rate

swap contracts, all of which were terminated prior to 2011. Excluding these expenses, net interest expense declined \$1.1 million in the quarter ended June 30, 2012 compared to the prior year period driven primarily by reduced borrowing levels.

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In the quarter ended June 30, 2012, the loss on early extinguishment of debt of \$1.5 million resulted from the redemption of \$22.5 million of the 8.75% Senior Unsecured Notes.

The components of interest expense, net are detailed below.

|                                      | Three months ended<br>June 30,<br>2012                      2011<br>(in millions) |        |
|--------------------------------------|-----------------------------------------------------------------------------------|--------|
| 7.375% Senior Subordinated Notes     | \$7.7                                                                             | \$7.7  |
| 8.75% Senior Unsecured Notes         | 4.8                                                                               | 5.0    |
| Interest rate swap contracts         | 1.3                                                                               | 2.1    |
| ABL Agreement borrowings             | 0.1                                                                               | 0.5    |
| Deferred financing fees amortization | 0.6                                                                               | 0.5    |
| Other interest expense               | 0.4                                                                               | 1.1    |
|                                      | 14.9                                                                              | 16.9   |
| Interest income                      | —                                                                                 | (0.1)  |
|                                      | \$14.9                                                                            | \$16.8 |

The components of income tax expense (benefit) are provided below.

|                                     | Three months ended<br>June 30, 2012       |                            | Three months ended<br>June 30, 2011 |                            |
|-------------------------------------|-------------------------------------------|----------------------------|-------------------------------------|----------------------------|
|                                     | Continuing<br>operations<br>(in millions) | Discontinued<br>operations | Continuing<br>operations            | Discontinued<br>operations |
| Expense (benefit) from operations   | \$3.8                                     | \$(0.1)                    | \$4.5                               | \$(5.7)                    |
| Valuation allowance-related benefit | —                                         | (4.2)                      | —                                   | —                          |
| Other discrete items                | (0.4)                                     | —                          | (3.5)                               | 4.5                        |
| Income tax expense (benefit)        | \$3.4                                     | \$(4.3)                    | \$1.0                               | \$(1.2)                    |

## Segment Analysis

## Mueller Co.

Net sales in the quarter ended June 30, 2012 increased to \$182.6 million from \$165.8 million in the prior year period. Net sales increased primarily due to higher shipment volumes and higher pricing. Domestic unit shipments increased 11.5% for iron gate valves, 3.5% for hydrants and 12.7% for brass products in the quarter ended June 30, 2012 over the prior year period. Also, net sales grew approximately 50% at Mueller Systems and Echologics in the quarter ended June 30, 2012 compared to the prior year period, which we believe reflects growing customer awareness and acceptance of their products. Gross margin for the quarter ended June 30, 2012 rose to 28.2% from 28.1% in the prior year period.

SG&A in the quarter ended June 30, 2012 increased to \$27.0 million compared to \$23.9 million in the prior year period primarily related to employee-related expenses and ongoing investment in our Mueller Systems and Echologics businesses.

## Anvil

Net sales in the quarter ended June 30, 2012 decreased to \$93.3 million from \$93.8 million in the prior year period. The slight decrease in net sales was due to lower shipment volumes primarily in Anvil's industrial markets that were mostly offset by higher prices. Anvil's sales to the oil & gas market were up only slightly year-over-year since the rate of growth this market experienced during 2011 has slowed.

Gross profit in the quarter ended June 30, 2012 increased to \$28.0 million from \$26.6 million in the prior year period. Gross margin improved to 30.0% in the quarter ended June 30, 2012 compared to 28.4% in the prior year period, driven primarily by improved sales pricing.

SG&A increased to \$18.1 million in the quarter ended June 30, 2012 compared to \$17.0 million in the prior year period. This was the result of small increases that were not individually meaningful across the business.



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## Corporate

SG&A increased to \$8.1 million in the quarter ended June 30, 2012 from \$7.2 million in the prior year period primarily due to higher employee-related expenses.

