Mueller Water Products, Inc.
Form 10-Q
February 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2014
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-32892
MUELLER WATER PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

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

1200 Abernathy Road N.E.
Suite 1200
Atlanta, GA 30328
(Address of principal executive offices)
(770) 206-4200
(Registrant's telephone number, including area code)

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

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

(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). o Yes x No

There were 160,744,136 shares of common stock of the registrant outstanding at January 31, 2015.

PART I
Item 1. FINANCIAL STATEMENTS
MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2014	September 30, 2014
	(in millions, except share amounts)	
Assets:		
Cash and cash equivalents	$ 45.1	$ 161.1
Receivables, net	138.8	182.1
Inventories	217.3	198.0
Deferred income taxes	35.6	38.6
Other current assets	53.1	44.1
Total current assets	489.9	623.9
Property, plant and equipment, net	143.4	146.3
Intangible assets	526.4	533.6
Other noncurrent assets	17.3	13.3
Total assets	$ 1,177.0	$ 1,317.1
Liabilities and equity:		
Current portion of long-term debt	$ 6.1	$ 46.2
Accounts payable	76.7	116.0
Other current liabilities	59.5	82.2
Total current liabilities	142.3	244.4
Long-term debt	493.5	499.4
Deferred income taxes	142.3	150.4
Other noncurrent liabilities	74.5	71.3
Total liabilities	852.6	965.5
Commitments and contingencies (Note 10)		
Common stock: 600,000,000 shares authorized; 160,601,903 and 159,760,671 shares outstanding at December 31, 2014 and September 30, 2014, respectively	1.6	1.6
Additional paid-in capital	1,581.2	1,582.8
Accumulated deficit	(1,193.9)	(1,173.7)
Accumulated other comprehensive loss	(66.0)	(60.7)
Total Company stockholders' equity	322.9	350.0
Noncontrolling interest	1.5	1.6
Total equity	324.4	351.6
Total liabilities and equity	$ 1,177.0	$ 1,317.1

The accompanying notes are an integral part of the consolidated financial statements.
1

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

	Three months ended December 31,	
	2014	2013
	(in millions, except per share amounts)	
Net sales	$ 261.8	$ 257.4
Cost of sales	190.5	190.3
Gross profit	71.3	67.1
Operating expenses:		
Selling, general and administrative	55.0	53.0
Restructuring	8.2	0.1
Total operating expenses	63.2	53.1
Operating income	8.1	14.0
Interest expense, net	9.4	12.6
Loss on early extinguishment of debt	31.3	—
Income (loss) before income taxes	(32.6)	1.4
Income tax expense (benefit)	(12.4)	0.3
Net income (loss)	$ (20.2)	$ 1.1
Net income (loss) per share:		
Basic	$ (0.13)	$ 0.01
Diluted	$ (0.13)	$ 0.01
Weighted average shares outstanding:		
Basic	160.1	158.5
Diluted	160.1	161.7
Dividends declared per share	$ 0.0175	$ 0.0175

The accompanying notes are an integral part of the consolidated financial statements.
2

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

	Three months ended December 31,	
	2014	2013
	(in millions)	
Net income (loss)	$(20.2)	$1.1
Other comprehensive loss:		
Minimum pension liability	(5.2)	(4.9)
Income tax effects	2.0	1.9
Foreign currency translation	(2.1)	(2.0)
	(5.3)	(5.0)
Comprehensive loss	$(25.5)	$(3.9)

The accompanying notes are an integral part of the consolidated financial statements.
3

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

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	(in millions)					
Balance at September 30, 2014	$ 1.6	$ 1,582.8	$ (1,173.7)	$ (60.7)	$ 1.6	$ 351.6
Net loss	—	—	(20.2)	—	(0.1)	(20.3)
Dividends declared	—	(2.8)	—	—	—	(2.8)
Stock-based compensation	—	1.9	—	—	—	1.9
Shares retained for employee taxes	—	(2.2)	—	—	—	(2.2)
Stock issued under stock compensation plans	—	1.5	—	—	—	1.5
Other comprehensive loss, net of tax	—	—	—	(5.3)	—	(5.3)
Balance at December 31, 2014	$ 1.6	$ 1,581.2	$ (1,193.9)	$ (66.0)	$ 1.5	$ 324.4

The accompanying notes are an integral part of the consolidated financial statements.
4

