Mueller Water Products, Inc.
Form 10-K
November 28, 2007
Table of Contents

Index to Financial Statements

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2007

OR

¨ **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 Number)

1200 Abernathy Road N.E.

Suite 1200

Atlanta, GA 30328

(Address of Principal Executive Offices)

Registrant s telephone number: **(770) 206-4200**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Series A Common Stock, par value $0.01	**New York Stock Exchange**
Series B Common Stock, par value $0.01	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

¨ Yes x No

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.

x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x No

There were 114,896,067 shares of common stock of the Registrant outstanding as of November 14, 2007, composed of 29,051,147 shares of Series A common stock and 85,844,920 shares of Series B common stock. At March 31, 2007, the aggregate market value of the voting and non-voting common stock held by nonaffiliates was approximately $1.5 billion based on the closing sale price as reported on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Applicable portions of the Proxy Statement for the Annual Meeting of Stockholders of the Company to be held January 30, 2008 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Index to Financial Statements

Introductory Note

In this annual report on Form 10-K (the annual report), (1) Mueller Water, the Company, we, us or our refer to Mueller Water Products, I its subsidiaries, including Mueller Co., U.S. Pipe and Anvil; (2) Predecessor Mueller refers to Mueller Co. and Anvil International, Inc. prior to the Acquisition (as defined under Selected Financial Data); (3) U.S. Pipe refers to United States Pipe and Foundry Company, LLC, our subsidiary; (4) Anvil refers to Anvil International, L.P., our subsidiary and its related businesses and (5) Mueller Co. refers to Mueller Co. Ltd., our subsidiary.

Certain of the titles and logos of our products referenced in this annual report are our intellectual property. Each trade name, trademark or servicemark of any other company appearing in this annual report is the property of its holder.

Unless the context indicates otherwise, whenever we refer in this annual report to a particular fiscal year, we mean the fiscal year ending September 30 in that particular calendar year. We manage our business and report operations through three segments, based largely on the products they sell and the markets they serve. Our segments are named after the lead brand in each segment: Mueller®, U.S. PIPE® and Anvil®. Such segments are consistent with the historical reporting for both Predecessor Mueller and U.S. Pipe. Predecessor Mueller had two operating segments, Mueller Co. and Anvil, while U.S. Pipe operated within one segment.

Industry and Market Data

In this annual report, we rely on and refer to information and statistics regarding economic conditions and trends, the flow control product market, and our market share in the sectors of that market in which we compete. In particular, we have obtained general industry information and statistics from the Congressional Budget Office, the U.S. Census Bureau, National Association of Home Builders, Federal Home Loan Mortgage Corporation and Moody s Investors Service. We believe that these sources of information and estimates are reliable and accurate, but we have not independently verified them.

Although some of the companies that compete in our particular industry segments are publicly held as of the date of this annual report, many are not. Accordingly, other than certain market data with respect to fire hydrants, ductile iron pipe and water valves, no current publicly available information is available with respect to the size of such markets or our relative market strength or competitive position. Our statements about our relative market strength and competitive position in this annual report with respect to other products are based on our management s belief, internal studies and our management s judgments concerning industry trends.

Forward-Looking Statements

This report contains certain statements that may be deemed forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) and Section 27A of the Securities Act of 1933, as amended (the Securities Act). All statements, other than statements of historical fact, that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in the section entitled Risk Factors in Item 1A of Part I of this annual report.

Table of Contents

Index to Financial Statements

TABLE OF CONTENTS

		Page
Part I		
1	Business	1
	Our Company	1
	The Initial Public Offering and the Spin-Off	2
	Business Strategy	2
	Description of Products	3
	Sales, Marketing and Distribution	5
	Backlog	7
	Manufacturing	7
	Raw Materials and Purchased Components	8
	Research and Development	9
	Patents, Licenses and Trademarks	9
	Seasonality	9
	Competition	9
	Environmental Matters	10
	Regulatory Matters	12
	Employees	12
	Geographic Information	12
1A	Risk Factors	13
1B	Unresolved Staff Comments	20
2	Properties	21
3	Legal Proceedings	22
4	Submission of Matters to a Vote of Security Holders	23
Part II		
5	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchasers of Equity Securities	24
6	Selected Financial Data	26
7	Management s Discussion and Analysis of Financial Condition and Results of Operations	28
7A	Quantitative and Qualitative Disclosure About Market Risk	50
8	Financial Statements and Supplementary Data	52
9	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	52
9A	Controls and Procedures	53
9B	Other Information	53
Part III		
*10	Directors, Executive Officers and Corporate Governance	54
*11	Executive Compensation	57
*12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	57
*13	Certain Relationships and Related Transactions, and Director Independence	58
*14	Principal Accountant Fees and Services	58
Part IV		
15	Exhibits and Financial Statements	59

* All or a portion of the referenced sections have been incorporated by reference from Mueller Water Products definitive proxy statement issued in connection with the Annual Meeting of Stockholders to be held on January 30, 2008.

Table of Contents

Index to Financial Statements

PART I

Item 1. BUSINESS

Our Company

We are a leading North American manufacturer and marketer of a broad range of water infrastructure and flow control products for use in water distribution networks and treatment facilities. We also act as a distributor, especially in Canada, for products that are manufactured by other companies. Our broad product portfolio includes engineered valves, hydrants, pipe fittings and ductile iron pipe, which are used by municipalities, as well as the commercial and residential construction, oil and gas, heating, ventilation and air conditioning (HVAC) and fire protection industries. Our products enjoy leading market positions due to their broad brand recognition and a reputation for quality and service within the markets we serve. We believe we have one of the largest installed bases of iron gate valves and fire hydrants in the United States, and, as of September 30, 2007, our installed products included approximately three million fire hydrants and approximately nine million iron gate valves. Because of the strength of our brands and products, our products are specified for use in all of the top fifty metropolitan areas in the United States. Our large installed base, broad product range and well-known brands have led to long-standing relationships with the key distributors in our industry. Our diverse end markets, extensive distributor and end-user relationships, acquisition strategy and leading market position have contributed to strong operating margins and sales growth. For the year ended September 30, 2007, our net sales were $1,849.0 million and income from operations was $210.0 million.

We manage our business and report operations through three business segments, based largely on the products they sell and the markets they serve: Mueller Co., U.S. Pipe and Anvil. The table below illustrates each segment s net sales to external customers for the year ended September 30, 2007, as well as each segment s major products, brand names, market positions and end use markets.

	Mueller Co.	**U.S. Pipe**	**Anvil**
		(dollars in millions)	
Net sales for the year ended September 30, 2007(a)	$775.0	$543.5	$556.6
Selected Product Lines (Brand Position in the U.S. and Canada)(b)	Fire Hydrants (#1)	Ductile Iron Pressure Pipe (#1)	Pipe Fittings and Couplings (#1)
	Gate Valves (#1)		Grooved Products (#2)
	Butterfly and Ball Valves (#1)		Pipe Hangers (#2)
	Plug Valves (#2)		
	Brass Water Products (#2)		
Selected Brand Names	Mueller®	U.S. PIPE®	Anvil®
	Pratt®	TYTON®	AnvilStar

	Milliken®	TYTON JOINT®	SPF
	Jones®	TR FLEX®	Merit®
	Hersey®	USI FLEX®	Gruvlok®
	Hydro-Gate®	FIELD LOK 350®	Beck®
		MJ FIELD LOK®	Picoma
		TRIM TYTON®	J.B. Smith
			Catawissa
			Anvil-Strut
Primary End Markets	Water and Wastewater Infrastructure	Water and Wastewater Infrastructure	HVAC Plumbing Industrial Oil, Gas and Fire Protection

(a) Includes intersegment sales of $26.1 million.

(b) Brand position information is based on management s estimates of the overall size of the relevant domestic market segments and of the market share of our principal competitors for the relevant product lines. Where

1

Table of Contents

Index to Financial Statements

available, the management estimates were based on data provided by third parties, including trade associations, distributors and customers. In other instances, the estimates were based upon internal analysis prepared by our employees and management based on judgments concerning industry trends.

Our segments are named after our leading brands in each segment:

Mueller Co. Sales of our Mueller Co. segment products are driven principally by spending on water and wastewater infrastructure upgrade, repair and replacement and new water and wastewater infrastructure, which is typically associated with new residential construction. Management estimates that a majority of fiscal 2007 Mueller Co. segment sales were for infrastructure upgrade, repair and replacement and the remainder were for new infrastructure.

U.S. Pipe. U.S. Pipe products are sold primarily to water works distributors, contractors, municipalities, private utilities and other governmental agencies. A substantial percentage of ductile iron pressure pipe orders result from contracts that are bid by contractors or directly issued by municipalities or private utilities. Management estimates that a majority of fiscal 2007 U.S. Pipe segment sales were for new infrastructure, with the remainder for infrastructure upgrade, repair and replacement.

Anvil. Anvil products are sold to a wide variety of end-users through its network of wholesale distributors. These distributors are serviced through four domestic regional distribution centers located in Illinois, Nevada, Pennsylvania and Texas and through Anvil s Canadian distribution divisions. Anvil s Canadian operations include Mueller Flow Control, which sells primarily to contractors, and Anvil International Canada, which acts as a master distributor by selling Anvil manufactured and internationally sourced products to independent Canadian wholesale distributors.

We believe that our current network of independent flow control distributors is the largest such distribution network in the United States and Canada. We also have approximately 500 inside and outside sales, sales support and warehouse personnel who work directly with end-users.