Nine months ended June 30, 2012 compared to nine months ended June 30, 2011

|                                               | 2012          |         |           |           |
|-----------------------------------------------|---------------|---------|-----------|-----------|
|                                               | Mueller Co.   | Anvil   | Corporate | Total     |
|                                               | (in millions) |         |           |           |
| Net sales                                     | \$465.2       | \$277.6 | \$—       | \$742.8   |
| Gross profit                                  | \$113.7       | \$80.8  | \$—       | \$194.5   |
| Operating expenses:                           |               |         |           |           |
| Selling, general and administrative           | 75.0          | 53.1    | 22.2      | 150.3     |
| Restructuring                                 | 1.9           | 0.2     | (0.1)     | 2.0       |
| Total operating expenses                      | 76.9          | 53.3    | 22.1      | 152.3     |
| Operating income (loss)                       | \$36.8        | \$27.5  | \$(22.1)  | 42.2      |
| Interest expense, net                         |               |         |           | 46.1      |
| Loss on early extinguishment of debt          |               |         |           | 1.5       |
| Loss before income taxes                      |               |         |           | (5.4)     |
| Income tax expense                            |               |         |           | 4.1       |
| Loss from continuing operations               |               |         |           | (9.5)     |
| Loss from discontinued operations, net of tax |               |         |           | (102.4)   |
| Net loss                                      |               |         |           | \$(111.9) |
|                                               | 2011          |         |           |           |
|                                               | Mueller Co.   | Anvil   | Corporate | Total     |
|                                               | (in millions) |         |           |           |
| Net sales                                     | \$444.5       | \$263.8 | \$—       | \$708.3   |
| Gross profit                                  | \$109.7       | \$73.4  | \$0.1     | \$183.2   |
| Operating expenses:                           |               |         |           |           |
| Selling, general and administrative           | 67.6          | 50.4    | 22.3      | 140.3     |
| Restructuring                                 | 1.2           | 1.2     | —         | 2.4       |
| Total operating expenses                      | 68.8          | 51.6    | 22.3      | 142.7     |
| Operating income (loss)                       | \$40.9        | \$21.8  | \$(22.2)  | 40.5      |
| Interest expense, net                         |               |         |           | 49.0      |
| Loss before income taxes                      |               |         |           | (8.5)     |
| Income tax benefit                            |               |         |           | (4.3)     |
| Loss from continuing operations               |               |         |           | (4.2)     |
| Loss from discontinued operations, net of tax |               |         |           | (24.3)    |
| Net loss                                      |               |         |           | \$(28.5)  |

## Consolidated Analysis

Net sales for the nine months ended June 30, 2012 increased to \$742.8 million from \$708.3 million in the prior year period. Net sales increased primarily due to higher pricing across both business segments and higher Mueller Co. shipment volumes.

Gross profit for the nine months ended June 30, 2012 increased to \$194.5 million from \$183.2 million in the prior year period. Gross margin was 26.2% in the nine months ended June 30, 2012 and 25.9% in the prior year period, reflecting higher sales prices across both business segments.

SG&A in the nine months ended June 30, 2012 increased to \$150.3 million, or 20.2% of net sales, from \$140.3 million, or 19.8% of net sales, in the prior year period. SG&A increased primarily due to higher employee-related expenses at Mueller Co. and Anvil, investments associated with Mueller Systems and Echologics and other costs.

Interest expense, net was \$46.1 million in the nine months ended June 30, 2012 compared to \$49.0 million in the prior year

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period. Interest rate swap contract expense represents the amortization of unrecognized expense related to interest rate swap contracts, all of which were terminated prior to 2011. Excluding these expenses, net interest expense declined \$1.2 million in the nine months ended June 30, 2012 compared to the prior year period primarily due to lower borrowing levels.

In the nine months ended June 30, 2012, the loss on early extinguishment of debt of \$1.5 million resulted from the redemption of \$22.5 million of the 8.75% Senior Unsecured Notes.

The components of interest expense, net are detailed below.

|                                      | Nine months ended<br>June 30,<br>2012 |   | 2011   |   |
|--------------------------------------|---------------------------------------|---|--------|---|
|                                      | (in millions)                         |   |        |   |
| 7.375% Senior Subordinated Notes     | \$23.2                                |   | \$23.2 |   |
| 8.75% Senior Unsecured Notes         | 14.8                                  |   | 15.0   |   |
| Interest rate swap contracts         | 4.3                                   |   | 6.0    |   |
| ABL Agreement borrowings             | 1.0                                   |   | 1.3    |   |
| Deferred financing fees amortization | 1.8                                   |   | 1.7    |   |
| Other interest expense               | 1.2                                   |   | 2.0    |   |
|                                      | 46.3                                  |   | 49.2   |   |
| Interest income                      | (0.2                                  | ) | (0.2   | ) |
|                                      | \$46.1                                |   | \$49.0 |   |

After including the tax effect of the loss on the sale of U.S. Pipe, our deferred tax liabilities are insufficient to fully support our deferred tax assets, which include net operating loss carryforwards. Accordingly, we recorded income tax expense to establish valuation allowances related to deferred tax assets during the nine months ended June 30, 2012. GAAP requires us to allocate a portion of the valuation allowance charge relating to deferred tax assets at September 30, 2011 to continuing operations. Our net operating loss carryforwards remain available to offset future taxable earnings.

