

Mueller Water Products, Inc.
Form 10-Q
May 09, 2016

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 March 31, 2016

☐ 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 (I.R.S. Employer
incorporation or organization) 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 161,550,146 shares of common stock of the registrant outstanding at April 30, 2016.

PART I

Item 1. FINANCIAL STATEMENTS

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

	March 31, 2016	September 30, 2015
	(in millions, except share amounts)	
Assets:		
Cash and cash equivalents	\$93.6	\$113.1
Receivables, net	185.3	175.3
Inventories	221.5	219.1
Deferred income taxes	—	28.3
Other current assets	14.8	13.7
Total current assets	515.2	549.5
Property, plant and equipment, net	148.8	148.9
Intangible assets	496.6	507.3
Other noncurrent assets	24.5	24.1
Total assets	\$1,185.1	\$1,229.8
Liabilities and equity:		
Current portion of long-term debt	\$5.9	\$6.1
Accounts payable	74.4	98.7
Other current liabilities	57.3	63.2
Total current liabilities	137.6	168.0
Long-term debt	481.0	482.9
Deferred income taxes	113.4	145.3
Other noncurrent liabilities	79.7	65.8
Total liabilities	811.7	862.0
Commitments and contingencies (Note 10)		
Common stock: 600,000,000 shares authorized; 161,481,039 and 160,497,841 shares outstanding at March 31, 2016 and September 30, 2015, respectively	1.6	1.6
Additional paid-in capital	1,564.7	1,574.8
Accumulated deficit	(1,120.9)	(1,142.8)
Accumulated other comprehensive loss	(73.3)	(67.3)
Total Company stockholders' equity	372.1	366.3
Noncontrolling interest	1.3	1.5
Total equity	373.4	367.8
Total liabilities and equity	\$1,185.1	\$1,229.8

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

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

	Three months ended		Six months ended	
	March 31,		March 31,	
	2016	2015	2016	2015
	(in millions, except per share amounts)			
Net sales	\$283.6	\$290.3	\$526.3	\$552.1
Cost of sales	198.7	208.2	372.7	398.7
Gross profit	84.9	82.1	153.6	153.4
Operating expenses:				
Selling, general and administrative	54.7	55.8	107.7	110.8
Restructuring	0.9	0.7	1.7	8.9
Total operating expenses	55.6	56.5	109.4	119.7
Operating income	29.3	25.6	44.2	33.7
Interest expense, net	5.9	6.1	12.0	15.5
Loss on early extinguishment of debt	—	—	—	31.3
Income (loss) before income taxes	23.4	19.5	32.2	(13.1)
Income tax expense (benefit)	7.7	7.2	10.3	(5.2)
Net income (loss)	\$15.7	\$12.3	\$21.9	\$(7.9)
Net income (loss) per share:				
Basic	\$0.10	\$0.08	\$0.14	\$(0.05)
Diluted	\$0.10	\$0.08	\$0.13	\$(0.05)
Weighted average shares outstanding:				
Basic	161.3	160.7	161.0	160.4
Diluted	163.1	163.3	163.1	160.4
Dividends declared per share	\$0.0500	\$0.0175	\$0.0700	\$0.0350

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

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

	Three months ended March 31, 2016 2015		Six months ended March 31, 2016 2015	
	(in millions)			
Net income (loss)	\$ 15.7	\$ 12.3	\$ 21.9	\$ (7.9)
Other comprehensive loss:				
Minimum pension liability	(4.2)	(5.3)	(8.4)	(10.5)
Income tax effects	1.7	2.1	3.3	4.1
Foreign currency translation	2.5	(3.6)	1.0	(5.7)
Derivative fair value change	(3.8)	—	(3.1)	—
Income tax effects	1.5	—	1.2	—
	(2.3)	(6.8)	(6.0)	(12.1)
Comprehensive income (loss)	\$ 13.4	\$ 5.5	\$ 15.9	\$ (20.0)

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
SIX MONTHS ENDED MARCH 31, 2016
(UNAUDITED)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	(in millions)					
Balance at September 30, 2015	\$ 1.6	\$ 1,574.8	\$ (1,142.8)	\$ (67.3)	\$ 1.5	\$ 367.8
Net income	—	—	21.9	—	(0.2)	21.7
Dividends declared	—	(11.2)	—	—	—	(11.2)
Shares retained for employee taxes	—	(3.2)	—	—	—	(3.2)
Stock-based compensation	—	2.7	—	—	—	2.7
Stock issued under stock compensation plans	—	1.6	—	—	—	1.6
Other comprehensive loss, net of tax	—	—	—	(6.0)	—	(6.0)
Balance at March 31, 2016	\$ 1.6	\$ 1,564.7	\$ (1,120.9)	\$ (73.3)	\$ 1.3	\$ 373.4

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

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

	Six months ended March 31, 2016 2015 (in millions)	
Operating activities:		
Net income (loss)	\$21.9	\$(7.9)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	14.0	14.1
Amortization	12.1	14.6
Stock-based compensation	2.7	3.4
Retirement plans	2.3	0.3
Deferred income taxes	—	(1.8)
Loss on early extinguishment of debt	—	31.3
Other, net	1.0	4.3
Changes in assets and liabilities:		
Receivables	(9.6)	(7.0)
Inventories	(2.0)	(28.3)
Other assets	(1.3)	(2.4)
Liabilities	(34.2)	(59.5)
Net cash provided by (used in) operating activities	6.9	(38.9)
Investing activities:		
Capital expenditures	(15.3)	(17.0)
Proceeds from sales of assets	0.1	4.8
Other	—	0.3
Net cash used in investing activities	(15.2)	(11.9)
Financing activities:		
Dividends paid	(6.4)	(5.6)
Employee taxes related to stock-based compensation	(3.2)	(2.2)
Repayments of debt	(2.5)	(571.4)
Issuance of debt	—	512.5
Issuance of common stock	1.6	2.0
Deferred financing costs	(0.1)	(8.4)
Other	(0.7)	0.7
Net cash used in financing activities	(11.3)	(72.4)
Effect of currency exchange rate changes on cash	0.1	(3.8)
Net change in cash and cash equivalents	(19.5)	(127.0)
Cash and cash equivalents at beginning of period	113.1	161.1
Cash and cash equivalents at end of period	\$93.6	\$34.1

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Mueller Water Products, Inc., a Delaware corporation, together with its consolidated subsidiaries, operates in three business segments: Mueller Co., Anvil and Mueller Technologies. 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. Anvil manufactures and sources a broad range of products, including a variety of fittings, couplings, hangers and related products. Mueller Technologies offers metering systems, leak detection, pipe condition assessment and other related products and services. 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.