The Initial Public Offering and the Spin-Off

Mueller Water Products, Inc. is a Delaware corporation that was incorporated on September 22, 2005 under the name Mueller Holding Company, Inc. The Company is the surviving corporation of the merger on February 2, 2006 of Mueller Water Products, LLC and Mueller Water Products Co-Issuer, Inc. with and into Mueller Holding Company, Inc., a Delaware corporation. We changed our name to Mueller Water Products, Inc. on February 2, 2006. On June 1, 2006, Mueller Water completed an initial public offering of its Series A common stock.

After the close of trading on December 14, 2006, Walter Industries, Inc. (Walter Industries) distributed to its shareholders approximately 1.65 shares of the Company s Series B common stock for each share of Walter Industries common stock held by the shareholders of record on December 6, 2006, resulting in the distribution of 85,844,920 shares of the Company s Series B common stock (the Spin-off). Prior to the Spin-off, Walter Industries owned all of our Series B common stock, representing approximately 75% of our economic value and approximately 96% of the combined voting power of all the Company s voting stock.

Our principal executive offices are located at 1200 Abernathy Road N.E, Suite 1200, Atlanta, Georgia 30328, and our main telephone number at that address is (770) 206-4200.

Business Strategy

Our business strategy is focused on sustaining our market leadership and competitive differentiation, while growing revenues and enhancing profitability. Key elements of our strategy include:

Maintaining Our Market Leadership Positions. We plan to maintain our market leadership positions in the water infrastructure market by leveraging our large installed base, the specification of our products as accepted for use in a majority of metropolitan areas, our established and extensive distribution channels and our broad range of leading water infrastructure and flow control products.

Table of Contents

Index to Financial Statements

Continuing to Focus on Operational Excellence. We will continue to pursue superior product engineering, design and innovation by investing in technologically-advanced manufacturing processes such as lost foam casting and automated molding machinery. We will also seek opportunities to improve manufacturing efficiency, such as through construction of a new automated ductile iron pipe plant (referred to as a mini-mill) and increased utilization of our manufacturing facility in China to produce additional products. We will also continue to evaluate sourcing products and materials internationally to lower our costs.

Strengthening Relationship with Key Distributors. We are focused on enhancing close relationships with the strongest and fastest growing distributors and on leveraging our extensive distributor network to increase sales of our existing products, introduce new products and rapidly expand sales of products of the businesses we acquire. We will continue to develop innovative products for our distributors to market. As an example of our product innovation, our Mueller Co. segment recently introduced two new products that block any reverse flow of water-borne contaminants from a fire hydrant back into the public water main. We are leveraging our AnvilStar operations to establish a lead position in the United States for the import and sale of piping component products, including fittings and couplings manufactured in China and India, and we will continue to seek internationally sourced products.

Focused Acquisition Strategy. We will selectively pursue attractive acquisitions that enhance our existing product offerings, enable us to enter new markets, expand our technological capabilities and provide synergy opportunities. Over the past six years, we and Predecessor Mueller have acquired and successfully integrated nine businesses within the water infrastructure and flow control markets. In January 2007, we acquired the assets of Fast Fabricators, Inc., one of the largest fabricators of ductile iron pipe serving the water and wastewater treatment plant market in the United States. The acquisition allows us to increase our product offering in the growing water and wastewater treatment plant market, as well as increase the sales of our value-added ductile iron pipe products.

Description of Products

We believe that we are the broadest full-line supplier of flow control products for water and wastewater infrastructure systems and piping component systems in the United States and Canada. We have the capability to manufacture flow control products for water and gas systems, ranging from fire hydrants to 1/8-inch pipe fittings to 10-foot engineered valves. Our principal products are ductile iron pipe, fire hydrants, water and gas valves and a complete range of pipe fittings, couplings, hangers and nipples. Our products are designed, manufactured and tested in compliance with industry standards.

We manage our business and report operations through three operating segments, based largely on the products they sell and the markets they serve.

- Mueller Co., through which we sell our hydrants and valves and other water and wastewater infrastructure and gas distribution products described below under various brand names including Mueller®, Pratt®, Hersey®, Jones® and Centurion®
- U.S. Pipe, through which we sell ductile iron pipe and related products under various brand names including U.S. PIPE® and TYTON®, TR FLEX®, and MJ FIELD LOK® ; and
- Anvil, through which we sell our pipe fittings and couplings, pipe hangers, pipe nipples and related products under various brand names, including Anvil®, Beck®, Gruvlok®, Merit®, AnvilStar and SPF.

Gross sales amounts are shown in the Mueller Co., U.S. Pipe and Anvil sections below. These amounts include intercompany sales and exclude estimated cash discounts and rebates, which are adjusted from gross sales to derive net sales as reported in the consolidated financial statements.

Mueller Co. Products

Fire Hydrants. We believe our Mueller Co. segment is the largest manufacturer of dry-barrel fire hydrants in the United States and Canada. New fire hydrant and fire hydrant part sales accounted for approximately $193.1 million and $197.0 million of our gross trade sales in fiscal 2007 and fiscal 2006, respectively. We sell fire hydrants for new water infrastructure development and fire protection systems, as well as water infrastructure repair and replacement projects.

3

Table of Contents

Index to Financial Statements

Our fire hydrants consist of an above-ground fire hydrant and a below-ground cast iron pipe that connects to a water main. In dry-barrel hydrants, the valve connecting the barrel of the hydrant and the water main is located below ground at or below the frost line, which keeps the hydrant dry and the water source deep enough to ensure that the water does not freeze. We market dry-barrel fire hydrants with the Mueller® and U.S. PIPE® brand names in the United States and the Mueller® and Canada Valve® brand names in Canada. We also make a limited number of wet barrel hydrants, where the valve is placed inside the above-ground hydrant and the barrel contains water in it at all times. Wet barrel hydrants are made for the California and Hawaii markets and sold under the Jones® brand name.

Most municipalities have a limited number of hydrant brands that are approved for installation within their system due to the need to maintain inventories of spare parts for emergency repairs and the desire to ensure a uniform system. We believe that our large installed base of hydrants throughout the United States and Canada and our reputation for superior quality and performance, together with our incumbent specification position, have contributed to our leading market share based on the estimated market share of our key products. Our large installed base of approximately three million hydrants also leads to recurring revenue as components of an installed hydrant are replaced from time to time.

Water and Gas Valves and Related Products. We believe that our Mueller Co. segment has the broadest product line of valves for residential water and gas systems and that we are one of the largest manufacturers of butterfly valves and water gate valves in the United States and Canada. Water and gas valves and related products accounted for approximately $518.8 million of our gross trade sales in fiscal 2007 and approximately $556.0 million in fiscal 2006. Our industry-leading market position is the result of our strong brand recognition, superior quality and specification acceptance.

All of our valve products are used to control transmission of drinking (potable) water, non-potable water or gas. Our product line includes butterfly, iron gate, tapping, check, plug and ball valves. Water valve products range in size from 3/4 inch to 10 feet. Most of these valves are used in water distribution.

We produce small iron valves, meter bars, and line stopper fittings for use in gas systems and we manufacture machines and tools for tapping, drilling, extraction, installation and stopping-off. These machines and tools are designed to work with our water and gas fittings and valves as an integrated system. We believe that we are one of the largest manufacturers in the line stopper fittings and machines sector in the United States and Canada.

Other Mueller Co. Products. Other Mueller Co. segment products include: pipe repair products, such as repair clamps and couplings used to repair leaks in water and gas distribution systems, and municipal castings, such as manhole covers and street drain grates. We market these products under the Mueller® and Jones® brand names. These products accounted for $69.7 million of Mueller Co. s gross trade sales in fiscal 2007 and $58.0 million in fiscal 2006.

U.S. Pipe Products

U.S. Pipe manufactures and sells a broad line of ductile iron pressure pipe, restraint joint products, fittings and other ductile cast iron products. Founded in 1899 and headquartered in Birmingham, Alabama, it is one of the nation s largest producers of ductile iron pressure pipe based on industry shipping information provided by the Ductile Iron Pipe Research Association. U.S. Pipe s net sales were $537.1 million in fiscal 2007, $594.7 million in fiscal 2006 and $456.9 million in the nine months ended September 30, 2005. The sales in fiscal 2006 and fiscal 2005 also reflect a small amount of sales of valve and hydrant product lines that were transferred to our Mueller Co. segment in January 2006.

U.S. Pipe manufactures and markets a complete line of ductile iron pipe ranging from 4 inches to 64 inches in diameter as well as various metric sizes, in lengths up to 20 feet. Ductile iron pressure pipe is used primarily for potable water distribution systems, small water system grids, reinforcing distribution systems (including looping grids and supply lines) and for major water transmission mains and wastewater collection systems, sewer force mains, and water and wastewater treatment plants.

Table of Contents

Index to Financial Statements

Anvil Products

Anvil manufactures a variety of pipe fittings and couplings, pipe hangers, pipe nipples and related products. Anvil s net sales were $555.8 million in fiscal 2007 and $534.6 million in fiscal 2006, of which approximately $200.4 million and $179.4 million, respectively, were sales of products imported or otherwise not manufactured by Anvil. Our products are principally used in fire protection systems and HVAC applications.

Pipe Fittings and Couplings. We are one of the largest manufacturers of threaded and grooved pipe fittings and couplings in the United States and Canada. Pipe fittings and couplings join two pieces of pipe together. Listed below are the four primary categories of pipe fittings and couplings that we manufacture.

- *Malleable Iron Fittings and Unions.* Malleable iron is a cast iron that is heat-treated to make it stronger, which allows us to use a thinner wall and results in a lighter product. Malleable iron is primarily used to join pipe in various gas, plumbing and HVAC applications.

- *Cast Iron Fittings.* We believe we are one of the largest manufacturers of cast iron fittings in the United States and Canada. Cast iron is the most economical threaded fittings material and is typically used in low pressure applications such as sprinkler systems and other fire protection systems. We believe that the substantial majority of our cast iron product is used in the fire protection industry, with the remainder used in steam and other HVAC applications.