The components of income tax expense (benefit) are provided below.

|                                     | Nine months ended<br>June 30, 2012        |                            | Nine months ended<br>June 30, 2011 |                            |
|-------------------------------------|-------------------------------------------|----------------------------|------------------------------------|----------------------------|
|                                     | Continuing<br>operations<br>(in millions) | Discontinued<br>operations | Continuing<br>operations           | Discontinued<br>operations |
| Benefit from operations             | \$(2.4                                    | ) \$(50.7                  | ) \$(4.9                           | ) \$(13.6                  |
| Valuation allowance-related expense | 5.9                                       | 24.3                       | —                                  | —                          |
| Other discrete items                | 0.6                                       | —                          | 0.6                                | 0.1                        |
| Income tax expense (benefit)        | \$4.1                                     | \$(26.4                    | ) \$(4.3                           | ) \$(13.5                  |

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Segment Analysis

Mueller Co.

Net sales in the nine months ended June 30, 2012 increased to \$465.2 million from \$444.5 million in the prior year period. Net sales increased due to higher shipment volumes and higher pricing.

Gross profit in the nine months ended June 30, 2012 increased to \$113.7 million from \$109.7 million in the prior year period. Gross margin decreased to 24.4% in the nine months ended June 30, 2012 compared to 24.7% in the prior year period, driven by a higher level of lower-margin sales at Mueller Systems and Echologics as these businesses expand their capabilities.

SG&A in the nine months ended June 30, 2012 increased to \$75.0 million compared to \$67.6 million in the prior year period. The majority of this increase related to ongoing investment in Echologics, which was acquired in December 2010, and Mueller Systems. SG&A was 16.1% of net sales in the nine months ended June 30, 2012 compared to 15.2% of net sales in the prior year period.

Anvil

Net sales in the nine months ended June 30, 2012 increased to \$277.6 million from \$263.8 million in the prior year period. Net sales increased primarily due to higher pricing.

Gross profit in the nine months ended June 30, 2012 increased to \$80.8 million from \$73.4 million in the prior year period. Gross margin improved to 29.1% in the nine months ended June 30, 2012 from 27.8% in the prior year period, driven primarily by improved sales pricing.

SG&A increased to \$53.1 million in the nine months ended June 30, 2012 compared to \$50.4 million in the prior year period. This was the result of small increases that were not individually meaningful across the business.

Corporate

SG&A decreased to \$22.2 million in the nine months ended June 30, 2012 from \$22.3 million in the prior year period.

Liquidity and Capital Resources

We had cash and cash equivalents of \$53.7 million at June 30, 2012. We also had \$141.3 million of borrowing capacity under our asset based lending agreement (the "ABL Agreement") using June 30, 2012 data. In April 2012, we received \$94.0 million in cash, subject to additional adjustments, from the sale of U.S. Pipe. We believe there are net additional purchase price adjustments related to net working capital that would increase the purchase price by \$9.2 million. However, the purchaser has claimed net purchase price adjustments related to net working capital that would reduce the purchase price by \$5.2 million. This dispute will be resolved by an independent auditor who has been selected by the parties, and we cannot make a reliable estimate of what the resolution may be. The resolution of this purchase price adjustment dispute will result in an adjustment to our recorded loss on sale of discontinued operations. During the quarter ended June 30, 2012, we repaid the outstanding balance of \$48.0 million on the ABL Agreement and redeemed 10% aggregate principal amount, or \$22.5 million, of the Senior Unsecured Notes at a redemption price of 103% plus accrued and unpaid interest and recorded a loss on early extinguishment of debt of \$1.5 million.

Cash flows from operating activities from continuing operations are categorized below.

|                                                                            | Nine months ended<br>June 30, |         |
|----------------------------------------------------------------------------|-------------------------------|---------|
|                                                                            | 2012                          | 2011    |
|                                                                            | (in millions)                 |         |
| Collections from customers                                                 | \$733.3                       | \$690.4 |
| Disbursements other than interest and income taxes                         | (672.2)                       | (642.1) |
| Interest payments, net                                                     | (43.8)                        | (43.8)  |
| Income tax refunds (payments), net                                         | 7.2                           | (4.7)   |
| Cash provided by (used in) operating activities from continuing operations | \$24.5                        | \$(0.2) |

Collections of receivables were higher during the nine months ended June 30, 2012 compared to the prior year period primarily related to the increased net sales in 2012.



