

Mueller Water Products, Inc.  
Form 10-Q  
February 07, 2014

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 December 31, 2013

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

Commission File Number 001-32892

MUELLER WATER PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-3547095

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1200 Abernathy Road N.E.

Suite 1200

Atlanta, GA 30328

(Address of principal executive offices)

(770) 206-4200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 159,187,136 shares of common stock of the registrant outstanding at January 31, 2014.

## PART I

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

	December 31, 2013	September 30, 2013
	(in millions, except share amounts)	
Assets:		
Cash and cash equivalents	\$ 106.8	\$ 123.6
Receivables, net	134.4	164.5
Inventories	214.3	208.5
Deferred income taxes	64.0	26.7
Other current assets	46.5	46.1
Total current assets	566.0	569.4
Property, plant and equipment, net	141.9	141.9
Identifiable intangible assets	545.5	553.1
Other noncurrent assets	16.3	17.5
Total assets	\$ 1,269.7	\$ 1,281.9
Liabilities and stockholders' equity:		
Current portion of long-term debt	\$ 1.2	\$ 1.3
Accounts payable	71.4	101.2
Other current liabilities	66.9	80.6
Total current liabilities	139.5	183.1
Long-term debt	599.5	599.5
Deferred income taxes	176.4	141.5
Other noncurrent liabilities	32.5	29.6
Total liabilities	947.9	953.7
Commitments and contingencies (Note 10)		
Common stock: 600,000,000 shares authorized; 159,004,117 and 158,234,300 shares outstanding at December 31, 2013 and September 30, 2013, respectively	1.6	1.6
Additional paid-in capital	1,581.9	1,584.4
Accumulated deficit	(1,228.1	) (1,229.2
Accumulated other comprehensive loss	(33.6	) (28.6
Total stockholders' equity	321.8	328.2
Total liabilities and stockholders' equity	\$ 1,269.7	\$ 1,281.9

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

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

	Three months ended December 31,	
	2013	2012
	(in millions, except per share amounts)	
Net sales	\$ 257.4	\$ 245.1
Cost of sales	190.3	188.0
Gross profit	67.1	57.1
Operating expenses:		
Selling, general and administrative	53.0	49.5
Restructuring	0.1	0.7
Total operating expenses	53.1	50.2
Operating income	14.0	6.9
Interest expense, net	12.6	13.5
Income (loss) before income taxes	1.4	(6.6 )
Income tax expense (benefit)	0.3	(1.6 )
Income (loss) from continuing operations	1.1	(5.0 )
Income from discontinued operations	—	12.0
Net income	\$ 1.1	\$ 7.0
Net income per basic share:		
Continuing operations	\$ 0.01	\$ (0.03 )
Discontinued operations	—	0.07
Net income	\$ 0.01	\$ 0.04
Net income per diluted share:		
Continuing operations	\$ 0.01	\$ (0.03 )
Discontinued operations	—	0.07
Net income	\$ 0.01	\$ 0.04
Weighted average shares outstanding:		
Basic	158.5	157.1
Diluted	161.7	159.2
Dividends declared per share	\$ 0.0175	\$ 0.0175

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

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

	Three months ended December 31,	
	2013	2012
	(in millions)	
Net income	\$ 1.1	\$ 7.0
Other comprehensive income (loss):		
Minimum pension liability	(4.9	) (3.4
Income tax effects	1.9	6.8
Foreign currency translation	(2.0	) (0.7
	(5.0	) 2.7
Comprehensive income (loss)	\$ (3.9	) \$ 9.7

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 THREE MONTHS ENDED DECEMBER 31, 2013  
 (UNAUDITED)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total	
	(in millions)					
Balance at September 30, 2013	\$ 1.6	\$ 1,584.4	\$ (1,229.2	) \$ (28.6	) \$ 328.2	
Net income	—	—	1.1	—	1.1	
Dividends declared	—	(2.8	) —	—	(2.8	)
Stock-based compensation	—	2.4	—	—	2.4	
Shares retained for employee taxes	—	(3.0	) —	—	(3.0	)
Stock issued under stock compensation plans	—	0.9	—	—	0.9	
Other comprehensive loss, net of tax	—	—	—	(5.0	) (5.0	)
Balance at December 31, 2013	\$ 1.6	\$ 1,581.9	\$ (1,228.1	) \$ (33.6	) \$ 321.8	

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

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

	Three months ended December 31,	
	2013	2012
	(in millions)	
Operating activities:		
Net income	\$ 1.1	\$ 7.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities from continuing operations:		
Income from discontinued operations	—	(12.0)
Income (loss) from continuing operations	1.1	(5.0)
Depreciation	6.8	7.4
Amortization	7.9	7.4
Stock-based compensation	2.4	1.5
Deferred income taxes	0.1	(1.8)
Retirement plans	0.4	1.1
Other, net	0.5	0.8
Changes in assets and liabilities, net of acquisitions:		
Receivables	29.7	30.0
Inventories	(6.1)	(7.1)
Other assets	0.2	(0.4)
Liabilities	(46.8)	(33.3)
Net cash provided by (used in) operating activities from continuing operations	(3.8)	0.6
Investing activities:		
Capital expenditures	(7.5)	(6.2)
Acquisition of technology	—	(0.3)
Proceeds from sales of assets	0.2	—
Net cash used in investing activities from continuing operations	(7.3)	(6.5)
Financing activities:		
Dividends paid	(2.8)	(2.7)
Common stock issued	0.9	0.3
Shares retained for employee taxes	(3.0)	(1.3)
Payment of deferred financing fees	—	(0.7)
Other	0.4	(0.6)
Net cash used in financing activities	(4.5)	(5.0)
Net cash flows from discontinued operations:		
Operating activities	—	(1.7)
Investing activities	—	4.5
Net cash provided by discontinued operations	—	2.8
Effect of currency exchange rate changes on cash	(1.2)	(0.4)
Net change in cash and cash equivalents	(16.8)	(8.5)
Cash and cash equivalents at beginning of period	123.6	83.0
Cash and cash equivalents at end of period	\$ 106.8	\$ 74.5