Mueller Co. owns a 49% ownership interest in an industrial valve joint venture. 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. The net loss attributable to noncontrolling interest is included 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, 2015 was derived from audited financial statements, but does not include all disclosures required by GAAP.

At March 31, 2016, we adopted FASB Accounting Standards Update 2016-09 Improvements to Employee Share-Based Payment Accounting. Most significantly, this update changes the accounting for “excess tax benefits” related to stock-based compensation awards by requiring such benefits be included in earnings, rather than recorded directly to additional paid-in capital. During the quarter ended December 31, 2015, we recorded \$0.7 million in excess tax benefits as a credit to additional paid-in capital. During the quarter ended March 31, 2016, we recognized this amount as a reduction to income tax expense.

At December 31, 2015, we adopted FASB Accounting Standards Update 2015-17 Balance Sheet Classification of Deferred Taxes, which requires that all deferred tax assets and deferred tax liabilities, netted by tax jurisdiction, be classified as noncurrent on the balance sheet. The prior period condensed consolidated balance sheet has not been reclassified.

During the quarter ended March 31, 2016, FASB issued Accounting Standards Update 2016-02 Leases, which will require us to recognize lease assets and lease liabilities for those leases currently referred to as operating leases. This requirement is effective for our fiscal year 2020, though early adoption is permitted. The update allows for several different methods of application and adoption of the requirement. We are currently evaluating these methods, in what period we will adopt the requirement, and the impact of this requirement, which we do not believe will be material to our consolidated financial statements as a whole.

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 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. Borrowing Arrangements

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

	March 31, 2016 (in millions)	September 30, 2015 (in millions)
ABL Agreement	\$—	\$—
Term Loan	491.7	494.0
Other	2.1	2.4
Deferred financing costs	(6.9)	(7.4)
	486.9	489.0
Less current portion	(5.9)	(6.1)
Long-term debt	\$481.0	\$ 482.9

ABL Agreement. At March 31, 2016, 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 March 31, 2016, 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 March 31, 2016, 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 March 31, 2016 data, as reduced by outstanding letters of credit, interest rate swap contract liabilities and accrued fees and expenses of \$27.8 million, was \$179.8 million.

Term Loan. 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 prepay our 7.375% Senior Subordinated Notes and 8.75% Senior Unsecured Notes and to satisfy and discharge our obligations under the respective indentures. We recorded a loss on early extinguishment of debt of \$31.3 million.

The Term Loan accrues interest at a floating rate equal to LIBOR, subject to a floor of 0.75%, plus 325 basis points. At March 31, 2016, the weighted-average effective interest rate was 4.02%. 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 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, although the ABL Agreement has a senior claim on certain collateral securing borrowings thereunder. The Term Loan is reported net of unamortized discount of \$2.0 million. Based on quoted market prices, the outstanding Term Loan had a fair value of \$495.0 million at March 31, 2016.

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 March 31, 2016 and expect to remain in compliance through March 31, 2017.

Note 4. Derivative Financial Instruments

We are exposed to interest rate risk that we manage to some extent using derivative instruments. We have four interest rate swap contracts with forward start dates of September 30, 2016. Starting on that date, we will receive interest calculated using 3-month LIBOR, subject to a floor of 0.75%, and pay fixed interest at 2.341%, on an aggregate notional amount of \$150.0 million. These swap contracts effectively fix the interest rate on \$150.0 million of our borrowings under the Term Loan at 5.591%, including the 325 basis point spread, from September 30, 2016 through September 30, 2021. Based on publicly available interest rate forward yield curve information, these swap contracts had a liability fair value of \$5.7 million at March 31, 2016, which is included in other noncurrent liabilities.

We have designated our interest rate swap contracts as cash flow hedges of our future interest payments and elected to apply the “shortcut” method of assessing hedge effectiveness. As a result, the gain or loss on the swap contracts is reported as a component of other comprehensive income (loss) and will be reclassified into interest expense as the related interest payments are made.

Note. 5 Retirement Plans

The components of net periodic benefit cost for our pension plans are as follows.

	Three months ended March 31, 2016		Six months ended March 31, 2015	
	2016	2015	2016	2015
	(in millions)			
Service cost	\$0.4	\$0.5	\$0.8	\$1.0
Interest cost	5.0	5.0	10.1	10.0
Expected return on plan assets	(5.1)	(6.1)	(10.2)	(12.3)
Amortization of actuarial net loss	0.8	0.8	1.6	1.6
Net periodic benefit cost	\$1.1	\$0.2	\$2.3	\$0.3

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

During the second quarter, our U.S. pension plan initiated a pension obligation settlement program targeting terminated participants not yet receiving benefits. Pension plan assets will be used to currently settle expected future retirement benefits for those pension plan participants who elect to participate in the program. We expect to incur a one-time, non-cash charge of approximately \$18 million before related income tax effects. We do not expect this settlement will have a material impact on the U.S. pension plan’s funded ratio.

Note 6. Stock-based Compensation Plans

We have granted 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”).

A PRSU award represents a target number of units that may be paid out at the end of a multi-year award cycle consisting of a series of annual performance periods coinciding with our fiscal years. After we determine the financial performance targets related to PRSUs for a given performance period, typically during the first quarter of that fiscal year, we consider that portion of a PRSU award to be granted. Thus, each award consists of a grant in the year of award and grants in the designated following years. Settlement will range from zero to two times the number of PRSUs granted, depending on our financial performance against the targets. As determined at the date of award, PRSUs may settle in cash-value equivalent of, or directly in, shares of our common stock.