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Increased disbursements other than interest and income taxes during the nine months ended June 30, 2012 reflect higher purchasing activity associated with higher net sales, higher raw material costs, and general timing differences of disbursements related to the purchase of material, labor and overhead. Also, we contributed \$12.7 million to our pension plans in the nine months ended June 30, 2012 compared to \$19.3 million in the prior year period.

Capital expenditures were \$19.5 million during the nine months ended June 30, 2012 compared to \$15.9 million in the prior year period. In December 2010, Mueller Co. acquired Echologics, a leak detection and pipe condition and diagnostic assessment company, for a final purchase price of \$7.4 million. We estimate 2012 capital expenditures will be between \$28 million and \$30 million.

Our U.S. pension plan was 83.4% funded at January 1, 2012 (the most recent date this analysis has been performed) under the provisions of the Pension Protection Act. A significant portion of the assets invested in our defined benefit pension plans is invested in equity securities. If we lower our estimated rate of return on these assets, pension expense and our required contributions to these plans may increase. We estimate contributing between \$20 million and \$22 million to our pension plans during 2012.

We anticipate that our existing cash, cash equivalents and borrowing capacity combined with our expected operating cash flows will be sufficient to meet our anticipated operating expenses, capital expenditures, pension contributions and debt service obligations as they become due through June 30, 2013. However, our ability to make these payments will depend partly upon our future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

**ABL Agreement**

The ABL Agreement consists of a revolving credit facility of up to \$275 million of revolving credit borrowings, swing line loans and letters of credit. The ABL Agreement also permits us to increase the size of the credit facility by an additional \$150 million. We may borrow up to \$25 million through swing line loans and have up to \$60 million of letters of credit outstanding.

Borrowings under the ABL Agreement bear interest at a floating rate equal to LIBOR plus a margin ranging from 275 to 325 basis points, or a base rate as defined in the ABL Agreement plus a margin ranging from 175 to 225 basis points. At June 30, 2012, the applicable rates were LIBOR plus 300 basis points and the base rate plus 200 basis points.

The ABL Agreement terminates in August 2015 and had no outstanding borrowings at June 30, 2012. We pay a commitment fee of 50 basis points for any unused borrowing capacity under the ABL Agreement. The borrowing capacity under the ABL Agreement is not subject to any financial maintenance covenants unless excess availability is less than the greater of \$34 million and 12.5% of the aggregate commitments under the ABL Agreement. If excess availability is below this threshold, we must maintain a fixed charge coverage ratio greater than 1.1. As measured using June 30, 2012 data, excess availability as reduced by outstanding letters of credit and accrued fees and expenses of \$37.9 million was \$141.3 million and our borrowing capacity was also \$141.3 million.

The ABL Agreement is subject to mandatory prepayments if total outstanding borrowings under the ABL Agreement are greater than the aggregate commitments under the revolving credit facility or if we dispose of overdue accounts receivable in certain circumstances. The borrowing base under the ABL Agreement is equal to the sum of (a) 85% of the value of eligible accounts receivable and (b) the lesser of (i) 65% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of the value of eligible inventory, less certain reserves. Prepayments can be made at any time with no penalty.

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

The ABL Agreement contains customary negative covenants and restrictions on our ability to engage in specified activities, such as:

- limitations on other debt, liens, investments and guarantees;
- restrictions on dividends and redemptions of our capital stock and prepayments and redemptions of debt; and
- restrictions on mergers and acquisition, sales of assets and transactions with affiliates.



Table of ContentsIndex to Financial Statements**8.75% Senior Unsecured Notes**

We owed \$202.5 million aggregate principal amount of 8.75% Senior Unsecured Notes at June 30, 2012. Interest on the Senior Unsecured Notes is paid semi-annually and the principal is due September 2020. We may redeem up to \$22.5 million aggregate principal amount of the Senior Unsecured Notes at a redemption price of 103% plus accrued and unpaid interest once during the year ending September 1, 2013. On May 18, 2012, we redeemed \$22.5 million aggregate principal amount for \$23.2 million, plus accrued interest, and recorded a loss on early extinguishment of debt of \$1.5 million. We may also redeem up to \$78.8 million aggregate principal amount of the Senior Unsecured Notes at a redemption price of 108.75%, plus accrued and unpaid interest, with the net cash proceeds from certain equity offerings prior to September 2013, provided that at least \$146.2 million aggregate principal amount remains outstanding immediately after such redemption. After August 2015, the Senior Unsecured Notes may be redeemed at specified redemption prices plus accrued and unpaid interest. Upon a “Change of Control” (as defined in the indenture securing the Senior Unsecured Notes), we are required to offer to purchase the outstanding Senior Unsecured Notes at a purchase price of 101%, plus accrued and unpaid interest. The Senior Unsecured Notes are essentially guaranteed by all of our U.S. subsidiaries, but are subordinate to borrowings under the ABL Agreement.