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

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, metering systems, and provides leak detection and pipe condition assessment products and services for the water infrastructure industry. Anvil manufactures and sources a broad range of products, including a variety of fittings, couplings, hangers and related products. The "Company," "we," "us" or "our" refer to Mueller Water Products, Inc. and its subsidiaries. With regard to the Company's segments, "we," "us" or "our" may also refer to the segment being discussed.

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

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, 2013 was derived from audited financial statements, but does not include all disclosures required by GAAP.

Note 2. Discontinued Operations

On April 1, 2012, we sold our former U.S. Pipe segment to USP Holdings Inc., an affiliate of Wynnchurch Capital, Ltd., 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. During 2013, we received \$4.5 million in cash for certain purchase price adjustments and reduced our loss on sale of discontinued operations accordingly.

U.S. Pipe's results of operations have been reclassified as discontinued operations for the three months ended December 31, 2012. The table below represents a summary of the operating results for these discontinued operations, in millions. These operating results do not reflect what they would have been had U.S. Pipe not been classified as discontinued operations.

Operating income	\$ 7.2
Income on sale of discontinued operations	4.8
Income from discontinued operations	\$ 12.0

We retained certain assets, liabilities and activities previously associated with our former U.S. Pipe segment, including ownership of certain real property and retention of pension and workers compensation obligations to employees of U.S. Pipe. Cash flows associated with some of these items are anticipated to continue indefinitely, but they are not clearly and closely related to the future operations of U.S. Pipe under its new owners.

Note 3. Income Taxes

After inclusion of the tax effect of the overall loss on the sale of U.S. Pipe, our net reversing deferred tax credits were insufficient to fully support our deferred tax assets, which include net operating loss carryforwards, and we concluded that a valuation allowance was necessary to reduce our U.S. net reversing deferred tax assets to zero. Accordingly, we recorded income tax expense in 2012 to establish valuation allowances related to deferred tax assets.

We reevaluate the need for a valuation allowance against the U.S. deferred tax assets each quarter, considering results to date, projections of taxable income, tax planning strategies and reversing taxable temporary differences. During the quarter ended December 31, 2012, we decreased our U.S. deferred tax valuation allowance by \$4.6 million.

Notwithstanding the valuation allowance, our net operating loss carryforwards remain available to offset future taxable earnings.

The components of income tax expense on continuing operations are provided below.

	Three months ended December 31,	
	2013	2012
	(in millions)	
Expense (benefit) from income (loss) before income taxes	\$0.5	\$(2.4)
Deferred tax asset valuation allowance adjustment	—	0.8
Other discrete items	(0.2)	—
	\$0.3	\$(1.6)

At December 31, 2013 and September 30, 2013, the gross liabilities for unrecognized income tax benefits were \$3.8 million and \$3.7 million, respectively.

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 December 31, 2013 and September 30, 2013, we had \$0.9 million and \$0.9 million, respectively, of accrued interest liabilities related to uncertain tax positions. Our state income tax returns are generally closed for years prior to 2006, except to the extent of our state net operating loss carryforwards. Our Canadian income tax returns are generally closed for years prior to 2006. We are currently under audit by several states at various levels of completion. We do not have any material unpaid assessments.

#### Note 4. Borrowing Arrangements

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

	December 31, 2013	September 30, 2013
	(in millions)	
ABL Agreement	\$—	\$—
8.75% Senior Unsecured Notes	178.0	178.0
7.375% Senior Subordinated Notes	420.0	420.0
Other	2.7	2.8
	600.7	600.8
Less current portion	(1.2)	(1.3)
Long-term debt	\$ 599.5	\$ 599.5

ABL Agreement. At December 31, 2013, our asset based lending agreement (“ABL Agreement”) consisted of a revolving credit facility for up to \$225 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 175 to 225 basis points, or a base rate, as defined in the ABL Agreement, plus a margin ranging from 75 to 125 basis points. At December 31, 2013, the applicable rate was LIBOR plus 175 basis points.

The ABL Agreement terminates on the earlier of (1) December 18, 2017 and (2) 60 days prior to the final maturity of our 7.375% Senior Subordinated Notes. We pay a commitment fee for any unused borrowing capacity under the ABL Agreement of either 37.5 basis points per annum or 25 basis points per annum, based on daily average availability during the previous calendar quarter. At December 31, 2013, our commitment fee was 37.5 basis points. Our obligations under the ABL Agreement 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 \$22.5 million and 10% of the aggregate commitments under the ABL Agreement. Excess availability based on December 31, 2013 data, as reduced by outstanding letters of credit and accrued fees and expenses of \$30.8 million, was \$138.5 million.



**8.75% Senior Unsecured Notes.** The 8.75% Senior Unsecured Notes (“Senior Unsecured Notes”) mature on September 1, 2020 and bear interest at 8.75%, paid semi-annually. The Senior Unsecured Notes balance at December 31, 2013 is net of \$2.0 million of unamortized discount. Based on quoted market prices, the outstanding Senior Unsecured Notes had a fair value of \$202.1 million at December 31, 2013.