The stock-settled PRSUs awarded in 2013 settled in the quarter ended December 31, 2015 with an issuance of 542,212 shares of our common stock. This settlement reflected payouts of zero times target for the 2015 performance period, two times target for the 2014 performance period and two times target for the 2013 performance period. We awarded 233,471 stock-settled PRSUs in the quarter ended December 31, 2015 that will settle in three years. We have granted cash-settled Phantom Plan instruments under the Mueller Water Products, Inc. Phantom Plan (“Phantom Plan”). At March 31, 2016, the outstanding Phantom Plan instruments had a fair value of \$9.88 per instrument and our liability for Phantom Plan instruments was \$2.0 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 six months ended March 31, 2016 as follows.

	Number granted	Weighted average grant date fair value per instrument	Total grant date fair value (in millions)
Quarter ended December 31, 2015:			
Restricted stock units	233,471	\$ 9.38	\$ 2.2
Employee stock purchase plan instruments	61,313	1.84	0.1
Phantom Plan awards	232,090	9.38	2.2
PRSUs: 2016 award	77,824	9.38	0.7
2015 award	80,229	9.38	0.8
2014 award	90,849	9.38	0.9
Quarter ended March 31, 2016:			
Restricted stock units	93,849	8.63	0.8
Phantom Plan awards	1,500	8.11	—
Employee stock purchase plan instruments	58,411	1.67	0.1
			\$ 7.8

We recorded stock-based compensation expense of \$2.1 million and \$1.9 million during the three months ended March 31, 2016 and 2015, respectively, and \$4.5 million and \$5.3 million during the six months ended March 31, 2016 and 2015, respectively. At March 31, 2016, there was approximately \$6.4 million of unrecognized compensation expense related to stock-based compensation arrangements, and 235,876 PRSUs that have been awarded but not yet granted.

We excluded 1,038,029 and 998,980 of stock-based compensation instruments from the calculations of diluted earnings per share for the quarters ended March 31, 2016 and 2015, respectively, and 1,016,155 and 2,812,066 for the six months ended March 31, 2016 and 2015, respectively, since their inclusion would have been antidilutive. We recorded a net loss during the six months ended March 31, 2015; therefore, all stock-based compensation instruments were excluded from the diluted loss per share calculation since their inclusion would have been antidilutive.

Note 7. Supplemental Balance Sheet Information

Selected supplemental balance sheet information is presented below.

	March 31, 2016 (in millions)	September 30, 2015 (in millions)
Inventories:		
Purchased components and raw material	\$78.3	\$ 77.8
Work in process	39.1	40.7
Finished goods	104.1	100.6
	\$221.5	\$ 219.1
Property, plant and equipment:		
Land	\$9.9	\$ 9.4
Buildings	81.2	79.3
Machinery and equipment	360.1	350.7
Construction in progress	18.7	20.1
	469.9	459.5
Accumulated depreciation	(321.1)	(310.6)
	\$148.8	\$ 148.9
Other current liabilities:		
Compensation and benefits	\$25.8	\$ 30.5
Customer rebates	9.6	15.4
Dividends payable	4.8	—
Taxes other than income taxes	3.9	4.0
Warranty	2.7	2.9
Income taxes	1.8	0.8
Environmental	1.7	1.9
Interest	0.5	0.5
Restructuring	—	0.1
Other	6.5	7.1
	\$57.3	\$ 63.2
Gross liabilities for unrecognized income tax benefits	\$2.8	\$ 2.6

Note 8. Segment Information

Summarized financial information for our segments is presented below.

	Three months ended March 31, 2016 2015		Six months ended March 31, 2016 2015	
	(in millions)			
Net sales, excluding intercompany:				
Mueller Co.	\$182.2	\$177.3	\$326.9	\$322.4
Anvil	86.4	91.1	166.0	188.2
Mueller Technologies	15.0	21.9	33.4	41.5
	\$283.6	\$290.3	\$526.3	\$552.1
Intercompany sales:				
Mueller Co.	\$1.3	\$1.7	\$2.9	\$3.6
Anvil	0.1	0.1	0.1	0.1
Mueller Technologies	—	—	—	—
	\$1.4	\$1.8	\$3.0	\$3.7
Operating income (loss):				
Mueller Co.	\$34.9	\$32.4	\$58.7	\$44.8
Anvil	8.0	7.2	11.6	14.4
Mueller Technologies	(4.9)	(4.7)	(8.7)	(7.6)
Corporate	(8.7)	(9.3)	(17.4)	(17.9)
	\$29.3	\$25.6	\$44.2	\$33.7
Depreciation and amortization:				
Mueller Co.	\$8.6	\$9.7	\$17.0	\$19.4
Anvil	3.2	3.6	6.6	7.2
Mueller Technologies	1.2	1.0	2.3	1.9
Corporate	0.1	0.1	0.2	0.2
	\$13.1	\$14.4	\$26.1	\$28.7
Restructuring:				
Mueller Co.	\$0.4	\$—	\$0.6	\$8.1
Anvil	0.5	0.2	0.6	0.2
Mueller Technologies	—	0.1	0.5	0.1
Corporate	—	0.4	—	0.5
	\$0.9	\$0.7	\$1.7	\$8.9
Capital expenditures:				
Mueller Co.	\$5.2	\$4.9	\$8.8	\$8.3
Anvil	1.7	3.4	3.3	6.0
Mueller Technologies	2.1	1.5	3.1	2.7
Corporate	—	—	0.1	—
	\$9.0	\$9.8	\$15.3	\$17.0

Note 9. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is presented below.