- *Grooved Fittings and Couplings.* We believe we are one of the largest manufacturers of grooved products in the United States and Canada. Unlike typical pipe connections, where pipes are connected by screwing them into a fitting or welding them together, grooved products use a threadless pipe-joining method that does not require welding. We purchase privately labeled products, including grooved copper and stainless steel fittings, to complement our grooved product offerings and enable us to better serve our customers project requirements.

- *Threaded Steel Pipe Couplings.* We believe we are one of the largest manufacturers of threaded steel pipe couplings in the United States and Canada. Threaded steel pipe couplings are used in the plumbing and electrical markets to join pipe and conduit and by pipe mills as threaded end protectors.

Pipe Hangers. We believe we are one of the largest manufacturers of pipe hangers in the United States and Canada. Pipe hangers are used to attach the pipe to the building structure and are used in fire sprinkler systems, HVAC applications and power and petrochemical plants. We have retained a strong core engineering staff and believe that we are the leader in technical competency in this sector.

Pipe Nipples. We believe we are also one of the largest manufacturers of pipe nipples in the United States and Canada. Pipe nipples are used to expand or compress the flow between pipes of different diameters. The pipe nipple product line is a complementary product offering and is packaged (1) with cast iron for the fire protection market, (2) with malleable iron for the industrial market, (3) with our forged steel product line for the oilfield and chemical markets and (4) as a general plumbing market item.

Other Piping System Products. In addition to the key products that we have described above, we sell (1) products sourced outside the United States and Canada through our AnvilStar business, (2) products that we purchase from third parties and (3) many other products that we manufacture, including (a) oilfield products, such as forged steel pipe fittings, hammer unions, bull plugs and swage nipples which are used to connect pipe in oil and gas applications and (b) electrical products, such as standard steel and PVC conduit couplings and elbows used to carry wire and cable in electrical applications.

Sales, Marketing and Distribution

Mueller Co. Products

Our Mueller Co. segment sells its products to a wide variety of end-users, including municipalities, publicly and privately owned water and wastewater utilities, gas utilities, fire protection and construction contractors. These products are usually sold to our distributors; distributors then sell these products to contractors who have won a contract to construct, replace or upgrade a water, wastewater, gas or fire protection system for an end-user

Table of Contents

Index to Financial Statements

or non-residential facility. In some cases, end-users of Mueller Co. segment products, including municipalities and utilities, buy products directly from Mueller Co., most often as part of a program to repair, replace or upgrade existing infrastructure. Sales of our Mueller Co. segment products are heavily influenced by the specifications in those contracts.

At September 30, 2007, Mueller Co. had a sales force of 90 dedicated employee sales representatives in the field and 66 non-employee manufacturer s representatives, as well as a team of 121 in-house marketing and sales professionals. Our field sales and manufacturers representatives call on municipalities, water companies and other end-users to ensure that the products specified are comparable to Mueller Co. products. In addition, to ensure consistency, municipalities often require that contractors use the same products that have been historically used in that municipality.

The large installed base, broad product range and well known brands of Mueller Co. have led to our long-standing relationships with all of the leading distributors in the industries Mueller Co. serves. For most of the Mueller Co. segment products, which are sold through independent distributors, end-users choose the brand or establish product specifications. We generally ship Mueller Co. products, including hydrants and water and gas valves, directly to distributors from our plants. Mueller Co. s distribution network covers all of the major markets in the United States and Canada. Although we have long-term relationships with most of our top distributors, we typically do not have long-term contracts with our distributors and we do not have written contracts with our two largest distributors. The top two distributors for Mueller Co. accounted, in the aggregate, for approximately 41% of Mueller Co. s net sales in fiscal 2007 and 44% in fiscal 2006. The loss of either of these distributors could have a material adverse effect on our business. See Risk Factors We depend on a group of major distributors for a significant portion of our sales; any loss of these distributors could reduce our sales and continuing consolidation could cause price pressure.

U.S. Pipe Products

U.S. Pipe products are sold primarily to water works distributors, contractors, municipalities, private utilities and other governmental agencies. A substantial percentage of ductile iron pressure pipe orders result from contracts that are bid by contractors or directly issued by municipalities or private utilities. An increasing portion of ductile iron pressure pipe sales is made through independent water works distributors. U.S. Pipe maintains numerous supply depots in leased space throughout the country.

U.S. Pipe has a sales force of approximately 50 dedicated employee sales representatives in the field and inside sales representatives and sales engineers who sell pipe products throughout the United States. The organization is divided into four geographic territories, each managed by a regional sales manager. International orders are sold directly by U.S. Pipe sales personnel as well as through third-party representatives.

U.S. Pipe s top customer, a distributor with whom we do not have a written contract, represented approximately 24% of U.S. Pipe s net sales in fiscal 2007, 29% in fiscal 2006 and 27% in the nine months ended September 30, 2005. We believe the loss of this single customer could have a material adverse effect on our results of operations. See Risk Factors We depend on a group of major distributors for a significant portion of our sales; any loss of these distributors could reduce our sales and continuing consolidation could cause price pressure.

Anvil Products

Anvil segment products, consisting of threaded and grooved pipe fittings and couplings, pipe hangers and nipples, are used in mechanical, fire protection and other piping systems. In fiscal 2007, Anvil manufactured approximately 64% of the product sold and acted as a master distributor for the other 36% of the product sold, which includes internationally sourced product. A master distributor sells product to other distributors.

In the United States, where approximately 72% of sales occurred in fiscal 2007, Anvil sells its products almost exclusively through distributors who then sell the product to a wide variety of end users, including commercial contractors. Our U.S. sales force consists of approximately 144 Anvil sales and customer service associates and approximately 55 independent sales representatives. Anvil products are shipped primarily from our four major regional distribution centers that are strategically located to be able to provide 24 hour service as required by our customers.

Table of Contents

Index to Financial Statements

In Canada, where approximately 26% of sales occurred in fiscal 2007, Anvil sells its products primarily to contractors with sales to distributors comprising only 23% of Canadian sales in fiscal 2007. The end users are substantially the same as in the United States. Our Canadian sales force consists of approximately 100 sales and customer service associates. Product is shipped from one of eighteen branch locations with each of the five major provinces having a main or primary service center.

The remaining 2% of fiscal 2007 sales occurred in Europe, the Middle East, Mexico and South America. We operate two warehouses in Europe.

The majority of product types sold by Anvil are not specified by an architect or an engineer but are required to be manufactured to industry specifications, which would include material composition, tensile strength, and various other requirements. Many Anvil products carry the U.L (Underwriters Laboratory), F.M. (Factory Mutual) or other approval ratings. Certain Anvil products, including its grooved and hanger product lines, are sometimes specified in addition to meeting industry standards.

Anvil generally does not have written contracts with distributors, although Anvil has long-term relationships with most of its top distributors. The top three distributors for Anvil accounted, in the aggregate, for approximately 13% of Anvil s sales in each of fiscal 2007 and fiscal 2006. The loss of any one of these distributors could have a material adverse effect on our business. See Risk Factors We depend on a group of major distributors for a significant portion of our sales; any loss of these distributors could reduce our sales and continuing consolidation could cause price pressure.

Backlog

Backlog is not significant for the Company, except in the Henry Pratt division of our Mueller Co. segment and our U.S. Pipe segment. Our Mueller Co. and Anvil segments generally manufacture products from raw materials in stock and deliver them to customers within two to four weeks from receipt of the order, depending upon customer delivery specifications. At September 30, 2007, the Henry Pratt division had a backlog of approximately $74.8 million compared to $61.8 million at September 30, 2006. The Henry Pratt division has larger backlog than the rest of the Company because it manufactures parts for large projects that typically require design and build specifications. The delivery lead-time for parts used for these projects can be as high as six months. At September 30, 2007, our U.S. Pipe segment had a backlog of ductile iron pipe and fittings of approximately $67.4 million, compared to a backlog of ductile iron pipe, fittings, valves and hydrants for that segment at September 30, 2006 of approximately $62.0 million.

Manufacturing

See Item 2. Properties for a description of our principal manufacturing facilities.

Mueller Co.

Our Mueller Co. segment operates 13 manufacturing facilities in the United States, Canada and China. Our manufacturing operations include foundry, machining, fabrication, assembly, testing and painting operations. We believe that our existing manufacturing capacity is sufficient for our near-term requirements and we have no current plans to expand capacity. However, we plan to continue to maximize operational efficiencies throughout all of our plants. These actions may result in future facility closures.

Mueller Co. foundries use two casting techniques, green sand and lost foam. At present, we utilize the lost foam technology for hydrant production in our Albertville, Alabama facility and for gate valve production in our Chattanooga, Tennessee facility. The lost foam process has several advantages over the green sand process for high-volume products, including a reduction in the number of manual finishing operations, lower scrap levels and the ability to reuse the sand. The selection of the appropriate casting method, pattern, core-making equipment, sand and other raw materials depends on the final product and its complexity, specifications, and function as well as intended production volumes.

In October 2006, we announced the closure of the El Monte, California plant. Transfer of its brass valve production to our Decatur plant was completed by July 2007.

Table of Contents

Index to Financial Statements

U.S. Pipe

Our U.S. Pipe segment currently operates four manufacturing facilities in the United States, which primarily manufacture ductile iron pressure pipe. U.S. Pipe utilizes the DeLavaud centrifugal casting process, which consists of introducing molten iron into a rapidly turning steel mold and relying on the centrifugal force to uniformly distribute the iron around the inner surface of the mold to produce high-quality ductile iron pressure pipe.