After August 31, 2015, we may redeem the Senior Unsecured Notes at specified redemption prices. 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 101.0%. The Senior Unsecured Notes are guaranteed by essentially all of our U.S. subsidiaries, but 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. We believe we were compliant with these covenants at December 31, 2013 and expect to remain in compliance through December 31, 2014.

**7.375% Senior Subordinated Notes.** The 7.375% Senior Subordinated Notes (“Senior Subordinated Notes”) mature on June 1, 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 \$431.6 million at December 31, 2013.

We may redeem any portion of the Senior Subordinated Notes at specified redemption prices, subject to restrictions in the 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%.

The Senior Subordinated Notes are guaranteed by essentially all of our U.S. subsidiaries, but are subordinate to the 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. We believe we were compliant with these covenants at December 31, 2013 and expect to remain in compliance through December 31, 2014.

#### Note. 5 Retirement Plans

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

	Three months ended December 31,	
	2013	2012
	(in millions)	
Service cost	\$0.4	\$0.5
Interest cost	5.0	1.6
Expected return on plan assets	(5.9)	(2.1)
Amortization of actuarial net loss	0.9	0.7
Net periodic benefit cost	\$0.4	\$0.7

The amortization of actuarial losses, net of tax, is recorded as a component of other comprehensive income (loss).

Our U.S. pension plan was 101% funded at January 1, 2013 under the provisions of the Pension Protection Act. We do not expect to make any contributions to our U.S. pension plan during 2014. For financial reporting purposes, our U.S. pension plan obligations were 99% funded at September 30, 2013.

We ceased postretirement medical benefits substantially on December 31, 2012. Related to this cessation of benefits, we recorded a benefit of \$7.4 million, which is included in income from discontinued operations.

### Note 6. Stock-based Compensation Plans

From time to time, we grant various forms of stock-based compensation, including stock options, restricted stock units, and both cash-settled and stock-settled performance-based restricted stock units ("PRSUs") under our Amended and Restated 2006 Mueller Water Products, Inc. Stock Incentive Plan (the "2006 Stock Plan").

PRSUs represent a target number of units that may be paid out at the end of a multi-year award cycle consisting of annual performance periods coinciding with our fiscal years. As determined at the date of grant, PRSUs may settle in cash-value equivalent of, or directly in, shares of our common stock. Settlement will range from zero to two times the number of PRSUs granted, depending on our financial performance against predetermined targets.

The cash-settled PRSUs granted in 2013 will settle in November 2014 as determined at the end of the 2013 and 2014 performance periods. Cash-settled PRSUs are recorded as liability awards. Outstanding cash-settled PRSUs had a fair value of \$9.37 per share at December 31, 2013 and our liability for cash-settled PRSUs was \$2.6 million at December 31, 2013.

The stock-settled PRSUs granted in 2013 and 2014 will settle in November 2015 and December 2016, respectively, as determined at the end of each of three successive annual performance periods. Stock-settled PRSUs are recorded as equity awards. The stock prices used to value the awards were \$5.22 for the 2013 performance period and \$8.52 for the 2014 performance period.

From time to time, we grant Phantom Plan awards under the Mueller Water Products, Inc. Phantom Plan ("Phantom Plan"). Phantom Plan awards are recorded as liability awards. The outstanding Phantom Plan awards had a fair value of \$9.37 per award at December 31, 2013 and our liability for Phantom Plan awards was \$1.7 million at December 31, 2013.

We granted stock-based compensation awards under the 2006 Stock Plan, the Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan and the Phantom Plan during the quarter ended December 31, 2013 as follows.

	Number granted	Weighted average grant date fair value per instrument	Total grant date fair value (in millions)
Quarter ended December 31, 2013:			
Restricted stock units	333,816	\$ 8.50	\$ 2.8
Employee stock purchase plan instruments	56,643	1.87	0.1
Phantom Plan awards	304,815	8.52	2.6
Stock-settled performance shares	272,531	8.52	2.3
	967,805		\$ 7.8

We recorded stock-based compensation expense in continuing operations of \$4.1 million and \$2.3 million during the quarters ended December 31, 2013 and 2012, respectively. At December 31, 2013, there was approximately \$10.2 million of unrecognized compensation expense related to stock-based awards.

We exclude stock-based compensation instruments from the calculations of diluted earnings per share when inclusion of such instruments would have an antidilutive effect. We excluded 1,127,281 and 2,475,644 of such instruments from the calculations of diluted earnings per share for the quarters ended December 31, 2013 and December 31, 2012, respectively.

# Note 7. Supplemental Balance Sheet Information

Selected supplemental balance sheet information is presented below.

	December 31, 2013 (in millions)	September 30, 2013
Inventories:		
Purchased components and raw material	\$ 75.2	\$ 75.4
Work in process	40.1	38.6
Finished goods	99.0	94.5
	\$ 214.3	\$ 208.5
Other current assets:		
Maintenance and repair tooling	\$ 22.7	22.5
Income taxes	14.2	14.9
U.S. Pipe-related workers' compensation and other reimbursements	2.5	2.2
Other	7.1	6.5
	\$ 46.5	\$ 46.1
Property, plant and equipment:		
Land	\$ 10.6	\$ 10.6
Buildings	76.2	75.5
Machinery and equipment	310.4	305.7
Construction in progress	20.2	19.6
	417.4	411.4
Accumulated depreciation	(275.5)	(269.5)
	\$ 141.9	\$ 141.9
Other current liabilities:		
Compensation and benefits	\$ 25.6	\$ 37.3
Customer rebates	17.7	15.5
Interest	8.2	12.0
Taxes other than income taxes	4.3	5.0
Warranty	2.6	2.8
Income taxes	1.3	1.3
Environmental	0.2	0.2
Other	7.0	6.5
	\$ 66.9	\$ 80.6

## Note 8. Segment Information

Summarized financial information for our segments is presented below for the quarters ended December 31.