	Minimum pension liability, net of tax	Foreign currency translation	Derivative instruments, net of tax	Total
Balance at September 30, 2015	\$(59.4)	\$ (6.3)	\$ (1.6)	\$(67.3)
Current period other comprehensive income (loss)	(5.1)	1.0	(1.9)	(6.0)
Balance at March 31, 2016	\$(64.5)	\$ (5.3)	\$ (3.5)	\$(73.3)

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 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 businesses to a previous owner 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 when we sold 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.

The purchaser of U.S. Pipe has been identified as a “potentially responsible party” (“PRP”) under the Comprehensive Environmental Response, Compensation and Liability Act (“Superfund”) in connection with a former manufacturing facility operated by U.S. Pipe that was in the vicinity of a Superfund site located in North Birmingham, Alabama. Under the terms of the acquisition agreement relating to our sale of U.S. Pipe, we agreed to indemnify the purchaser for certain environmental liabilities, including those arising out of the former manufacturing site located in North Birmingham. Accordingly, the purchaser tendered the matter to us for indemnification, which we accepted. Ultimate liability for the site will depend on many factors that have not yet been determined, including the determination of EPA’s remediation costs, the number and financial viability of the other PRPs (there are four other PRPs currently) and the determination of the final allocation of the costs among the PRPs, if any. Accordingly, because the amount of such costs cannot be reasonably estimated at this time, no amounts were accrued for this matter at March 31, 2016.

Walter Energy. Each member of the Walter Energy consolidated group, which included us (including our subsidiaries) through December 14, 2006, is jointly and 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. Accordingly, we could be liable in the event any such federal income tax 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.

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 an income tax allocation agreement between us and Walter Energy, dated May 26, 2006, we generally computed 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 tax returns, to file all such tax returns on our behalf and to determine the amount of our liability to (or entitlement to payment from) Walter Energy for such previous periods.

According to Walter Energy’s quarterly report on Form 10-Q filed with the SEC on November 5, 2015 (“Walter November 2015 Filing”), a dispute exists with the IRS with regard to federal income taxes for years 1980 to 1994 and 1999 to 2001 allegedly owed by the Walter Energy consolidated group, which included U.S. Pipe during these periods. As a matter of law, we are jointly and severally liable for any final tax determination, which means we would be liable in the event Walter Energy is unable to pay any amounts owed. According to the Walter November 2015 Filing, at September 30, 2015, Walter Energy had \$33.0 million of accruals for unrecognized tax benefits on the matters subject to disposition. In the Walter November 2015 Filing, Walter Energy stated it believed it had sufficient accruals to address any claims, including interest and penalties, and did not believe that any potential difference between any final settlements and amounts accrued would have a material effect on Walter Energy’s financial position, but such potential difference could be material to its results of operations in a future reporting period.

Walter Energy filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in July 2015 which is pending before the Bankruptcy Court for the Northern District of Alabama (“Bankruptcy Case”). We continue to monitor the progress of the Bankruptcy Case to determine whether we could be liable for all or a portion of this federal income tax liability if it is incurred, and not discharged, for any period during which we were included in the Walter Energy consolidated group.

On January 11, 2016, the IRS filed a proof of claim in the Bankruptcy Case, alleging that Walter Energy owes amounts for prior taxable periods (specifically, 1983-1994, 2000-2002 and 2005) in an aggregate amount of \$554.3 million (\$229.1 million of which the IRS claims is entitled to priority status in the Bankruptcy Case). The IRS asserts that its claim is based on an alleged settlement of Walter Energy’s tax liability for the 1983-1995 taxable periods in connection with Walter Energy’s prior bankruptcy proceeding in the United States Bankruptcy Court for the Middle District of Florida. In the proof of claim, the IRS included an alternative calculation in the event the alleged settlement of the prior bankruptcy court is found to be non-binding, which provides for a claim by the IRS in an aggregate amount of \$860.4 million (\$535.3 million of which the IRS claims is entitled to priority status in the Bankruptcy Case).

According to a current report on Form 8-K filed by Walter Energy with the SEC on April 1, 2016 (“Walter April 2016 Filing”), on March 31, 2016, Walter Energy closed on the sale of substantially all of Walter Energy’s Alabama assets pursuant to the provisions of Sections 105, 363 and 365 of the Bankruptcy Code. The Walter April 2016 Filing further

stated that Walter Energy would have no further material business operations after April 1, 2016 and Walter Energy was evaluating its options with respect to the wind down of its remaining assets. The asset sale did not impact the IRS' proof of claim filed in the Bankruptcy Case and the proof of claim, as well as the alleged tax liability thereunder, remain unresolved.

We cannot predict whether or to what extent we may become liable for the tax-related amounts of the Walter Energy consolidated group asserted in the IRS' proof of claim filed in the Bankruptcy Case, in part, because: (i) the amounts owed by the Walter Energy consolidated group for certain of the taxable periods from 1980 through 2006 remain unresolved; (ii) it is

unclear whether Walter Energy will be obligated to pay any or all of such amounts owed; and (iii) in the event Walter Energy does not discharge all tax obligations for the consolidated group, it is unclear whether and to what extent the IRS will seek to enforce claims against us and any other member of the Walter Energy consolidated group. Walter Energy stated in the Walter November 2015 Filing that it believes its tax filing positions have substantial merit and it intends to vigorously defend the claims asserted by the IRS. We also intend to vigorously assert any and all available defenses against any liability we may have as a member of the Walter Energy consolidated group. However, we cannot currently estimate our liability, if any, relating to the tax-related liabilities of Walter Energy's consolidated tax group for tax years prior to 2007, and such liability could have a material adverse effect on our business, financial condition, liquidity or results of operations.

In accordance with the income tax allocation agreement entered into in connection with our spin-off from Walter Energy, 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 this tax benefit by receiving a refund or otherwise offsetting taxes due. Walter Energy owes us \$11.6 million that is payable pending completion of an IRS audit of Walter Energy's 2006 tax year and the related refund of tax from that year. As a result of the Bankruptcy Case, we wrote off this receivable during the quarter ended September 30, 2015.