U.S. Pipe has announced the development and begun construction of a new, state-of-the-art pipe manufacturing plant. The new facility will be located adjacent to the Bessemer, Alabama manufacturing plant, and will be structured to maximize production efficiencies and to enhance product quality. The new facility is expected to open in the latter half of calendar 2008.

In November 2007, we announced that we plan to cease manufacturing operations at U.S. Pipe s Burlington, New Jersey facility by February 2008. The facility will continue to be used as a full-service distribution center for customers in the Northeast.

During January 2006, we closed U.S. Pipe s Chattanooga, Tennessee plant and transferred the iron gate valve and hydrant production of that plant to Mueller Co. s Chattanooga, Tennessee and Albertville, Alabama plants, respectively.

Anvil

Our Anvil segment operates 12 manufacturing facilities in the United States and Canada. Our manufacturing operations include foundry, machining, fabrication, assembly, testing and painting operations. Anvil products are made in a high volume production environment. Our foundry employs automated vertical and horizontal green sand molding equipment. Our other manufacturing facilities utilize high speed computer controlled machines and other highly automated equipment. Anvil expects to continue to invest in modern manufacturing technology to maintain its competitiveness in quality and productivity.

In recent years Anvil has made investments in manufacturing capacity to meet the increasing demand for oilfield related products.

Raw Materials and Purchased Components

Our products are made using several basic raw materials, including sand, resin, brass ingot, steel pipe, scrap steel and iron, as well as various purchased components. These materials are readily available and are competitively priced. Historically, we have been able to obtain an adequate supply of raw materials and purchased components and do not anticipate any shortage of these materials.

We generally purchase raw materials at spot prices and generally do not have the ability to hedge our exposure to price changes. Our business could be adversely affected by increases in the cost of our raw materials, as we may not be able to fully pass these costs on to our customers. Management estimates that raw materials and purchased components, respectively, used in the manufacturing processes as a percentage of respective segment costs of sales for fiscal 2007 were 11% and 47% for Mueller Co., and 23% and 41% for Anvil. Further, management estimates that raw materials used in the U.S. Pipe manufacturing process accounted for approximately 33% of the U.S. Pipe cost of sales for fiscal 2007. For the purposes of these estimates, raw materials excludes electricity, natural gas, water, oxygen, and other ancillary items.

In fiscal 2006, due to significant increases in the price of copper in calendar year 2006, the spot price of brass ingot, used in the manufacture of the Mueller Co. segment s brass products and brass components, increased by approximately 80%. The Mueller Co. segment was able to pass much of these cost increases through to its customers by means of price increases in the middle of the fiscal year of approximately 22% on certain brass products, and approximately 12% on hydrants and iron gate valves containing brass components. These product price increases were in addition to the regular, annual Mueller Co. segment product increases made earlier in fiscal 2006. The average purchased costs of brass ingot and scrap iron in fiscal 2007 were 16% and 8% higher than in fiscal 2006, respectively. These prices are expected to fluctuate based on marketplace

Table of Contents

Index to Financial Statements

demand. In fiscal 2006, although the prices of other raw materials remained at the relatively high levels set in the 2005 fiscal year, the prices were unchanged when averaged over the fiscal year.

We can give no assurances that the price of raw materials will remain at the current pricing levels or that we will be able to increase prices to our customers to offset any future cost increases. See Risk Factors Our business is subject to risk of price increases and fluctuations and delay in the delivery of raw materials and purchased components.

Research and Development

We have a dedicated team of research and development (R&D) professionals, who focus on the development of new products as well as on the support, modification and improvement of existing products. Presently, we employ 67 people, including 20 degreed professionals (metallurgists and engineers), dedicated to R&D activities. Our R&D efforts are operated primarily out of our facility in Smithfield, Rhode Island. In addition, our U.S. Pipe segment employs an R&D team in its facility in Bessemer, Alabama.

Ideas are generated by manufacturing, marketing or R&D personnel. In order for a project to move beyond the idea stage, all three disciplines must agree on the suitability of the product and determine an estimated payback. After the approval, it typically takes 6 to 12 months to tool, test and start production. The R&D team typically works on various products simultaneously.

Our total R&D expenditures were approximately $4.6 million in fiscal 2007, $5.7 million in fiscal 2006 and $0.4 million for the nine months ended September 30, 2005.

Patents, Licenses and Trademarks

We have active patents and trademarks relating to the design of our products and trademarks for our brands and products. Most of the patents for technology underlying our products have been in the public domain for many years, and existing third-party patents are not considered, either individually or in the aggregate, to be material to our business. However, the pool of proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operations of our products is considered particularly important and valuable. We generally own the rights to the products that we manufacture and sell and are not dependent in any material way upon any license or franchise to operate. U.S. Pipe has granted numerous trademark licenses around the world with respect to its uniform family of ductile pipe accessories, such as joint restraint systems.

Seasonality

See Item 7. Management s Discussion and Analysis Effect of Inflation; Seasonality.

Competition

The domestic and international markets for flow control products are competitive. However, for most of our product offerings, there are only a few competitors. Although many of our competitors are well-established companies with strong brand recognition, we believe that each of our key product offerings is competitive. Management considers our installed base, product quality, service, brand recognition, price, effectiveness of distribution and technical support to be primary competitive factors.

The competitive environment for our Mueller Co. segment products is mature and stable with limited movement in market share over time. Management believes that our Mueller Co. hydrants and valves enjoy strong competitive positions based largely on their quality and dependability. The principal competitors for Mueller Co. segment hydrants and iron gate valves are McWane, Inc. and American Cast Iron Pipe Company. The primary competitors for Mueller Co. s brass products are Ford Meter Box and A.Y. McDonald.

The ductile iron pressure pipe industry, in which U.S. Pipe operates, is highly competitive, with a small number of manufacturers of ductile iron pressure pipe and fittings. Major competitors of U.S. Pipe include McWane, Inc., Griffin Ductile Iron Pipe Company and American Cast Iron Pipe Company. Additional competition for ductile iron pressure pipe comes from pipe composed of other materials, such as polyvinyl

9

Table of Contents

Index to Financial Statements

chloride (PVC), high density polyethylene (HDPE), concrete, fiberglass, reinforced plastic and steel. Although ductile iron pressure pipe is typically more expensive than competing forms of pipe, ductile iron has the advantages of quality, longevity, strength, ease of installation and lack of maintenance problems.

The market for Anvil segment products is highly competitive, price sensitive and vulnerable to the increased acceptance of foreign products. Anvil competes primarily on the basis of price, availability and service. For domestic manufacturing and sales, Anvil s primary competitor for malleable and cast iron fittings is Ward Manufacturing; for ductile grooved fittings, Anvil s significant competitors are Victaulic Company and Tyco Engineered Products; and for pipe hangers, Anvil s principal competitors are ERICO International Corporation, Tolco/Nibco and Carpenter & Paterson, Inc. Anvil products have mechanical and industrial applications, such as HVAC systems, and fire protection applications, such as sprinkler systems. The majority of Anvil products have mechanical and industrial applications, while the remainder is sold into the fire protection, plumbing, electrical and other specialty markets. The mechanical and industrial markets have been slower to accept foreign products than the fire protection market.

Environmental Matters

The Company is subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the construction and operation of many of its plants and with respect to remediating environmental conditions that may exist at its own and other properties. The Company believes that it is in substantial compliance with federal, state and local environmental laws and regulations. The Company accrues for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable. Expenses charged to the consolidated statements of operations for compliance of ongoing operations and for remediation of environmental conditions arising from past operations were approximately $8.0 million in fiscal 2007, $2.3 million in fiscal 2006 and $4.4 million in the nine months ended September 30, 2005. The Company capitalizes environmental expenditures that increase the life or efficiency of property or that reduce or prevent environmental contamination. Capital expenditures for environmental requirements are anticipated to average approximately $5.8 million per year for the next five years. Capital expenditures for environmental requirements were approximately $16.2 million in fiscal 2007, $4.7 million in fiscal 2006 and $1.7 million in the nine months ended September 30, 2005.

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

On January 5, 2003, Solutia Inc. and Pharmacia Corporation (collectively Solutia) filed suit against U.S. Pipe and a number of co-defendant foundry-related companies in the U.S. District Court for the Northern District of Alabama for contribution and cost recovery allegedly incurred and to be incurred by Solutia in performing remediation of polychlorinated biphenyls (PCBs) and heavy metals in Anniston, Alabama, pursuant to a partial consent decree with the United States Environmental Protection Agency (EPA). U.S. Pipe and certain co-defendants subsequently reached a settlement with EPA concerning their liability for certain contamination in and around Anniston, which was memorialized in an Administrative Agreement and Order on Consent (AOC) that became effective on January 17, 2006. U.S. Pipe has reached a cash-out settlement agreement whereby Phelps Dodge Industries, a co-defendant and co-respondent on the AOC, has assumed U.S. Pipe s obligation to perform the work required under the AOC.

U.S. Pipe and the other settling defendants contend that the legal effect of the AOC extinguishes Solutia s claims and they filed a motion for summary judgment to that effect. Discovery in this matter has been stayed while the motion for summary judgment is pending. If the court permits the case to proceed then management will review the claims, but management currently has no basis to form a view with respect to the probability or amount of liability if its motion for summary judgment is unsuccessful.