	Mueller Co. (in millions)	Anvil	Corporate	Total
Net sales, excluding intercompany:				
2013	\$ 165.0	\$ 92.4	\$ —	\$ 257.4
2012	151.1	94.0	—	245.1
Intercompany sales:				
2013	\$ 1.6	\$ —	\$ —	\$ 1.6
2012	1.4	—	—	1.4
Operating income (loss):				
2013	\$ 15.9	\$ 7.3	\$ (9.2	) \$ 14.0
2012	8.1	5.9	(7.1	) 6.9
Depreciation and amortization:				
2013	\$ 11.1	\$ 3.5	\$ 0.1	\$ 14.7
2012	11.2	3.5	0.1	14.8
Restructuring:				
2013	\$ 0.1	\$ —	\$ —	\$ 0.1
2012	0.7	—	—	0.7
Capital expenditures:				
2013	\$ 4.4	\$ 3.1	\$ —	\$ 7.5
2012	3.4	2.8	—	6.2

## Note 9. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is presented below.

	Foreign currency translation	Minimum pension liability, net of tax (in millions)	Total
Balance at September 30, 2013	\$ 6.8	\$ (35.4	) \$(28.6
Current period other comprehensive income (loss)	(2.0	) (3.0	) (5.0
Balance at December 31, 2013	\$ 4.8	\$ (38.4	) \$(33.6

## Note 10. Commitments and Contingencies

We are involved in various legal proceedings that have arisen in the normal course of operations, including the proceedings summarized below. The effect of the outcome of these matters on our financial statements cannot be predicted with certainty as any such effect depends on the amount and timing of the resolution of such matters. Other than the litigation described below, we do not believe that any of our outstanding litigation would have a material adverse effect on our business 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 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. Since 2007, Tyco has engaged in multiple corporate restructurings, split-offs and divestitures. While none of these transactions directly affects the indemnification obligations of the Tyco indemnitors under the 1999 acquisition agreement, the result of such transactions is that the assets of, and control over, such Tyco indemnitors has changed. Should any of these Tyco indemnitors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

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 retained this property related to the sale of our former U.S. Pipe segment. 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 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 any of our financial statements. On July 13, 2010, Rohcan Investments Limited, 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\$10.0 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.

**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 December 31, 2013. 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.

Our separation 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. 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 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 one of our predecessors 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 \$11.6 million, which includes recent tax audit and amended tax return adjustments, 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. This receivable is included in other current assets at December 31, 2013. 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 segment, 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 business, 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 financial statements cannot be predicted with certainty as any such effect depends on 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 business or prospects.

#### Note 11. Subsequent Events

On January 29, 2014, our board of directors declared a dividend of \$0.0175 per share on our common stock, payable on or about February 20, 2014 to stockholders of record at the close of business on February 10, 2014.





Note 12. 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 and the Senior Subordinated Notes. Each of the guarantees is joint and several and full and unconditional. Guarantor Companies are listed below.

Name	State of incorporation or organization
Anvil International, LLC	Delaware
Echologics, LLC	Delaware
Henry Pratt Company, LLC	Delaware
Henry Pratt International, LLC	Delaware
Hydro Gate, LLC	Delaware
J.B. Smith Mfg. Co., LLC	Delaware
James Jones Company, LLC	Delaware
Milliken Valve, LLC	Delaware
Mueller Co. LLC	Delaware
Mueller Group, LLC	Delaware
Mueller Group Co-Issuer, Inc.	Delaware
Mueller International, L.L.C.	Delaware
Mueller Property Holdings, LLC	Delaware
Mueller Co. International Holdings, LLC	Delaware
Mueller Service California, Inc.	Delaware
Mueller Service Co., LLC	Delaware
Mueller Systems, LLC	Delaware
OSP, LLC	Delaware
U.S. Pipe Valve & Hydrant, LLC	Delaware

Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Balance Sheet  
December 31, 2013

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total
Assets:					
Cash and cash equivalents	\$ 68.9	\$ (2.9	) \$ 40.8	\$ —	\$ 106.8
Receivables, net	0.1	127.1	7.2	—	134.4
Inventories	—	202.6	11.7	—	214.3
Deferred income taxes	63.6	—	0.4	—	64.0
Other current assets	18.0	26.2	2.3	—	46.5
Total current assets	150.6	353.0	62.4	—	566.0
Property, plant and equipment	1.4	132.5	8.0	—	141.9
Identifiable intangible assets	—	543.7	1.8	—	545.5
Other noncurrent assets	14.8	0.2	1.3	—	16.3
Investment in subsidiaries	177.5	38.1	—	(215.6	) —
Intercompany accounts	882.7	—	—	(882.7	) —
Total assets	\$ 1,227.0	\$ 1,067.5	\$ 73.5	\$ (1,098.3	) \$ 1,269.7
Liabilities and stockholders' equity:					
Current portion of long-term debt	\$ —	\$ 1.2	\$ —	\$ —	\$ 1.2
Accounts payable	4.9	62.6	3.9	—	71.4
Other current liabilities	23.8	40.1	3.0	—	66.9
Total current liabilities	28.7	103.9	6.9	—	139.5
Long-term debt	598.1	1.4	—	—	599.5
Deferred income taxes	175.8	—	0.6	—	176.4
Other noncurrent liabilities	24.3	7.5	0.7	—	32.5
Intercompany accounts	78.3	777.2	27.2	(882.7	) —
Total liabilities	905.2	890.0	35.4	(882.7	) 947.9
Stockholders' equity	321.8	177.5	38.1	(215.6	) 321.8
Total liabilities and stockholders' equity	\$ 1,227.0	\$ 1,067.5	\$ 73.5	\$ (1,098.3	) \$ 1,269.7

Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Balance Sheet  
September 30, 2013

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total
Assets:					
Cash and cash equivalents	\$ 86.6	\$ (2.3	) \$ 39.3	\$ —	\$ 123.6
Receivables, net	0.1	150.4	14.0	—	164.5
Inventories	—	195.3	13.2	—	208.5
Deferred income taxes	26.3	—	0.4	—	26.7
Other current assets	18.2	25.7	2.2	—	46.1
Total current assets	131.2	369.1	69.1	—	569.4
Property, plant and equipment	1.5	132.0	8.4	—	141.9
Identifiable intangible assets	—	551.3	1.8	—	553.1
Other noncurrent assets	16.0	0.2	1.3	—	17.5
Investment in subsidiaries	155.2	39.2	—	(194.4	) —
Intercompany accounts	882.7	—	—	(882.7	) —
Total assets	\$ 1,186.6	\$ 1,091.8	\$ 80.6	\$ (1,077.1	) \$ 1,281.9
Liabilities and stockholders' equity:					
Current portion of long-term debt	\$ —	\$ 1.3	\$ —	\$ —	\$ 1.3
Accounts payable	4.6	90.0	6.6	—	101.2
Other current liabilities	29.7	46.6	4.3	—	80.6
Total current liabilities	34.3	137.9	10.9	—	183.1
Long-term debt	598.0	1.5	—	—	599.5
Deferred income taxes	140.9	—	0.6	—	141.5
Other noncurrent liabilities	21.3	7.5	0.8	—	29.6
Intercompany accounts	63.9	789.7	29.1	(882.7	) —
Total liabilities	858.4	936.6	41.4	(882.7	) 953.7
Stockholders' equity	328.2	155.2	39.2	(194.4	) 328.2
Total liabilities and stockholders' equity	\$ 1,186.6	\$ 1,091.8	\$ 80.6	\$ (1,077.1	) \$ 1,281.9

Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
Three months ended December 31, 2013

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total
Net sales	\$—	\$235.8	\$21.6	\$—	\$257.4
Cost of sales	—	172.7	17.6	—	190.3
Gross profit	—	63.1	4.0	—	67.1
Operating expenses:					
Selling, general and administrative	9.1	40.7	3.2	—	53.0
Restructuring	—	0.1	—	—	0.1
Total operating expenses	9.1	40.8	3.2	—	53.1
Operating income (loss)	(9.1)	) 22.3	0.8	—	14.0
Interest expense, net	12.6	0.1	(0.1)	) —	12.6
Income (loss) before income taxes	(21.7)	) 22.2	0.9	—	1.4
Income tax expense (benefit)	(7.9)	) 8.0	0.2	—	0.3
Equity in income of subsidiaries	14.9	0.7	—	(15.6)	) —
Net income	\$1.1	\$14.9	\$0.7	\$(15.6)	) \$1.1

Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
Three months ended December 31, 2012

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total
Net sales	\$—	\$221.8	\$23.3	\$—	\$245.1
Cost of sales	—	167.6	20.4	—	188.0
Gross profit	—	54.2	2.9	—	57.1
Operating expenses:					
Selling, general and administrative	7.1	39.2	3.2	—	49.5
Restructuring	—	0.7	—	—	0.7
Total operating expenses	7.1	39.9	3.2	—	50.2
Operating income (loss)	(7.1)	) 14.3	(0.3)	) —	6.9
Interest expense (income), net	13.4	0.1	—	—	13.5
Income (loss) before income taxes	(20.5)	) 14.2	(0.3)	) —	(6.6)
Income tax expense (benefit)	(5.0)	) 3.5	(0.1)	) —	(1.6)
Equity in income (loss) of subsidiaries	10.5	(0.2)	) —	(10.3)	) —
Income (loss) from continuing operations	(5.0)	) 10.5	(0.2)	) (10.3)	) (5.0)
Income from discontinued operations	12.0	—	—	—	12.0
Net income (loss)	\$7.0	\$10.5	\$(0.2)	) \$(10.3)	) \$7.0

Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Comprehensive Income (Loss)  
Three months ended December 31, 2013

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total
Net income	\$ 1.1	\$ 14.9	\$ 0.7	\$(15.6	) \$ 1.1
Other comprehensive income (loss):					
Minimum pension liability, net of tax	(3.0	) —	—	—	(3.0 )
Equity in other comprehensive loss of subsidiaries	(2.0	) (2.0	) —	4.0	—
Foreign currency translation	—	—	(2.0	) —	(2.0 )
	(5.0	) (2.0	) (2.0	) 4.0	(5.0 )
Comprehensive income (loss)	\$(3.9	) \$ 12.9	\$(1.3	) \$(11.6	) \$(3.9 )

Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Comprehensive Income (Loss)  
Three months ended December 31, 2012