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 former 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, tax 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. Anvil is in a dispute with Victaulic Company ("Victaulic") regarding two patents held by Victaulic, U.S. Patent 7,086,131 ("131 Patent") and U.S. Patent 7,712,796 ("796 Patent" and collectively with the 131 Patent, "U.S. Patents"), which Anvil believes are invalid. The U.S. Patents potentially relate to a coupling product currently manufactured and marketed by Anvil. Anvil filed multiple reexamination requests with the U.S. Patent and Trademark Office ("PTO") regarding the U.S. Patents, and the PTO granted the requests. Although the PTO examiner initially invalidated most of the claims of the 796 Patent, the PTO examiner affirmed the validity of the 796 Patent in September 2014. In April 2015, the PTO examiner invalidated the original claim of the 131 Patent but found several claims added during reexamination that appear substantially similar to those included in the 796 Patent patentable. The PTO examiners' decisions with respect to the U.S. Patents have been appealed by Anvil and Victaulic. Relatedly, Anvil and Victaulic are engaged in lawsuits in the U.S. District Court for the Northern District of Georgia and in the Federal Court of Toronto, Ontario, Canada. The Georgia District Court litigation has been stayed pending the final outcome of the ongoing reexaminations of the U.S. Patents by the PTO. Although Anvil intends to continue to vigorously contest the validity of the U.S. Patents, as well as Victaulic's related patents in Canada, and to defend itself against any counterclaims made by Victaulic, the probability of a favorable or unfavorable outcome with respect to these proceedings is unknown. Any number of potential outcomes is possible due to the multiple claims associated with the proceedings, each of which is in different stages and subject to appeal. Further, there are a number of highly complex factual and technical issues involved, and it is uncertain whether a favorable or unfavorable result with

respect to a particular ruling or proceeding will impact the other matters in controversy. Accordingly, we have not recorded any accrual with respect to these proceedings and a range of liability is not reasonably estimable.

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.

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 we intend, expect, plan, project, believe or anticipate 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 our expectations for net sales and operating income margins in 2016 and the outlook for general economic conditions, spending by municipalities and the residential and non-residential construction markets and the impacts of these factors on our business and our expected financial performance in 2016. Forward-looking statements are based on certain assumptions and assessments made by us in light of our experience and 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 described under the section entitled "RISK FACTORS" in Item 1A. of our annual report on Form 10-K for the year ended September 30, 2015 ("Annual Report") and of our quarterly report on Form 10-Q for the quarter ended December 31, 2015. Undue reliance should not be placed on any forward-looking statements. The Company does not intend to update forward-looking statements, except as required by law.

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 three business segments, Mueller Co., Anvil and Mueller Technologies based largely on the products sold and the customers served.

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.

Business

We expect our two primary end markets, repair and replacement of water infrastructure driven by municipal spending and new water infrastructure installation driven by residential construction to grow in 2016. We expect the residential construction market to grow faster than municipal spending.

Mueller Co.

We estimate approximately 70% of Mueller Co.'s 2015 net sales were for repair and replacement directly related to municipal water infrastructure spending, approximately 25% were related to residential construction activity and approximately 5% were related to natural gas utilities.

Municipal spending in 2015 was relatively strong compared with the prior year period and economic forecasts predict this trend will continue. According to the U.S. Bureau of Economic Analysis, state and local tax receipts for the quarter ended March 31, 2016 were up year-over-year and, according to the U.S. Department of Labor, the trailing twelve-month average consumer price index for water and sewerage rates at March 31, 2016 was up 4.3%. However, water conservation efforts, particularly in areas impacted by drought conditions, have resulted in lower overall receipts for some U.S. water utilities.

The year-over-year percentage change in housing starts is a key indicator of demand for Mueller Co.'s products sold in the residential construction market. In March 2016, Zelman & Associates forecasted an 8% increase in U.S. housing starts for calendar 2016 compared to the prior year, and in April 2016, Blue Chip Consensus forecasted a 9% increase. We expect 2016 third quarter domestic shipments of valves, hydrants and brass products to grow in excess of 10% and overall Mueller Co.'s net sales percentage growth to be in the mid-to-high single digits, each on a year-over-year basis. We expect Mueller Co.'s operating income percentage growth in the 2016 third quarter to improve and to grow at a

greater rate than net sales.

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Anvil

In 2015, approximately 85% of Anvil's net sales were generated by non-residential construction spending. Several leading indicators related to non-residential construction appear to be signaling growth in this market. For example, the Architectural Billings Index for March 2016 remained above 50, which indicates growth, and Blue Chip Consensus has forecasted a 1.6% increase in non-residential fixed investment in calendar 2016 compared to the prior year.

Sales to the oil & gas market accounted for approximately 8% of Anvil's net sales for the trailing twelve months ended March 31, 2016, down from approximately 10% during 2015. The trend in U.S. rig counts correlates with the direction of demand for Anvil's products that are sold into the oil & gas market. According to Baker Hughes Incorporated, the U.S. land-based rig count in mid-April 2016 represented a year-over-year decline of approximately 54%.

We expect Anvil's net sales in the 2016 third quarter to decline slightly compared to the prior year. We expect shipments into the oil & gas market to decline approximately \$4 million year-over year. Net sales into the fire protection market are expected to increase in the 2016 third quarter but not enough to offset the decline in net sales into our oil & gas market. Finally, we expect Anvil to realize slightly higher operating income in the 2016 third quarter driven by ongoing cost savings and lower raw material costs when compared to the prior year period.

Mueller Technologies

The municipal market is the key end market for Mueller Technologies' businesses. These businesses are project-oriented and depend on customer adoption of their technology-based products and services. Mueller Systems is benefiting from its recent introduction of new, longer-range radio capabilities, and its growth strategy is focused on the AMI segment of the market. In the 2016 second quarter, AMI shipments grew 26% and AMI orders increased approximately \$9 million, in each case compared to the prior year period. Echologics' net sales in the 2016 second quarter increased more than 40% compared to the prior year period as its fixed leak detection technology continues to gain traction in the market.