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

	Three months ended December 31, 2014	2013
	(in millions)	
Operating activities:		
Net income (loss)	$ (20.2)	$ 1.1
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Loss on early extinguishment of debt	31.3	—
Depreciation	7.0	6.8
Amortization	7.3	7.9
Stock-based compensation	1.9	2.4
Deferred income taxes	(4.0)	0.1
Retirement plans	0.1	0.4
Other, net	3.8	0.5
Changes in assets and liabilities:		
Receivables	41.3	29.7
Inventories	(21.6)	(6.1)
Other assets	(0.7)	0.2
Liabilities	(73.3)	(46.8)
Net cash used by operating activities	(27.1)	(3.8)
Investing activities:		
Capital expenditures	(7.2)	(7.5)
Proceeds from sales of assets	3.6	0.2
Other	0.3	—
Net cash used in investing activities	(3.3)	(7.3)
Financing activities:		
Proceeds from issuance of debt	497.5	—
Repayments of debt	(570.2)	—
Proceeds from issuance of common stock	1.5	0.9
Payments of deferred financing fees	(7.9)	—
Payments of dividends	(2.8)	(2.8)
Payments of employee taxes related to stock-based compensation	(2.2)	(3.0)
Other	(0.2)	0.4
Net cash used in financing activities	(84.3)	(4.5)
Effect of currency exchange rate changes on cash	(1.3)	(1.2)
Net change in cash and cash equivalents	(116.0)	(16.8)
Cash and cash equivalents at beginning of period	161.1	123.6
Cash and cash equivalents at end of period	$ 45.1	$ 106.8

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, knife, plug and ball valves, as well as dry-barrel and wet-barrel fire hydrants and 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.
In July 2014, Mueller Co. acquired a 49% ownership interest in an industrial valve joint venture for $1.7 million. Due to substantive control features in the operating agreement, all of the joint venture's assets, liabilities and results of operations are included in our consolidated financial statements. In the three months ended December 31, 2014, we included an adjustment for the loss attributable to noncontrolling interest in selling, general and administrative expenses. Noncontrolling interest is recorded at its carrying value, which approximates fair value.
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, 2014 was derived from audited financial statements, but does not include all disclosures required by GAAP.
In May 2014, the Financial Accounting Standards Board issued new guidance for the recognition of revenue. This new guidance applies to us beginning with our first quarter of fiscal 2018 and early adoption is not permitted. We are in the early stages of evaluating the impact of the adoption of this guidance on our future financial statements and related disclosures and we have not yet reached any conclusions.
Note 2. Restructuring
In December 2014, Mueller Co. sold certain assets related to its municipal casting operations in Canada and closed the associated facility. These actions resulted in restructuring expense of $7.2 million, which was comprised of a $2.5 million impairment charge, $2.3 million of accrued environmental remediation costs and $2.4 million of severance and other costs. These operations generated net sales of $11.5 million during 2014.
Note 3. Income Taxes
At the beginning of 2013, we had valuation allowances related to our deferred tax assets. We reevaluate the need for a valuation allowance against our U.S. deferred tax assets each quarter, considering results to date, projections of taxable income, tax planning strategies and reversing taxable temporary differences. In the 2014 fourth quarter, based on our expectation of future taxable income, we credited to income substantially all of this valuation allowance.
At December 31, 2014 and September 30, 2014, the gross liabilities for unrecognized income tax benefits were $2.6 million and $2.7 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 expenses. At December 31, 2014 and September 30, 2014, we had $0.6 million and $0.7 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, 2014	September 30, 2014
	(in millions)	
ABL Agreement	$—	$—
Term Loan	497.5	—
Senior Unsecured Notes	—	178.3
Senior Subordinated Notes	—	365.0
Other	2.1	2.3
	499.6	545.6
Less current portion	(6.1)	(46.2)
Long-term debt	$493.5	$499.4

On November 25, 2014, we entered into a $500.0 million senior secured term loan ("Term Loan"). The proceeds from the Term Loan, along with other cash, were used to fund the prepayment of our 7.375% Senior Subordinated Notes ("Senior Subordinated Notes") and 8.75% Senior Unsecured Notes ("Senior Unsecured Notes") and the satisfaction and discharge of our obligations under the respective indentures. We recorded a loss on early extinguishment of debt of $31.3 million, which consisted of $25.2 million of tender and call premiums and $4.4 million of deferred finance fees and $1.7 million of unamortized discount written off. We capitalized $7.9 million of debt issuance costs, which will be amortized over the term of the Term Loan using the effective interest rate method.

ABL Agreement. At December 31, 2014, 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 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, 2014, the applicable rate was LIBOR plus 175 basis points.

The ABL Agreement terminates on December 18, 2017. 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, 2014, 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 inventories, 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, 2014 data, as reduced by outstanding letters of credit and accrued fees and expenses of $29.2 million, was $138.3 million.

Term Loan. The Term Loan accrues interest at a floating rate equal to LIBOR, subject to a floor of 0.75%, plus 325 basis points. We may voluntarily repay amounts borrowed under the Term Loan at any time. The principal amount of the Term Loan is required to be repaid in quarterly installments, commencing in March 2015, of $1.25 million with any remaining principal due on November 25, 2021. The Term Loan is guaranteed by substantially all of our U.S. subsidiaries and is secured by essentially all of our assets, though the ABL Agreement has a senior claim on certain collateral securing borrowings thereunder. The Term Loan is reported net of unamortized discount of $2.5 million. Based on quoted market prices, the outstanding Term Loan had a fair value of $500.3 million at December 31, 2014.