**7.375% Senior Subordinated Notes**

We also owed \$420 million of principal of 7.375% Senior Subordinated Notes (“Senior Subordinated Notes”) at June 30, 2012. Interest on the Senior Subordinated Notes is payable semi-annually and the principal is due June 2017. We may redeem any portion of the Senior Subordinated Notes at specified redemption prices plus accrued and unpaid interest, subject to limitations under our ABL agreement and the indenture related to our Senior Unsecured Notes. Upon a “Change of Control” (as defined in the indenture securing the Senior Subordinated Notes), we are required to offer to purchase the outstanding Senior Subordinated Notes at 101%, plus accrued and unpaid interest. The Senior Subordinated Notes are secured by the guarantees of essentially all of our U.S. subsidiaries, but are subordinate to the borrowings under the ABL Agreement and the Senior Unsecured Notes.

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

|                                  | Moody's          |                       | Standard & Poor's |                       |
|----------------------------------|------------------|-----------------------|-------------------|-----------------------|
|                                  | June 30,<br>2012 | September 30,<br>2011 | June 30,<br>2012  | September 30,<br>2011 |
| Corporate credit rating          | B3               | B3                    | B                 | B                     |
| ABL Agreement                    | Not rated        | Not rated             | Not rated         | Not rated             |
| 8.75% Senior Unsecured Notes     | B2               | B2                    | B+                | B+                    |
| 7.375% Senior Subordinated Notes | Caa2             | Caa2                  | CCC+              | CCC+                  |
| Outlook                          | Stable           | Stable                | Stable            | Stable                |

**Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which could have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, any derivative contracts other than those described in our Annual Report “Item 7A. Qualitative and Quantitative Disclosure About Market Risk” or synthetic leases. Therefore, we are not exposed to any financing, liquidity, market or credit risk that could have arisen if we had engaged in such relationships.

We use letters of credit and surety bonds in the ordinary course of business to ensure the performance of contractual obligations. At June 30, 2012, we had \$37.7 million of letters of credit and \$40.4 million of surety bonds outstanding.

**Seasonality**

Our business is dependent upon the construction industry, which is seasonal due to the impact of cold weather conditions. Net sales and operating income have historically been lowest in the quarterly periods ending December 31 and March 31 when the northern United States and all of Canada generally face weather conditions that restrict significant construction activity.



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## Item 4. Controls and Procedures

During the quarter ended June 30, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

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

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

## PART II OTHER INFORMATION

## Item 1. Legal Proceedings

Refer to the information provided in Note 12 to the notes to the condensed consolidated financial statements presented in Item 1 of Part I of this report.

## Item 1A. Risk Factors

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

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended June 30, 2012, we repurchased shares of our common stock as follows.

| Period           | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|------------------|--------------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| April 1-30, 2012 | 1,494                                | \$3.48                       | —                                                                                | —                                                                              |
| May 1-31, 2012   | 14,299                               | 3.68                         | —                                                                                | —                                                                              |
| June 1-30, 2012  | —                                    | —                            | —                                                                                | —                                                                              |
| Total            | 15,793                               | \$3.66                       | —                                                                                | —                                                                              |

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(1) The total number of shares purchased consists of shares surrendered to us to pay the tax withholding obligations of participants in connection with the lapsing of restrictions on restricted stock units.

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Item 6. Exhibits

(a) Exhibits

| Exhibit No. | Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.21.3     | Assignment and Assumption Agreement, dated April 2, 2012, between Mueller Water Products, Inc. and United States Pipe and Foundry Company, LLC. Incorporated by reference to Exhibit 10.21.3 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on April 4, 2012.                                                                                                                                                                                                    |
| 31.1*       | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                   |
| 31.2*       | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                   |
| 32.1*       | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                   |
| 32.2*       | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                   |
| 101*        | The following financial information from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language), (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements. |
| *           | Filed with this quarterly report                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

SIGNATURES

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

Date: August 9, 2012

MUELLER WATER PRODUCTS, INC.

By: /s/ Evan L. Hart  
Evan L. Hart  
Chief Financial Officer