We expect Mueller Technologies' growth in AMI shipments in the 2016 third quarter will more than offset the decline in the AMR meter sales to a major customer when compared to the prior year period. We also expect its operating performance to improve due to higher shipment volumes at both Mueller Systems and Echologics, more favorable product mix with more AMI shipments and cost savings. With this improvement, we expect Mueller Systems to be profitable in the 2016 third quarter. For Mueller Technologies as a whole, we expect to approach breakeven or experience a slight operating loss in the 2016 third quarter compared to the prior year period.

Consolidated

On a consolidated basis, we expect 2016 year-over-year net sales percentage growth in the low to mid-single digits with stronger growth at Mueller Co. and Mueller Technologies. We expect higher operating income and operating margin, driven primarily by a favorable mix of our higher-margin products in all three segments.

Results of Operations

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Three months ended March 31, 2016					
	Mueller Co.	Anvil	Mueller Technologies	Corporate	Total
	(in millions)				
Net sales	\$182.2	\$ 86.4	\$ 15.0	\$ —	\$283.6
Gross profit	\$57.7	\$ 25.6	\$ 1.6	\$ —	\$84.9
Operating expenses:					
Selling, general and administrative	22.4	17.1	6.5	8.7	54.7
Restructuring	0.4	0.5	—	—	0.9
	22.8	17.6	6.5	8.7	55.6
Operating income (loss)	\$34.9	\$ 8.0	\$ (4.9)	\$ (8.7)	29.3
Interest expense, net					5.9
Income before income taxes					23.4
Income tax expense					7.7
Net income					\$15.7

Three months ended March 31, 2015					
	Mueller Co.	Anvil	Mueller Technologies	Corporate	Total
	(in millions)				
Net sales	\$177.3	\$ 91.1	\$ 21.9	\$ —	\$290.3
Gross profit	\$54.1	\$ 25.5	\$ 2.5	\$ —	\$82.1
Operating expenses:					
Selling, general and administrative	21.7	18.1	7.1	8.9	55.8
Restructuring	—	0.2	0.1	0.4	0.7
	21.7	18.3	7.2	9.3	56.5
Operating income (loss)	\$32.4	\$ 7.2	\$ (4.7)	\$ (9.3)	25.6
Interest expense, net					6.1
Income before income taxes					19.5
Income tax expense					7.2
Net income					\$12.3

Consolidated Analysis

Net sales for the quarter ended March 31, 2016 declined \$6.7 million to \$283.6 million from \$290.3 million due primarily to lower shipment volumes at Mueller Technologies and Anvil, which were partially offset by higher shipment volumes at Mueller Co.

Gross profit for the quarter ended March 31, 2016 increased \$2.8 million to \$84.9 million from \$82.1 million in the prior year period primarily due to Mueller Co. Gross margin increased to 29.9% for the quarter ended March 31, 2016 compared to 28.3% in the prior year period. This improvement was driven mostly by lower raw material and other costs.

Selling, general and administrative expenses (“SG&A”) for the quarter ended March 31, 2016 decreased to \$54.7 million from \$55.8 million in the prior year period due primarily to lower personnel-related expenses. SG&A as a percentage of net sales was 19.3% in the quarter ended March 31, 2016 and 19.2% in the prior year period.

Interest expense, net declined \$0.2 million in the quarter ended March 31, 2016 compared to the prior year period. The components of interest expense, net are provided below.

	Three months ended March 31, 2016	2015
	(in millions)	
Term Loan	\$5.1	\$5.1
Deferred financing costs amortization	0.4	0.5
ABL Agreement	0.3	0.5
Other interest expense	0.2	—
	6.0	6.1
Interest income	(0.1)	—
	\$5.9	\$6.1

Income tax for the quarter ended March 31, 2016 included a benefit of \$0.7 million associated with the adoption of new accounting rules related to stock compensation plans. Excluding this benefit, the effective income tax rate would have been approximately 36%.

Segment Analysis

Mueller Co.

Net sales for the quarter ended March 31, 2016 increased to \$182.2 million from \$177.3 million in the prior year period. Growth in both municipal spending and residential construction led to an increase in quarterly domestic net sales of valves, hydrants and brass products of \$3.4 million over the prior year period and increases in most of Mueller Co.'s smaller product lines as well. These increases were offset by \$4.4 million of lower net sales of water treatment valves at Henry Pratt.

Gross profit for the quarter ended March 31, 2016 increased to \$57.7 million from \$54.1 million in the prior year period due to higher shipment volumes and lower raw material and other costs. Gross margin increased to 31.7% for the quarter ended March 31, 2016 compared to 30.5% in the prior year period.

SG&A for the quarter ended March 31, 2016 increased to \$22.4 million from \$21.7 million in the prior year period. SG&A was 12.3% and 12.2% of net sales for the quarters ended March 31, 2016 and 2015, respectively.

Anvil

Net sales for the quarter ended March 31, 2016 declined to \$86.4 million from \$91.1 million in the prior year period primarily due to a decline in net sales into the oil & gas market of \$7.3 million compared to the prior year period. Total quarterly shipment volumes decreased \$5.2 million compared to the prior year period.

Gross profit for the quarter ended March 31, 2016 stayed relatively flat at \$25.6 million compared to \$25.5 million in the prior year. Lower shipments volumes to the oil & gas market was largely offset by engineered pipe supports shipped to a nuclear power plant project in Taiwan. Gross margin was 29.6% in the quarter ended March 31, 2016 compared to 28.0% in the prior year period primarily due to lower raw material costs and other cost savings.

SG&A decreased to \$17.1 million in the quarter ended March 31, 2016 from \$18.1 million in the prior year period. SG&A was 19.8% and 19.9% of net sales for the quarters ended March 31, 2016 and 2015, respectively.

Mueller Technologies

Net sales in the quarter ended March 31, 2016 declined to \$15.0 million from \$21.9 million in the prior year period primarily due to lower shipment volumes of AMR meters.