[Table of Contents](#)

[Index to Financial Statements](#)

U.S. Pipe and a number of co-defendant foundry-related companies were named in a putative civil class action case originally filed on April 8, 2005 in the Circuit Court of Calhoun County, Alabama, and removed by defendants to the U.S. District Court for the Northern District of Alabama under the Class Action Fairness Act. The putative plaintiffs in the case filed an amended complaint with the U.S. District Court on December 15, 2006. The amended complaint alleged state law tort claims (negligence, failure to warn, wantonness, nuisance, trespass and outrage) arising from the creation and disposal of foundry sand alleged to contain harmful levels of PCBs and other toxins, including arsenic, cadmium, chromium, lead and zinc. The plaintiffs originally sought damages for real and personal property and for other unspecified personal injury. On June 4, 2007, a Motion to Dismiss was granted to U.S. Pipe and certain co-defendants as to the claims for negligence, failure to warn, nuisance, trespass and outrage. The remainder of the complaint was dismissed with leave to file an amended complaint. On July 6, 2007, plaintiffs filed a second amended complaint, which dismissed prior claims relating to U.S. Pipe s former 10th Street facility and no longer alleges personal injury claims. Plaintiffs filed a third amended complaint on July 27, 2007. U.S. Pipe and the other defendants have moved to dismiss the third amended complaint. Management believes that numerous procedural and substantive defenses are available.

Although Mueller Co. now produces no-lead brass products, most of Mueller Co. s brass valve products contain approximately 5.0% lead. Environmental advocacy groups, relying on standards established by California s Proposition 65, are seeking to eliminate or reduce the content of lead in water infrastructure products offered for sale in California. Some of the Company s subsidiaries have entered into settlement agreements with these environmental advocacy groups to modify products or offer substitutes for sale in California. Legislation to substantially restrict lead content in water infrastructure products has been introduced in the United States Congress. Congress or state jurisdictions other than California may enact legislation similar to Proposition 65 to restrict the content of lead in water products, which could require the Company to incur additional capital expenses to modify production. The Company incurred approximately $8.0 million in capital spending during fiscal year 2006 to implement and update a no-lead brass production line. Also, the Company began consolidating its two existing brass foundries into one facility, capitalizing $2.3 million during fiscal 2007 and $5.8 million during fiscal 2006. The foundry consolidation project was completed during fiscal 2007 with total capital spending of approximately $6.9 million.

In March 2004, the Company s Anvil segment entered into a Consent Order with the Georgia Department of Natural Resources regarding alleged hazardous waste violations at Anvil s former foundry facility in Statesboro, Georgia. Pursuant to the Consent Order, Anvil agreed to pay a monetary fine of $50,000 and pay an additional $50,000 to fund a supplemental environmental project. Anvil has also agreed to perform various investigatory and remedial actions at the foundry and its landfill. The total costs are estimated to be between $1.2 million and $1.4 million. The Company maintains an adequate reserve to cover these estimated costs.

During fiscal 2007, the Company incurred approximately $10.4 million of capital costs at its iron foundries to comply with the United States Environmental Protection Agency s National Emissions Standards for Hazardous Air Pollutants which were issued April 22, 2004. The Company expects to incur an additional $0.1 million during fiscal 2008.

Although no assurances can be given that the Company will not be required in the future to make material expenditures relating to environmental laws or legally mandated site clean-up, management does not believe at this time that the compliance and cleanup costs, if any, associated with the current laws and sites for which the Company has cleanup liability or any other future sites will have a material adverse effect on the financial condition or results of operations of the Company.

In fiscal 2007 and 2005, the Company entered into settlement and release agreements with a former insurer whereby the former insurer agreed to pay $1.6 million and $5.1 million, respectively, net of legal fees, to the Company for historical insurance claims previously expensed as incurred by the Company. Such claims had not previously been submitted to the insurance company for reimbursement. The Company released the insurer of both past and future claims. During fiscal 2005, the Company received $2.8 million in cash and the remainder was received during the quarter ended March 31, 2006. The Company recorded a $5.1 million reduction to selling, general and administrative expenses in fiscal 2005.

Under the terms of the agreement whereby Tyco International Ltd. (Tyco) sold the Mueller and Anvil businesses in August 1999 to prior owners (the August 1999 Tyco Transaction), Tyco agreed to indemnify the

Table of Contents

Index to Financial Statements

Company s predecessor-in-interest (Predecessor Mueller), and, by legal succession, the Company and its affiliates, for all Excluded Liabilities . Excluded Liabilities include, among other things, substantially all environmental liabilities relating to the time prior to the August 1999 Tyco Transaction. The indemnity survives indefinitely and continues with respect to the Company s current operations, other than those operations acquired since the August 1999 Tyco Transaction, including the operations of the U.S. Pipe segment. If Tyco ever becomes financially unable to, or otherwise fails to comply with the terms of the indemnity, the Company may be responsible for the Tyco-indemnified obligations. In addition, Tyco s indemnity does not cover environmental liabilities to the extent caused by the Company or Predecessor Mueller or the operation of the Company s business after the August 1999 Tyco Transaction, nor does it cover environmental liabilities arising with respect to businesses or sites acquired after the August 1999 Tyco Transaction.

See Legal Proceedings for descriptions of material litigation and other legal proceedings relating to environmental matters.

Regulatory Matters

The production and marketing of our products is subject to the rules and regulations of various federal, state and local agencies, including laws governing our relationships with distributors. Regulatory compliance has not had a material effect on our results to date. We are not aware of any pending legislation that is likely to have a material adverse effect on our operations. See Legal Proceedings, Risk Factors Our brass valve products contain lead, which may replaced in the future .

Employees

We employ approximately 6,800 people, of whom approximately 91% work in the United States. The hourly employees at our principal United States manufacturing plants and foundries in Albertville, Alabama; Bessemer, Alabama; Birmingham, Alabama; Union City, California; Aurora, Illinois; Decatur, Illinois; Burlington, New Jersey; Columbia, Pennsylvania; Chattanooga, Tennessee; Houston, Texas; and Henderson, Tennessee are represented by unions, as are the hourly employees at two of our four distribution centers. Our operations in Canada at St. Jerome and at Simcoe are also unionized. As of September 30, 2007, approximately 68% of our hourly workforce was represented by unions.

The contracts with our union employees at our eight largest manufacturing facilities expire at different times: Union City in December 2007, Burlington and Columbia in April 2008, Albertville in September 2008, Birmingham in January 2009, Chattanooga in September 2010, Bessemer in October 2010, and Decatur in June 2012.

Union contracts at other facilities expire as follows: Henderson in December 2007, Simcoe in November 2008, Houston in January 2009 and Aurora in August 2011.

In addition, approximately 100 of our employees are represented by various unions at our Anvil distribution facilities located in British Columbia; Montreal, Quebec; Bloomington, Minnesota; Cincinnati, Ohio; Taylor, Michigan; and University Park, Illinois.

We believe that relations with our employees, including those represented by unions, are good. The last major union strike was in 1989 at the U.S. Pipe Bessemer, Alabama facility. The strike lasted six weeks.

Geographic Information

More than 99% of our sales for fiscal 2007 were to U.S. and Canadian customers.

Table of Contents

Index to Financial Statements

Item 1A. RISK FACTORS
Risks Relating to Our Business

Our business may suffer as a result of the recent dramatic downturn in the housing market.

Our business depends on new water and wastewater infrastructure spending, which is dependent upon residential construction. Recently, there have been steep declines in sales of new homes, which have adversely impacted our volume in recent periods. Although the residential building market is cyclical, it is unclear when this decline will subside. An extended downtown in the residential building markets will negatively affect our sales, profitability and cash flows.

A portion of our business relies on government spending related to infrastructure upgrades, repairs and replacements, or in the cyclical non-residential building market.

A portion of our business depends on spending on water and wastewater infrastructure upgrades, repairs and replacement, and non-residential construction. We are also subject to general economic conditions, the need for construction projects, interest rates and government incentives provided for public work projects. In addition, a significant percentage of our products are ultimately used by municipalities or other governmental agencies in public water transmission and collection systems. As a result, our sales could decline as a result of declines in the number of projects planned by public water agencies, government spending cuts, general budgetary constraints, difficulty in obtaining necessary permits or the inability of government entities to issue debt. It is not unusual for water projects to be delayed and rescheduled for a number of reasons, including changes in project priorities and difficulties in complying with environmental and other government regulations. Spending growth in the infrastructure upgrades, repairs and replacements sector may slow in the future if state and local governments budgets are negatively impacted by downturns in the economy. Even if favorable economic conditions exist, state and local governments may choose not to address deferred infrastructure needs. Recently, there have been steep declines in sales of both new and existing homes, which have impacted our volume in recent periods. The non-residential building market is cyclical. A decline in governmental spending on infrastructure could lead to a decline in our sales, profitability and cash flows.

We depend on a group of major distributors for a significant portion of our sales; any loss of these distributors could reduce our sales and continuing consolidation could cause price pressure.

Approximately 36% and 38% of our fiscal 2007 and 2006 net sales, respectively, were to our ten largest distributors, and approximately 28% and 32% of our net sales for fiscal 2007 and 2006, respectively, were to our three largest distributors: HD Supply, Ferguson Enterprises and Consolidated Pipe for fiscal 2007 and HD Supply, Ferguson Enterprises and Groeniger for fiscal 2006. We do not have written contracts with any of our major distributors. Our business relationships with most of our major distributors may be terminated at the option of either party upon zero to 60 days notice.

While our relationships with our ten largest distributors have been long-lasting, distributors in our industry have experienced consolidation in recent years. For example, Home Depot acquired National Waterworks in 2005 and then acquired Hughes Supply in March 2006. The combined businesses have been merged into one entity now called HD Supply, which was sold to a group of private buyers in August 2007. As a result, two of our three previous largest distributors have been combined under common control. In addition, our distributors could be acquired by other distributors who buy products from our competitors. If consolidation among distributors continues, pricing pressure may result, which could lead to a decline in our profitability. Further, our ability to retain our customers in the face of competition generally depends on a variety of factors, including the quality and price of our products and services and our ability to market our products effectively. The loss of either of HD Supply or Ferguson Enterprises as a distributor could reduce our levels of sales and profitability.