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total
Net income (loss)	\$ 7.0	\$ 10.5	\$(0.2	) \$(10.3	) \$ 7.0
Other comprehensive income (loss):					
Minimum pension liability, net of tax	3.4	—	—	—	3.4
Equity in other comprehensive income of subsidiaries	(0.7	) (0.7	) —	1.4	—
Foreign currency translation	—	—	(0.7	) —	(0.7 )
	2.7	(0.7	) (0.7	) 1.4	2.7
Comprehensive income (loss)	\$ 9.7	\$ 9.8	\$(0.9	) \$(8.9	) \$ 9.7

Mueller Water Products, Inc. and Subsidiaries  
Condensed Consolidating Statement of Cash Flows  
Three months ended December 31, 2013

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total	
Operating activities:						
Net cash provided by (used in) operating activities	\$(12.8	) \$6.1	\$2.9	\$—	\$(3.8	)
Investing activities:						
Capital expenditures	—	(7.3	) (0.2	) —	(7.5	)
Proceeds from sales of assets	—	0.2	—	—	0.2	
Net cash used in investing activities from continuing operations	—	(7.1	) (0.2	) —	(7.3	)
Financing activities:						
Dividends paid	(2.8	) —	—	—	(2.8	)
Common stock issued	0.9	—	—	—	0.9	
Shares retained for employee taxes	(3.0	) —	—	—	(3.0	)
Other	—	0.4	—	—	0.4	
Net cash provided by (used in) financing activities from continuing operations	(4.9	) 0.4	—	—	(4.5	)
Effect of currency exchange rate changes on cash	—	—	(1.2	) —	(1.2	)
Net change in cash and cash equivalents	(17.7	) (0.6	) 1.5	—	(16.8	)
Cash and cash equivalents at beginning of period	86.6	(2.3	) 39.3	—	123.6	
Cash and cash equivalents at end of period	\$68.9	\$ (2.9	) \$40.8	\$—	\$106.8	

Mueller Water Products, Inc. and Subsidiaries  
Consolidating Statement of Cash Flows  
Three months ended December 31, 2012

	Issuer	Guarantor companies	Non- guarantor companies (in millions)	Eliminations	Total	
Operating activities:						
Net cash provided by (used in) operating activities from continuing operations	\$ (5.9	) \$ 6.0	\$ 0.5	\$ —	\$ 0.6	
Investing activities:						
Capital expenditures	—	(6.0	) (0.2	) —	(6.2	)
Acquisitions, net of cash acquired	—	(0.3	) —	—	(0.3	)
Net cash used in investing activities from continuing operations	—	(6.3	) (0.2	) —	(6.5	)
Financing activities:						
Dividends paid	(2.7	) —	—	—	(2.7	)
Common stock issued	0.3	—	—	—	0.3	
Shares retained for employee taxes	(1.3	) —	—	—	(1.3	)
Payment of deferred financing fees	(0.7	) —	—	—	(0.7	)
Other	(0.7	) 0.1	—	—	(0.6	)
Net cash provided by (used in) financing activities from continuing operations	(5.1	) 0.1	—	—	(5.0	)
Net cash flows from discontinued operations:						
Operating activities	(1.7	) —	—	—	(1.7	)
Investing activities	4.5	—	—	—	4.5	
Net cash provided by discontinued operations	2.8	—	—	—	2.8	
Effect of currency exchange rate changes on cash	—	—	(0.4	) —	(0.4	)
Net change in cash and cash equivalents	(8.2	) (0.2	) (0.1	) —	(8.5	)
Cash and cash equivalents at beginning of period	53.3	(3.7	) 33.4	—	83.0	
Cash and cash equivalents at end of period	\$ 45.1	\$ (3.9	) \$ 33.3	\$ —	\$ 74.5	

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 of 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. Examples of forward-looking statements include, but are not limited to, statements we make regarding the general municipal spending environment, the condition of our end markets and the performance of each of Mueller Co. and Anvil over future periods. 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 other factors that are described in the section entitled "RISK FACTORS" in Item 1A. of our annual report on Form 10-K for the year ended September 30, 2013 ("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 and the Series A designation was discontinued.

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

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 fiscal 2013.

Business

We expect Mueller Co.'s 2014 net sales growth rate will be comparable to the 2013 growth rate, based on our current outlook for growth in residential construction and in municipal spending. We expect Mueller Co.'s operating income to improve for the second quarter of 2014 compared to the second quarter of the prior year, although at a slower growth rate than Mueller Co. experienced in the first quarter of 2014 compared to the first quarter of the prior year. In the second quarter, Mueller Co. is changing its approach to the production of certain sizes of iron gate valves. This change is expected to result in a write-down of the related production equipment. We expect Mueller Co. will record an associated \$1.5 million non-cash charge during the second quarter and that the project will deliver annual cost savings of \$3.0 million to \$3.5 million.

At Anvil, while we expect the energy and non-residential construction markets to improve during 2014, we will most likely benefit from these improvements in the second half of 2014. Consequently, we believe Anvil's second quarter net sales and operating income will be essentially flat year-over-year.

On a consolidated basis, we expect that results for the remainder of 2014 will improve year-over-year primarily due to expected growth in our key end markets and the benefits of expected stronger operating leverage.