Gross profit in the quarter ended March 31, 2016 was \$1.6 million compared to \$2.5 million in the prior year period. Gross margin declined to 10.7% in the quarter ended March 31, 2016 compared to 11.4% in the prior year period.

SG&A decreased to \$6.5 million in the quarter ended March 31, 2016 from \$7.1 million in the prior year period. SG&A increased to 43.3% of net sales for the quarter ended March 31, 2016 from 32.4% of net sales in the prior year period. The reduction in SG&A was related to the decline in metering product sales, but SG&A did not decline as much on a percentage basis as net sales did because certain SG&A expenses are fixed.

Corporate

SG&A was \$8.7 million in the quarter ended March 31, 2016 compared to \$8.9 million in the prior year period.

Six Months Ended March 31, 2016 Compared to Six Months Ended March 31, 2015

	Six months ended March 31, 2016				
	Mueller Co.	Anvil	Mueller Technologies	Corporate	Total
	(in millions)				
Net sales	\$326.9	\$166.0	\$33.4	\$—	\$526.3
Gross profit	\$101.7	\$46.7	\$5.2	\$—	\$153.6
Operating expenses:					
Selling, general and administrative	42.4	34.5	13.4	17.4	107.7
Restructuring	0.6	0.6	0.5	—	1.7
	43.0	35.1	13.9	17.4	109.4
Operating income (loss)	\$58.7	\$11.6	\$ (8.7)	\$ (17.4)	44.2
Interest expense, net					12.0
Income before income taxes					32.2
Income tax expense					10.3
Net income					\$21.9

	Six months ended March 31, 2015				
	Mueller Co.	Anvil	Mueller Technologies	Corporate	Total
	(in millions)				
Net sales	\$322.4	\$188.2	\$41.5	\$—	\$552.1
Gross profit	\$95.4	\$51.6	\$6.4	\$—	\$153.4
Operating expenses:					
Selling, general and administrative	42.5	37.0	13.9	17.4	110.8
Restructuring	8.1	0.2	0.1	0.5	8.9
	50.6	37.2	14.0	17.9	119.7
Operating income (loss)	\$44.8	\$14.4	\$ (7.6)	\$ (17.9)	33.7
Interest expense, net					15.5
Loss on early extinguishment of debt					31.3
Loss before income taxes					(13.1)
Income tax benefit					(5.2)
Net loss					\$(7.9)

Consolidated Analysis

Net sales for the six months ended March 31, 2016 declined \$25.8 million to \$526.3 million from \$552.1 million due primarily to \$21.4 million of lower shipment volumes primarily at Anvil.

Gross profit for the six months ended March 31, 2016 stayed relatively flat at \$153.6 million compared to \$153.4 million in the prior year period. Gross margin increased to 29.2% for the six months ended March 31, 2016 compared to 27.8% in the prior year period. This improvement was driven mostly by lower raw material and other costs.

SG&A for the six months ended March 31, 2016 decreased to \$107.7 million from \$110.8 million in the prior year period due primarily to lower personnel-related expenses at Anvil. SG&A as a percentage of net sales was 20.5% in the six months ended March 31, 2016 and 20.1% in the prior year period.

Interest expense, net declined \$3.5 million in the six months ended March 31, 2016 compared to the prior year period. The components of interest expense, net are provided below. We entered into the Term Loan in November 2014 and used the proceeds, along with other cash, to repay the Senior Subordinated Notes and the Senior Unsecured Notes. We recognized a loss on early extinguishment of debt for \$31.3 million upon repaying the Notes.

	Six months ended March 31, 2016 2015 (in millions)	
Term Loan	\$ 10.3	\$ 7.2
Deferred financing costs amortization	0.9	1.0
ABL Agreement	0.6	0.8
7.375% Senior Subordinated Notes	—	4.0
8.75% Senior Unsecured Notes	—	2.4
Other interest expense	0.3	0.2
	12.1	15.6
Interest income	(0.1)	(0.1)
	\$ 12.0	\$ 15.5

Income tax expense for the six months ended March 31, 2016 included benefits of \$0.6 million related to a legislative change for research and development tax credits and \$0.7 million associated with the adoption of new accounting rules related to stock compensation plans. Excluding these benefits, the effective income tax rate would have been approximately 36%.

Segment Analysis

Mueller Co.

Net sales for the six months ended March 31, 2016 increased to \$326.9 million from \$322.4 million in the prior year period. Growth in both municipal spending and residential construction led to an increase in quarterly domestic net sales of valves, hydrants and brass products of \$10.3 million over the prior year period and increases in most of Mueller Co.'s smaller product lines as well. This increase was offset by \$8.5 million of lower sales of water treatment valves at Henry Pratt.

Gross profit for the six months ended March 31, 2016 increased to \$101.7 million from \$95.4 million in the prior year period due to higher shipment volumes and lower raw material and other costs. Gross margin increased to 31.1% for the six months ended March 31, 2016 compared to 29.6% in the prior year period.

SG&A for the six months ended March 31, 2016 stayed relatively flat at \$42.4 million compared to \$42.5 million in the prior year period. SG&A was 13.0% and 13.2% of net sales for the six months ended March 31, 2016 and 2015, respectively.

Anvil

Net sales for the six months ended March 31, 2016 declined to \$166.0 million from \$188.2 million in the prior year period primarily due to a decline in net sales into the oil & gas market of \$18.5 million compared to the prior year period. Total shipment volumes for the six months ended March 31, 2016 decreased \$21.1 million compared to the prior year period.

Gross profit for the six months ended March 31, 2016 decreased to \$46.7 million from \$51.6 million in the prior year period due to lower shipment volumes of oil & gas market products, partially offset by engineered pipe support shipments to a nuclear power plant project in Taiwan and lower raw material and other costs. Gross margin was 28.1% in the six months ended March 31, 2016 compared to 27.4% in the prior year period.

SG&A decreased to \$34.5 million in the six months ended March 31, 2016 from \$37.0 million in the prior year period primarily due to lower personnel-related expenses. SG&A was 20.8% and 19.7% of net sales for the six months ended March 31, 2016 and 2015, respectively.