Our business is subject to risk of price increases and fluctuations and delay in the delivery of raw materials and purchased components.

Our business is subject to the risk of price increases and fluctuations and periodic delays in the timely delivery of raw materials and purchased components that are beyond our control. Our operations require substantial amounts of raw materials or purchased components, such as sand, resin, brass ingot, steel pipe, scrap steel and iron, as well as purchased components. Management estimates that raw materials and purchased components, respectively, used in the manufacturing processes as a percentage of respective segment costs of sales for fiscal 2007 were 11% and 47% for Mueller Co., and 23% and 41% for Anvil. Further, management estimates that raw materials used in the U.S. Pipe manufacturing process accounted for approximately 33% of the U.S. Pipe cost of sales for fiscal 2007. For the purposes of these estimates, raw materials excludes electricity, natural gas, water, oxygen, and other ancillary items. Supply/demand relationship for a material and factors particular to that material will drive fluctuations in the price and delivery of such materials. In addition, if any of our suppliers seeks bankruptcy relief or otherwise cannot continue its business as anticipated or we cannot renew our supply contracts on favorable terms, the availability of raw materials could be reduced or the price of raw materials could increase.

The availability and price of certain raw materials, such as brass ingot and scrap steel, as well as purchased components are subject to market forces largely beyond our control, including North American and international demand, freight costs, speculation and foreign exchange rates. We generally purchase raw materials at spot prices and generally do not have the ability to hedge our exposure to price changes. We are not always able, and may not be able in the future, to pass on increases in the price of these raw materials to our customers. In particular, when raw material prices increase rapidly or to significantly higher than normal levels, we may not be able to pass price increases through to our customers on a timely basis, if at all, which could lead to reductions of our operating margins and cash flow. Any fluctuations in the price or availability of raw materials or purchased components could reduce our levels of production and sales or impair our profitability.

Our industry is very competitive and some of our products are similar to those manufactured by our competitors.

The domestic and international markets for flow control products are competitive. While there are only a few competitors for most of our product offerings, many of them are well-established companies with strong brand recognition. Our Anvil products in particular compete on the basis of price and are sold in fragmented markets with low barriers to entry. Also, competition for ductile iron pressure pipe sold by our U.S. Pipe segment comes not only from ductile pipe produced by a concentrated number of domestic manufacturers, but also from pressure pipe composed of other materials, such as polyvinylchloride (PVC), high density polyethylene (HDPE), concrete, fiberglass, reinforced plastic and steel.

Foreign competition is intense and could harm our sales, profitability and cash flows.

In addition to domestic competition, we face the threat of foreign competition. The intensity of foreign competition is affected by fluctuations in the value of the U.S. dollar against foreign currencies, by the relative cost to ship competitive products into the North American markets and by the availability of trade remedies. Foreign competition is likely to further increase and certain product prices will continue to face downward pressure as our domestic competitors shift their operations or outsource manufacturing requirements overseas or source supplies from foreign vendors in an effort to reduce expenses.

Interruption of normal operations at our key manufacturing facilities may impair our production capabilities.

Some of our key products, including hydrants, valves and ductile iron pipe, are manufactured at large manufacturing facilities. The operations at our major manufacturing facilities may be impaired by various operating risks, including, but not limited to:

- catastrophic events such as fires, explosions, floods, earthquakes or other similar occurrences;
- interruptions in raw materials and energy supply;
- adverse government regulation;
- breakdowns or equipment failures;

- violations of our permit requirements or revocation of permits;

- releases of pollutants and hazardous substances to air, soil, surface water or groundwater;
- shortages of equipment or spare parts; and
- labor disputes.

To date, we have successfully managed non-material occurrences of the foregoing events without significant disruption of our operations. Further occurrences of these events could cause a decrease in, or the elimination of, the revenues generated by our key facilities or a substantial increase in the costs of operating such facilities that, in turn, could impair our cash flows and results of operations.

Our brass valve products contain lead, which may be replaced in the future.

Our brass valve products, which constituted approximately 6% of our net sales in fiscal years 2007 and 2006, contain approximately 5.0% lead. Environmental advocacy groups, relying on standards established by California s Proposition 65, are seeking to eliminate or reduce the content of lead in some of these products, including water meters and valves, and to limit their sale in California. Some of our business units have entered into settlement agreements with these environmental advocacy groups that have required them to either modify some of these products or offer substitutes for them with respect to products sold in California. Modifications of or substitutions for our products to meet or conform with regulatory requirements will require us to purchase more expensive raw materials, and we may not be able to pass these costs on to our customers. Federal legislation to substantially restrict lead content in water products has been introduced in the United States Congress. Congress may adopt legislation that would require us to reduce or eliminate lead in our brass products, which could require us to incur substantial additional production expenses. In addition, advocacy groups or other parties may file suit against us, which could result in additional costs in connection with marketing and selling our brass products.

We have limited experience operating as a stand-alone entity.

We became a stand-alone entity as a result of the Spin-off on December 14, 2006. Our operations as a stand-alone entity may place significant demands on our management, operational and technical resources. Our future performance will depend on our ability to function as a stand-alone entity and on our ability to finance and manage our operations and adapt our information systems to changes in our business. Furthermore, the financial information included in this annual report may not reflect what the operating results and financial condition would have been had we been a separate, stand-alone entity.

We are subject to certain risks inherent in managing a decentralized organization.

We currently have three distinct business segments and operate under a decentralized organizational structure. A decentralized organization requires the imposition of consistent accounting policies, internal controls, procedures and compliance programs across all of our operations to increase efficiency and operating effectiveness and improve corporate information flows. As a new stand-alone entity, we are in the process of implementing such policies, controls, procedures and programs and it could take time for such implementation to be complete. During the implementation period, our decentralized operating approach could result in inconsistent management practices and procedures, which could adversely affect our business.

We may be unsuccessful in identifying or integrating suitable acquisitions, which could impair our growth.

A part of our growth strategy depends on the availability of acquisition candidates with businesses that can be successfully integrated into our existing business and that will provide us with complementary manufacturing capabilities, products, services, or customers. However, we may be unable to identify targets that will be suitable for acquisition. In addition, if we identify a suitable acquisition candidate, our ability to successfully implement the acquisition will depend on a variety of factors, including our ability to finance the acquisition. Our ability to finance our acquisitions is subject to a number of factors, including the availability of adequate cash from operations or of acceptable financing terms and the terms of our debt instruments. In addition, there are many challenges to integrating acquired companies and businesses in our company, including eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing

15

Table of Contents

Index to Financial Statements

different corporate cultures and achieving cost reductions and cross-selling opportunities. We may not be able to meet these challenges in the future.

We have recorded a significant amount of goodwill and other identifiable intangible assets, and we may never realize the full value of our intangible assets.

We have recorded a significant amount of goodwill and other identifiable intangible assets. As of September 30, 2007, goodwill was $870.6 million and other identifiable intangible assets were $819.3 million. Goodwill and identifiable intangible assets are reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in our performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products and services sold by our business, and a variety of other factors. The amount of any quantified impairment must be expensed immediately as a charge to results of operations.

We have substantial debt and we may incur additional debt in the future.

As of September 30, 2007, our total debt was $1,100.5 million. The level of our indebtedness could have important consequences, including:

- making it more difficult for us to satisfy our obligations under our debt instruments;
- limiting cash flow available for general corporate purposes, including capital expenditures and acquisitions, because a substantial portion of our cash flow from operations must be dedicated to servicing our debt;
- limiting our ability to obtain additional debt financing in the future for working capital, capital expenditures or acquisitions;
- limiting our flexibility to react to competitive and other changes in our industry and economic conditions generally; and
- exposing us to risks inherent in interest rate fluctuations because a substantial portion of our borrowings is at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

We may not be able to generate sufficient cash to service all of our debt and may be forced to take other actions to satisfy our obligations under our debt, which may not be successful.

Our ability to pay or to refinance our debt will depend upon our future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control. There is a risk that our business will not generate sufficient cash flow from operations, that currently anticipated revenue growth and operating improvements will not be realized or that future borrowings will not be available to us in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We cannot assure you that we will maintain a level of liquidity from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. However, we may not be able to accomplish these actions on satisfactory terms, or at all. In addition, these actions, if accomplished, could affect the operation and growth of our business and may not permit us to meet our scheduled debt service obligations.

Restrictive covenants in our debt instruments limit our ability to engage in certain transactions and may diminish our ability to make payments on our indebtedness.

Our debt instruments contain various covenants that limit our ability to engage in certain transactions. Our senior credit facilities also require the maintenance of specified financial ratios. In addition, our debt instruments require us to provide regular financial information to our lenders and bondholders. Such requirements generally may be satisfied by our timely filing with the SEC annual and quarterly reports under the Securities Exchange

Table of Contents

Index to Financial Statements

Act of 1934, as amended (the Exchange Act). Our ability to satisfy those financial ratios or covenants can be affected by events beyond our control, and there is a risk that we will not meet those tests. A breach of any of these covenants could result in a default under our debt instruments. If an event of default is not remedied after the delivery of notice of default and lapse of any relevant grace period, the holders of our debt would be able to declare it immediately due and payable. Upon the occurrence of an event of default under our senior credit facilities, the lenders could also terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure the indebtedness under our senior credit facilities. We have pledged substantially all of our assets (including our intellectual property), other than the assets of our foreign subsidiaries, as security under the senior credit facilities. If the lenders under our senior credit facilities or holders of our outstanding notes accelerate the repayment of borrowings, we may not have sufficient assets to repay our senior credit facilities and our other indebtedness, which could negatively impact the value of our stock and our ability to operate as a going concern.