# Results of Operations

Three months ended December 31, 2013 Compared to Three months ended December 31, 2012

	Three months ended December 31, 2013			Total
	Mueller Co. (in millions)	Anvil	Corporate	
Net sales	\$ 165.0	\$ 92.4	\$ —	\$ 257.4
Gross profit	\$ 41.7	\$ 25.4	\$ —	\$ 67.1
Operating expenses:				
Selling, general and administrative	25.7	18.1	9.2	53.0
Restructuring	0.1	—	—	0.1
	25.8	18.1	9.2	53.1
Operating income (loss)	\$ 15.9	\$ 7.3	\$ (9.2)	) 14.0
Interest expense, net				12.6
Income before income taxes				1.4
Income tax expense				0.3
Net income				\$ 1.1

	Three months ended December 31, 2012			Total
	Mueller Co. (in millions)	Anvil	Corporate	
Net sales	\$ 151.1	\$ 94.0	\$ —	\$ 245.1
Gross profit	\$ 32.9	\$ 24.2	\$ —	\$ 57.1
Operating expenses:				
Selling, general and administrative	24.1	18.3	7.1	49.5
Restructuring	0.7	—	—	0.7
	24.8	18.3	7.1	50.2
Operating income (loss)	\$ 8.1	\$ 5.9	\$ (7.1)	) 6.9
Interest expense, net				13.5
Loss before income taxes				(6.6)
Income tax benefit				(1.6)
Loss from continuing operations				(5.0)
Income from discontinued operations				12.0
Net income				\$ 7.0

## Consolidated Analysis

Net sales for the quarter ended December 31, 2013 increased to \$257.4 million from \$245.1 million in the prior year period. Net sales increased primarily due to \$9.6 million of higher shipment volumes and \$5.1 million of higher pricing at Mueller Co., which were partially offset by lower shipment volumes at Anvil.

Gross profit for the quarter ended December 31, 2013 increased to \$67.1 million from \$57.1 million in the prior year period. Gross margin increased 280 basis points to 26.1% in the quarter ended December 31, 2013 from 23.3% in the prior year period. Gross profit and gross margin benefited primarily from increased shipment volumes and higher sales pricing.

Selling, general and administrative expenses ("SG&A") for the quarter ended December 31, 2013 increased to \$53.0 million from \$49.5 million in the prior year period. SG&A increased primarily due to higher expenses associated with higher shipment volumes and higher stock-based compensation expense. SG&A as a percentage of net sales was 20.6% in the quarter ended December 31, 2013 and 20.2% in the prior year period.

Interest expense, net decreased in the quarter ended December 31, 2013 compared to the prior year period due to a lower level of total debt outstanding. The components of interest expense, net are detailed below.

	Three months ended December 31,	
	2013	2012
	(in millions)	
7.375% Senior Subordinated Notes	\$ 7.7	\$ 7.7
8.75% Senior Unsecured Notes	4.0	4.5
Deferred financing fees amortization	0.5	0.6
ABL Agreement	0.3	0.5
Other interest expense	0.2	0.2
	12.7	13.5
Interest income	(0.1	) —
	\$ 12.6	\$ 13.5

The components of income tax expense in continuing operations are provided below.

	Three months ended December 31,	
	2013	2012
	(in millions)	
Expense (benefit) from income (loss) before income taxes	\$ 0.5	\$ (2.4
Deferred tax asset valuation allowance adjustment	—	0.8
Other discrete items	(0.2	) —
	\$ 0.3	\$ (1.6

#### Segment Analysis

##### Mueller Co.

Net sales for the quarter ended December 31, 2013 increased to \$165.0 million from \$151.1 million in the prior year period. Net sales increased primarily due to \$9.6 million of higher shipment volumes and \$5.1 million of higher pricing.

Gross profit for the quarter ended December 31, 2013 increased to \$41.7 million from \$32.9 million in the prior year period primarily due to higher sales pricing and higher shipment volumes. Gross margin increased to 25.3% for the quarter ended December 31, 2013 compared to 21.8% in the prior year period primarily due to higher sales pricing and higher shipment volumes.

SG&A in the quarter ended December 31, 2013 increased to \$25.7 million from \$24.1 million in the prior year period primarily due to expenses associated with higher shipment volumes. SG&A were 15.6% and 15.9% of net sales for the quarter ended December 31, 2013 and 2012, respectively.

##### Anvil

Net sales in the quarter ended December 31, 2013 decreased to \$92.4 million from \$94.0 million in the prior year period. Net sales decreased primarily due to lower shipment volumes.

Gross profit in the quarter ended December 31, 2013 increased to \$25.4 million from \$24.2 million in the prior year period. The decrease in net sales was substantially offset by lower costs of goods sold. Gross margin increased to 27.5% in the quarter ended December 31, 2013 compared to 25.7% in the prior year period.

SG&A decreased to \$18.1 million in the quarter ended December 31, 2013 from \$18.3 million in the prior year period. SG&A was 19.6% of net sales for the quarter ended December 31, 2013 and 19.5% in the prior year period.

##### Corporate

SG&A increased to \$9.2 million in December 31, 2013 from \$7.1 million in the prior year period primarily due to higher stock-based compensation expense.

## Liquidity and Capital Resources

We had cash and cash equivalents of \$106.8 million at December 31, 2013 and \$138.5 million of additional borrowing capacity under our ABL Agreement based on December 31, 2013 data. Undistributed earnings from our subsidiaries in Canada and China are considered to be permanently invested outside of the United States. At December 31, 2013, cash and cash equivalents included \$35.7 million and \$4.8 million in Canada and China, respectively.

On April 1, 2012, we sold 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. During the quarter ended December 31, 2012, we received an additional \$4.5 million in cash for certain purchase price adjustments and reduced our loss on sale of discontinued operations accordingly.

Cash flows from operating activities are categorized below.