Mueller Technologies

Net sales in the six months ended March 31, 2016 declined to \$33.4 million from \$41.5 million in the prior year period primarily due to lower shipment volumes of AMR meters.

Gross profit in the six months ended March 31, 2016 was \$5.2 million compared to \$6.4 million in the prior year period. Gross margin increased to 15.6% in the six months ended March 31, 2016 compared to 15.4% in the prior year period.

SG&A decreased to \$13.4 million in the six months ended March 31, 2016 from \$13.9 million in the prior year period. SG&A increased to 40.1% of net sales for the six months ended March 31, 2016 from 33.5% of net sales in the prior year period. The reduction in SG&A was related to the decline in metering product sales, but SG&A did not decline as much on a percentage basis as net sales did because certain SG&A expenses are fixed.

Corporate

SG&A stayed flat at \$17.4 million in the six months ended March 31, 2016 compared to the prior year period.

Liquidity and Capital Resources

We refinanced our debt in November 2014 by repaying all of our Senior Subordinated Notes and Senior Unsecured Notes and entering into a \$500.0 million term loan that matures on November 25, 2021.

We had cash and cash equivalents of \$93.6 million at March 31, 2016 and \$179.8 million of additional borrowing capacity under our ABL Agreement based on March 31, 2016 data. Undistributed earnings from our subsidiaries in Canada and China are considered to be permanently invested outside the United States. At March 31, 2016, cash and cash equivalents included \$11.5 million and \$5.9 million in Canada and China, respectively.

The ABL Agreement and Term Loan contain customary representations and warranties, covenants and provisions governing an event of default. The covenants restrict our ability to engage in certain specified activities, including but not limited to the payment of dividends and the redemption of our common stock.

Cash flows from operating activities are categorized below.

	Six months ended March 31, 2016 2015 (in millions)	
Collections from customers	\$516.8	\$545.2
Disbursements, other than interest and income taxes	(490.0)	(557.5)
Interest payments, net	(10.6)	(25.6)
Income tax payments, net	(9.3)	(1.0)
Cash provided by operating activities	\$6.9	\$(38.9)

Collections from customers were lower during the six months ended March 31, 2016 compared to the prior year period due to decreased net sales compared to a year ago.

Decreased disbursements, other than interest and income taxes, during the six months ended March 31, 2016 reflect lower purchasing activity and differences in the timing of expenditures.

Interest payments were lower during the six months ended March 31, 2016 compared to the prior year period due the reduced interest expense under the new debt structure described above, higher interest payments related to the debt that was retired in November 2014 and the timing of interest payments related to the debt that was retired.

Income tax payments were higher during the six months ended March 31, 2016 compared to the prior year period because we have exhausted our net operating loss carryforwards for U.S. federal income taxes. For the full year, we expect 2016 income tax payments to be substantially higher than the \$13.3 million paid in 2015.

Capital expenditures were \$15.3 million in the six months ended March 31, 2016 compared to \$17.0 million in the prior year period. We estimate 2016 capital expenditures will be between \$38 million and \$40 million.

In March 2016, we increased our quarterly dividend to \$0.03 per share, which will increase the May 2016 dividend payment by \$1.6 million to \$4.8 million compared with the dividend payment in February 2016.

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, income tax payments, capital expenditures and debt service obligations as they become due through March 31, 2017. 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 March 31, 2016, 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 March 31, 2016, the applicable LIBOR-based margin was 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 March 31, 2016, our commitment fee was 37.5 basis points.

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 inventories or (ii) 85% of the net orderly liquidation value of the value of eligible inventories, 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. inventories, 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.

Term Loan

We had \$493.8 million face value outstanding under the Term Loan at March 31, 2016. Term Loan borrowings accrue 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 of \$1.25 million. The Term Loan matures on November 25, 2021. The Term Loan is guaranteed by substantially all of our U.S. subsidiaries and secured by essentially all of our assets, though the ABL Agreement has a senior claim on certain collateral securing borrowings thereunder.

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, at March 31, 2016 we did not have any undisclosed borrowings, debt, derivative contracts or synthetic leases. Therefore, we were 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 March 31, 2016, we had \$21.8 million of letters of credit and \$30.3 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 3. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Swap Contracts

We have four interest rate swap contracts with forward start dates. We expect these swap contracts will fix the effective interest rate on \$150.0 million of our borrowings under the Term Loan at 5.591% from September 30, 2016 through September 30, 2021. These swap contracts are accounted for as effective hedges. In connection with these swap contracts, we recorded after-tax losses of \$2.3 million and \$1.9 million in the three and six months ended March 31, 2016, respectively, which were reported as other comprehensive loss. These swap contracts had a liability fair value of \$5.7 million at March 31, 2016, which is included in other noncurrent liabilities.

Item 4. CONTROLS AND PROCEDURES

During the quarter ended March 31, 2016, 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 and in our quarterly report on Form 10-Q for the quarter ended December 31, 2015, 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

We previously announced the authorization of a stock repurchase program for up to \$50.0 million of our common stock. The program does not commit us to any particular timing or quantity of purchases, and we may suspend or discontinue the program at any time. At March 31, 2016, we had a remaining authorization of \$45.0 million to repurchase shares of our common stock.

During the quarter ended March 31, 2016, shares of our common stock repurchased were comprised of shares surrendered to us to pay the tax withholding obligations of participants in connection with the lapsing of restrictions on restricted stock units. Such purchases were as follows.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publically announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs (in millions)
January 1-31, 2016	—	\$ —	—	\$ —
February 1-29, 2016	7,591	8.21	—	—
March 1-31, 2016	24,098	9.88	—	—
Total	31,689	\$ 9.48	—	\$ —

Item 6. EXHIBITS

Exhibit No. Document

- 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 March 31, 2016, 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 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.

MUELLER WATER
PRODUCTS, INC.

Date: May 9, 2016 By: /s/ Evan L. Hart

Evan L. Hart
Chief Financial Officer