The Term Loan contains affirmative and negative operating covenants applicable to us and our restricted subsidiaries. We believe we were compliant with these covenants at December 31, 2014 and expect to remain in compliance through December 31, 2015.

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,	
	2014	2013
	(in millions)	
Service cost	$0.5	$0.4
Interest cost	5.0	5.0
Expected return on plan assets	(6.2)	(5.9)
Amortization of actuarial net loss	0.8	0.9
Net periodic benefit cost	$0.1	$0.4

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

We contributed $1 million to our Canadian pension plans during the quarter ended December 31, 2014. For financial reporting purposes, our pension plan obligations were 89% funded at September 30, 2014.

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 the quarter ended December 31, 2012 settled in the quarter ended December 31, 2014 for $4.0 million.

The stock-settled PRSUs granted in the quarters ended December 31, 2012, 2013 and 2014 will settle in the quarters ending December 31, 2015, 2016, and 2017, respectively. The stock prices used to value the awards were $5.22 for the 2013 performance period, $8.52 for the 2014 performance period and $9.78 for the 2015 performance period.

From time to time, we grant Phantom Plan awards under the Mueller Water Products, Inc. Phantom Plan (“Phantom Plan”). At December 31, 2014, the outstanding Phantom Plan awards had a fair value of $10.24 per award and our liability for Phantom Plan awards was $1.9 million.

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 three months ended December 31, 2014 as follows.

	Number granted	Weighted average grant date fair value per instrument	Total grant date fair value (in millions)
Quarter ended December 31, 2014:			
Restricted stock units	378,036	$9.78	$3.7
Employee stock purchase plan instruments	51,574	1.89	0.1
Phantom Plan awards	289,524	9.78	2.8
PRSUs	240,691	9.78	2.4
			$9.0

We recorded stock-based compensation expense of $3.4 million and $4.1 million during the three months ended December 31, 2014 and 2013, respectively. At December 31, 2014, there was approximately $9.7 million of unrecognized compensation expense related to stock-based awards.

We recorded a net loss for the quarter ended December 31, 2014. Therefore, all stock-based compensation instruments were excluded from the diluted loss per share calculation since their inclusion would have been antidilutive. We excluded 1,127,281 instruments from the calculations of diluted earnings per share for the quarter ended December 31, 2013 because the effect of including such instruments would also have been antidilutive.

Note 7. Supplemental Balance Sheet Information

Selected supplemental balance sheet information is presented below.

	December 31, 2014	September 30, 2014
	(in millions)	
Inventories:		
Purchased components and raw material	$76.1	$72.0
Work in process	41.4	34.5
Finished goods	99.8	91.5
	$217.3	$198.0
Other current assets:		
Maintenance and repair tooling	$22.3	$22.6
Income taxes	21.4	13.0
Other	9.4	8.5
	$53.1	$44.1
Property, plant and equipment:		
Land	$9.6	$9.6
Buildings	76.8	78.0
Machinery and equipment	329.1	332.9
Construction in progress	19.3	18.7
	434.8	439.2
Accumulated depreciation	(291.4)	(292.9)
	$143.4	$146.3
Other current liabilities:		
Compensation and benefits	$22.7	$39.5
Customer rebates	19.8	16.9
Taxes other than income taxes	3.7	4.7
Warranty	2.5	2.6
Income taxes	0.7	0.7
Interest	0.6	10.7
Restructuring	1.3	0.9
Environmental	2.5	0.1
Other	5.7	6.1
	$59.5	$82.2

Note 8. Segment Information

Summarized financial information for our segments is presented below.

	Three months ended December 31,	
	2014	2013
	(in millions)	
Net sales, excluding intercompany:		
Mueller Co.	$ 164.7	$ 165.0
Anvil	97.1	92.4
	$ 261.8	$ 257.4
Intercompany sales:		
Mueller Co.	$ 1.9	$ 1.6
Anvil	—	—
	$ 1.9	$ 1.6
Operating income (loss):		
Mueller Co.	$ 9.5	$ 15.9
Anvil	7.2	7.3
Corporate	(8.6)	(9.2)
	$ 8.1	$ 14.0
Depreciation and amortization:		
Mueller Co.	$ 10.6	$ 11.1
Anvil	3.6	3.5
Corporate	0.1	0.1
	$ 14.3	$ 14.7
Restructuring:		
Mueller Co.	$ 8.1	$ 0.1
Anvil	—	—
Corporate	0.1	—
	$ 8.2	$ 0.1
Capital expenditures:		
Mueller Co.	$ 4.6	$ 4.4
Anvil	2.6	3.1
Corporate	—	—
	$ 7.2	$ 7.5

Note 9. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is presented below.

	Minimum pension liability, net of tax	Foreign currency translation	Total
Balance at September 30, 2014	$ (63.1)	$ 2.4	$ (60.7)
Current period other comprehensive loss	(3.2)	(2.1)	(5.3)
Balance at December 31, 2014	$ (66.3)	$ 0.3	$ (66.0)

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 will 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 upon 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 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.