	Three months ended December 31,	
	2013	2012
	(in millions)	
Collections from customers	\$287.2	\$274.4
Disbursements, other than interest and income taxes	(275.3)	(257.7)
Interest payments, net	(15.7)	(16.0)
Income tax payments, net	—	(0.1)
Cash provided by (used in) operating activities	\$(3.8)	\$0.6

Collections from customers were higher during the quarter ended December 31, 2013 compared to the prior year period primarily related to the increased net sales compared to a year ago.

Increased disbursements, other than interest and income taxes, during the quarter ended December 31, 2013 reflect higher purchasing activity associated with higher net sales and general timing differences of disbursements related to the purchase of material, labor, overhead and other costs.

Capital expenditures were \$7.5 million in the quarter ended December 31, 2013 compared to \$6.2 million in the prior year period. We estimate 2014 capital expenditures to be \$34 million to \$36 million.

Our U.S. pension plan was 101% funded at January 1, 2013 (the most recent date this analysis has been performed) under the provisions of the Pension Protection Act. We do not expect to make any contributions to our U.S. pension plan during 2014. The proportion of the assets held by our U.S. pension plan invested in fixed income securities, instead of equity securities, has increased over historical levels. Because of this shift in the strategic asset allocation, the estimated rate of return on these assets has decreased, which could ultimately cause our pension expense and our required contributions to this plan to increase.

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 and debt service obligations as they become due through December 31, 2014. 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

At December 31, 2013, the ABL Agreement consisted of a revolving credit facility for up to \$225 million of revolving credit borrowings, swing line loans and letters of credit. The ABL Agreement 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 175 to 225 basis points, or a base rate, as defined in the ABL Agreement, plus a margin ranging from 75 to 125 basis points. At December 31, 2013, the applicable LIBOR-based margin was 175 basis points.

The ABL Agreement terminates on the earlier of (1) December 18, 2017 and (2) 60 days prior to the final maturity of our 7.375% Senior Subordinated Notes. We pay a commitment fee for any unused borrowing capacity under the ABL Agreement of either 37.5 basis points per annum or 25 basis points per annum, based on daily average availability

during the previous

24

---

calendar quarter. At December 31, 2013, our commitment fee was 37.5 basis points. As measured using December 31, 2013 data, excess availability as reduced by outstanding letters of credit and accrued fees and expenses of \$30.8 million was \$138.5 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.

Borrowings are not subject to any financial maintenance covenants unless excess availability is less than the greater of \$22.5 million and 10% of the aggregate commitments under the ABL Agreement. 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.

#### 8.75% Senior Unsecured Notes

We had \$180.0 million face value of 8.75% Senior Unsecured Notes outstanding at December 31, 2013, which was reported net of \$2.0 million unamortized discount. Interest on the Senior Unsecured Notes is paid semi-annually and the principal is due September 1, 2020. After August 2015, the Senior Unsecured Notes may be redeemed at specified redemption prices. 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%. The Senior Unsecured Notes are guaranteed by essentially all of our U.S. subsidiaries, but are subordinate to borrowings under the ABL Agreement.

#### 7.375% Senior Subordinated Notes

We had \$420.0 million face value of 7.375% Senior Subordinated Notes outstanding at December 31, 2013. Interest on the Senior Subordinated Notes is payable semi-annually and the principal is due June 1, 2017. We may redeem any portion of the Senior Subordinated Notes at specified redemption prices, subject to restrictions in the 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%. The Senior Subordinated Notes are guaranteed by 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	
	December 31, 2013	September 30, 2013	December 31, 2013	September 30, 2013
Corporate credit rating	B2	B2	BB-	BB-
ABL Agreement	Not rated	Not rated	Not rated	Not rated
8.75% Senior Unsecured Notes	B1	B1	BB-	BB-
7.375% Senior Subordinated Notes	Caa1	Caa1	B	B
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 would 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 or any derivative contracts or synthetic leases. Therefore, we are not exposed to any financing, liquidity, market or credit risk that could have arisen had we engaged in such relationships.

We use letters of credit and surety bonds in the ordinary course of business to ensure the performance of contractual obligations. At December 31, 2013, we had \$30.6 million of letters of credit and \$47.3 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.

#### Item 4. CONTROLS AND PROCEDURES

During the quarter ended December 31, 2013, 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 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 10 to the notes to the condensed consolidated financial statements presented in Item 1 of Part I of this report.

## Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in PART I, "Item 1A. RISK FACTORS" in our 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 December 31, 2013, we repurchased shares of our common stock as follows.

Period	Total number of shares purchased <sup>(1)</sup>	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
October 1-31, 2013	—	\$—	—	—
November 1-30, 2013	312,774	8.61	—	—
December 1-31, 2013	46,082	8.34	—	—
Total	358,856		—	—

<sup>(1)</sup> These are shares surrendered to us to pay the tax withholding obligations of participants in connection with the lapsing of restrictions on restricted stock units.

## Item 6. EXHIBITS

Exhibit No.	Document
10.4*	Mueller Water Products, Inc. Form of Notice of Stock Option Grant.
10.5*	Mueller Water Products, Inc. Form of Restricted Stock Unit Award Agreement.
10.23*	Mueller Water Products, Inc. Form of Performance Restricted Stock Unit Award Agreement.
10.23.1*	Exhibit A (2013-15 Award Cycle)
10.23.2*	Exhibit A (2014-16 Award Cycle)
10.24.1*	Exhibit A (2013-14 Award Cycle)
14.1*	Code of Business Conduct and Ethics for Mueller Water Products, Inc.
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 December 31, 2013, 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 Other Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) 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: February 7, 2014

MUELLER WATER PRODUCTS, INC.

By: /s/ Evan L. Hart

Evan L. Hart

Chief Financial Officer