Our business may be harmed by work stoppages and other labor relations matters.

We are subject to a risk of work stoppages and other labor relations matters because our hourly workforce is highly unionized. As of September 30, 2007, approximately 68% of our hourly workforce was represented by unions. These employees are represented by locals from approximately six different unions, including the Glass, Molders, Pottery, Plastics and Allied Workers International Union, which is our largest union. Our labor agreements will be negotiated as they expire at various times through June 2012. Work stoppages for an extended period of time could impair our business. Labor costs are a significant element of the total expenditures involved in our manufacturing process, and an increase in the costs of labor could therefore harm our business. In addition, the freight companies that deliver our products to our distributors generally use unionized truck drivers, and our business could suffer if our contractors face work stoppages or increased labor costs.

Our revenues are influenced by weather conditions and the level of construction activity at different times of the year; we may not be able to generate revenues that are sufficient to cover our expenses during certain periods of the year.

Some of our products, including ductile iron pipe, are moderately seasonal, with lower sales in the winter months. This seasonality in demand has resulted in fluctuations in our revenues and operating results. In order to satisfy demand during peak periods, we may incur costs associated with inventory build-up, and there can be no assurance that our projections as to future needs will be accurate. We have a backlog of orders for some products for which we have inadequate inventories, or which are made-to-order. Because much of our expenses are fixed payments, seasonal trends can cause reductions in our profit margin and financial condition, especially during our slower periods.

We may be subject to product liability or warranty claims that could require us to make significant payments.

We would be exposed to product liability claims in the event that the use of our products results, or is alleged to result, in bodily injury or property damage. There is a risk that we will experience product liability or warranty losses in the future or that we will incur costs to defend such claims. Such losses and costs may be material. While we currently have product liability insurance, our product liability insurance coverage may not be adequate for any liabilities that may ultimately be incurred or the coverage may not continue to be available on terms acceptable to us. A successful claim brought against us in excess of our available insurance coverage could require us to make significant payments or a requirement to participate in a product recall may harm our reputation or profitability.

We rely on Tyco to indemnify us for certain liabilities and there is a risk that Tyco may become unable or fail to fulfill its obligations.

Under the terms of the purchase agreement (the Tyco Purchase Agreement) relating to the August 1999 sale by Tyco International Ltd. (Tyco) of the Mueller Co. and Anvil businesses to our prior owners, we are indemnified by Tyco for all liabilities arising in connection with the operation of these businesses prior to their sale by Tyco, including with respect to products manufactured or sold prior to the closing of that transaction. The indemnity survives forever and is not subject to any dollar limits. In the past, Tyco has made substantial payments and/or assumed defense of claims pursuant to this indemnification provision. However, we may be

Table of Contents

Index to Financial Statements

responsible for these liabilities in the event that Tyco ever becomes financially unable or fails to comply with, the terms of the indemnity. In addition, Tyco s indemnity does not cover product liabilities to the extent caused by our products manufactured after that transaction. In June 2007, Tyco was separated into three separate, publicly traded companies. Should the entity or entities that assume Tyco s obligations under the Tyco Purchase Agreement ever become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities. For more information about our potential product liabilities, see Item 3 Legal Proceedings .

Environmental, health and safety laws and regulations could subject us to liability for fines, clean-ups and other damages, require us to incur significant costs to modify our operations and increase our manufacturing costs.

We are subject to various laws and regulations relating to the protection of the environment and human health and safety and must incur capital and other expenditures to comply with these requirements. Failure to comply with any environmental, health or safety requirements could result in the assessment of damages, or imposition of penalties, suspension of production, a required upgrade or change to equipment or processes or a cessation of operations at one or more of our facilities. Because these laws are complex, constantly changing and may be applied retroactively, there is a risk that these requirements, in particular as they change in the future, may impair our business, profitability and results of operations.

In addition, we will be required to incur costs to comply with the EPA s National Emissions Standards for Hazardous Air Pollutants (NESHAP) for iron and steel foundries and for our foundries painting operations. These costs may be substantial. See Item 1 Business Environmental Matters. We may be required to conduct investigations and perform remedial activities that could require us to incur material costs in the future. Our operations involve the use of hazardous substances and the disposal of hazardous wastes. We may incur costs to manage these substances and wastes and may be subject to claims for damage for personal injury, property damages or damage to natural resources.

Our U.S. Pipe segment has been identified as a potentially responsible party liable under federal environmental laws for a portion of the clean-up costs with regard to two sites, one in Alabama and one in California, and is currently subject to an administrative consent order requiring certain monitoring and clean-up with regard to its Burlington, New Jersey facility. Such clean-up costs could be substantial and could have a negative effect on our profitability and cash flows in any given reporting period. For more information about our environmental compliance and potential environmental liabilities, see Item 1 Business Environmental Matters.

Compliance with the securities laws and regulations is likely to make it more difficult and expensive for us to maintain directors and officers liability insurance and to attract and retain qualified members of our board of directors.

We expect the Sarbanes-Oxley Act and the rules and regulations subsequently implemented by the SEC and the Public Company Accounting Oversight Board to continue to impose compliance burdens and costs on our operations. Those rules and regulations may make it more difficult and expensive for us to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and executive officers.

If we fail to protect our intellectual property, our business and ability to compete could suffer.

Our business depends upon our technology and know-how, which is largely developed internally. While we believe that none of our operating units is substantially dependent on any single patent, trademark, copyright, or other form of intellectual property, we rely on a combination of patent protection, copyright and trademark laws, trade secrets protection, employee and third party confidentiality and nondisclosure agreements and technical measures to protect our intellectual property rights. There is a risk that the measures that we take to protect our intellectual property rights may not be adequate to deter infringement, misappropriation or independent third-party development of our technology or to prevent an unauthorized third party from obtaining or using information or intellectual property that we regard as proprietary or to keep others from using brand names similar to our own. The disclosure, misappropriation or infringement of our intellectual property could harm our competitive position. In addition, our actions to enforce our rights may result in substantial costs and diversion of management and other resources. We may also be subject to intellectual property infringement claims from time to time, which may result in our incurring additional expenses and diverting company resources to respond to these claims.

If transportation for our ductile iron pipe products becomes unavailable or uneconomic for our customers, our ability to sell ductile iron pipe products would suffer.

Transportation costs are a critical factor in a customer s purchasing decision. Increases in transportation costs could make our ductile iron pipe products less competitive with the same or alternative products from competitors.

We typically depend upon rail, barge and trucking systems to deliver our products to customers. While our customers typically arrange and pay for transportation from our factory to the point of use, disruption of these transportation services because of weather-related problems, strikes, lock-outs or other events could temporarily impair our ability to supply our products to our customers thereby resulting in lost sales and reduced profitability.

Risks Relating to Our Relationship with Walter Industries

We may have substantial additional liability for federal income tax allegedly owed by Walter Industries.

After the close of trading on December 14, 2006, Walter Industries distributed to its stockholders approximately 1.65 shares of our Series B common stock for each share of Walter Industries common stock held by the stockholders of record on December 6, 2006, resulting in the distribution of 85,844,920 shares of our Series B common stock in a transaction intended to qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code of 1986, as amended. Prior to this distribution, Walter Industries owned all of our Series B common stock, representing approximately 75% of our economic value and approximately 96% of the combined voting power of all our voting stock.

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 Industries controlled group, which included the Company (including our subsidiaries) 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, the Company could be liable under such provisions in the event any such liability is incurred, and not discharged, by any other member of the Walter Industries consolidated or controlled group for any period during which the Company was included in the Walter Industries consolidated or controlled group.

A dispute exists with regard to federal income taxes for fiscal years 1980 through 1994 and 1999 through 2001 allegedly owed by the Walter Industries consolidated group, which included the U.S. Pipe segment during these periods. According to Walter Industries quarterly report on Form 10-Q for the period ended September 30, 2007, Walter Industries management estimates that the amount of tax claimed by the IRS is approximately $34.0 million for issues currently in dispute in bankruptcy court for matters unrelated to the Company. This amount is subject to interest and penalties. In addition, the IRS has issued a Notice of Proposed Deficiency assessing additional tax of $82.2 million for the fiscal years ended May 31, 2000, December 31, 2000 and December 31, 2001. As a matter of law, the Company is jointly and severally liable for any final tax determination, which means that in the event Walter Industries is unable to pay any amounts owed, the Company would be liable. Walter Industries disclosed in the above mentioned Form 10-Q that they believe their filing positions have substantial merit and that they intend to defend vigorously any claims asserted.

The tax allocation agreement between the Company and Walter Industries allocates to us certain tax risks associated with the Spin-off.

Walter Industries effectively controlled all of our tax decisions for periods during which we were a member of the Walter Industries consolidated federal income tax group and certain combined, consolidated or unitary state and local income tax groups. Under the terms of the income tax allocation agreement between Walter

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

Index to Financial Statements

Item 2. PROPERTIES

The following charts describe our principal properties.

Corporate

Location	Activity	Size (sq. ft.)	Owned or Leased
Atlanta, GA	Corporate headquarters	24,728	Leased

Mueller Co. Segment

Location	Activity	Size (sq. ft.)	Owned or Leased
Decatur, IL	Administrative headquarters, foundry, fabrication, machine shop	467,044	Owned
Albertville, AL	Foundry, fabrication, machine shop	422,481	Leased
Aurora, IL	Fabrication, machine shop	146,880	Owned
Bethlehem, PA	Fabrication, machine shop	104,000	Leased
Brownsville, TX	Machine shop	50,000	Leased
Chattanooga, TN	Foundry, fabrication, machine shop	525,000	Owned
Cleveland, NC	Machine shop	190,000	Owned
Cleveland, TN	Fabrication, machine shop	40,000	Owned
Hammond, IN	Fabrication, machine shop	51,160	Owned
Jingmen, China	Machine shop	154,377	Owned
Murfreesboro, TN	Assembly	11,400	Owned
Murfreesboro, TN	Fabrication, assembly	12,000	Leased
St. Jerome, Quebec	Foundry, machine shop	55,000	Owned

Our Mueller Co. segment operates two regional distribution centers in Canada. The centers are located in Barrie, Ontario and Calgary, Alberta and have lease terms that expire in 2011.

U.S. Pipe Segment

Location	Activity	Size (sq. ft.)	Owned or Leased
Birmingham, AL	Administrative headquarters	66,000	Owned
Bessemer, AL	Foundry, machine shop	648,000	Owned
Birmingham, AL	Foundry, machine shop	360,000	Owned
Union City, CA	Foundry, machine shop	139,000	Owned
Burlington, NJ	Foundry, machine shop, assembly	329,000	Owned

The Company is currently expanding its manufacturing capacity at the Bessemer, Alabama facility with the recent acquisition of a 314,000 square foot facility adjacent to our existing Bessemer facility, which will be used to house the mini-mill. Fast Fabricators operates 11 small manufacturing facilities which are primarily leased.

Anvil Segment

Location	Activity	Size (sq. ft.)	Owned or Leased
Portsmouth, NH	Administrative headquarters	13,740	Leased

Aurora, OH	Pipe cutting, machine shop	39,650	Leased
Columbia, PA	Foundry, galvanizing, painting, assembly, machine shop	663,000	Owned
Greencastle, PA	Bending, pipe cutting, machine shop	132,743	Owned
Henderson, TN	Stamping, fabrication, assembly, machine shop	207,942	Owned
Houston, TX	Machine shop	45,988	Owned
Longview, TX	Assembly, machine shop	114,000	Owned
North Kingstown, RI	Painting, fabrication, assembly, machine shop	136,868	Leased
Pottstown, PA	Forming, fabrication, assembly, machine shop	46,000	Owned
Santa Fe Springs, CA	Pipe cutting, machine shop	37,815	Leased
Simcoe, Ontario	Fabrication, machine shop	145,000	Owned
Waynesboro, PA	Pipe cutting, machine shop	53,051	Owned

Table of Contents

Index to Financial Statements

We operate four leased regional distribution centers in the United States for our Anvil products. See Business Sales, Marketing and Distribution. The United States centers are located in Sparks, Nevada; Columbia, Pennsylvania; University Park, Illinois; and Grand Prairie, Texas and have lease terms that expire between November 2007 and December 2013. In addition, we operate 27 smaller warehouses throughout the United States and Canada to support our Anvil operations.

Our leased properties have terms that expire between November 2007 and September 2017.

We consider our plants and equipment to be well-maintained and believe our plants will have sufficient capacity to meet our present and anticipated future needs for the next five years. All of our domestic facilities leases and leasehold interests are encumbered by liens securing our obligations under our senior credit facilities.

In fiscal 2007, we closed manufacturing facilities of the Mueller Co. segment in Dixon, Illinois and El Monte, California. In November 2007, we announced that we plan to cease manufacturing operations at U.S. Pipe s Burlington, New Jersey facility. The facility will continue to be used as a full-service distribution center for customers in the Northeast.

Item 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings which have arisen in the normal course of our operations, including the proceedings summarized below. The effect of the outcome of these matters on the Company s future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. Other than the litigation described below, we do not believe that any of our outstanding litigation would have a material adverse effect on our business, operations or prospects.

On January 5, 2003, Solutia Inc. and Pharmacia Corporation (collectively Solutia) filed suit against U.S. Pipe and a number of co-defendant foundry-related companies in the U.S. District Court for the Northern District of Alabama for contribution and cost recovery allegedly incurred and to be incurred by Solutia in performing remediation of polychlorinated biphenyls (PCBs) and heavy metals in Anniston, Alabama, pursuant to a partial consent decree with the United States Environmental Protection Agency (EPA). U.S. Pipe and certain co-defendants subsequently reached a settlement with EPA concerning their liability for certain contamination in and around Anniston, which was memorialized in an Administrative Agreement and Order on Consent (AOC) that became effective on January 17, 2006. U.S. Pipe has reached a cash-out settlement agreement whereby Phelps Dodge Industries, a co-defendant and co-respondent on the AOC, has assumed U.S. Pipe s obligation to perform the work required under the AOC.

U.S. Pipe and the other settling defendants contend that the legal effect of the AOC extinguishes Solutia s claims and they filed a motion for summary judgment to that effect. Discovery in this matter has been stayed while the motion for summary judgment is pending. If the court permits the case to proceed then management will review the claims, but management currently has no basis to form a view with respect to the probability or amount of liability if its motion for summary judgment is unsuccessful.

U.S. Pipe and a number of co-defendant foundry-related companies were named in a putative civil class action case originally filed on April 8, 2005 in the Circuit Court of Calhoun County, Alabama, and removed by defendants to the U.S. District Court for the Northern District of Alabama under the Class Action Fairness Act. The putative plaintiffs in the case filed an amended complaint with the U.S. District Court on December 15, 2006. The amended complaint alleged state law tort claims (negligence, failure to warn, wantonness, nuisance, trespass and outrage) arising from the creation and disposal of foundry sand alleged to contain harmful levels of PCBs and other toxins, including arsenic, cadmium, chromium, lead and zinc. The plaintiffs originally sought damages for real and personal property and for other unspecified personal injury. On June 4, 2007, a Motion to Dismiss was granted to U.S. Pipe and certain co-defendants as to the claims for negligence, failure to warn, nuisance, trespass and outrage. The remainder of the complaint was dismissed with leave to file an amended complaint. On July 6, 2007, plaintiffs filed a second amended complaint, which dismissed prior claims relating to U.S. Pipe s former 10th Street facility and no longer alleges personal injury claims. Plaintiffs filed a third amended complaint on July 27, 2007 and U.S. Pipe filed a motion to dismiss the third amended complaint on August 24, 2007. Management believes that numerous procedural and substantive defenses are available.

Table of Contents

Index to Financial Statements

In the acquisition agreement pursuant to which Tyco International sold the Company s Mueller Co. and Anvil segments to the prior owners of these businesses in August 1999, Tyco agreed to indemnify the Company and its affiliates for all Excluded Liabilities. Excluded Liabilities include, among other things, substantially all liabilities relating to the time prior to the August 1999 Tyco transaction. The indemnity survives indefinitely and is not subject to any deductibles or caps. However, the Company may be responsible for these liabilities in the event that Tyco ever becomes financially unable to or otherwise fails to comply with, the terms of the indemnity. In addition, Tyco s indemnity does not cover liabilities to the extent caused by the Company or the operation of its business after the August 1999 Tyco transaction, nor does it cover liabilities arising with respect to businesses or sites acquired after the August 1999 Tyco transaction.

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

The Company and its subsidiaries are parties to a number of other lawsuits arising in the ordinary course of their businesses, including product liability cases for products manufactured by the Company and third parties. We provide for costs relating to these matters when a loss is probable and the amount is reasonably estimable. The effect of the outcome of these matters on our future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. While the results of litigation cannot be predicted with certainty, we believe that the final outcome of such other litigation is not likely to have a materially adverse effect on our consolidated financial statements.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2007.

Table of Contents

Index to Financial Statements

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s Series A common stock has been listed on the New York Stock Exchange under the trading symbol MWA since May 26, 2006. The Company s Series B common stock was listed on the New York Stock Exchange under the trading symbol MWA.B effective December 14, 2006. Covenants contained in certain of the debt instruments referred to in Note 8 of Notes to Consolidated Financial Statements may restrict the amount the Company can pay in cash dividends. Future dividends will be declared at the discretion of the Board of Directors and will depend on the Company s future earnings, financial condition and other factors affecting dividend policy.

The shares of Series A and Series B common stock have identical rights except that the Series A common stock has one vote per share and the Series B common stock has eight votes per share. The table below sets forth, for the fiscal periods indicated, the range of high and low closing sales prices of the Series A and Series B common stock and the dividends declared per share:

	Series A		Series B		Dividend
	High	Low	High	Low	Per Share
Year ended September 30, 2007					
1st fiscal quarter	$ 16.34	$ 13.16	$ 15.03	$ 14.61	$ 0.0175
2nd fiscal quarter	16.06	13.63	15.87	13.39	0.0175
3rd fiscal quarter	19.35	13.56	15.99	13.25	0.0175
4th fiscal quarter	16.73	11.77	15.00	10.47	0.0175
Year ended September 30, 2006					
3rd fiscal quarter	$ 18.25	$ 14.23			
4th fiscal quarter	17.52	14.30			

As of September 30, 2007, there were 11 stockholders of record of the Series A common stock and 135 stockholders of record of the Series B common stock.

Equity Compensation Plan Information

The information regarding the Company s compensation plans under which equity securities are authorized for issuance is set forth in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this annual report.

Sale of Unregistered Securities

The Company did not issue any unregistered securities during the year ended September 30, 2007.

Issuer Purchases of Equity Securities

During the quarter ended September 30, 2007, the Company did not purchase any of its equity securities.

Table of Contents

Index to Financial Statements

Stock Price Performance Graphs

The following line graphs compare the cumulative quarterly stock market performance of the Company s Series A common stock and the Company s Series B common stock with the Russell 2000 Stock Index (Russell 2000) and the Dow Jones Industrial-Diversified Index (Dow Jones Industrial-Diversified).

Total return values were calculated based on cumulative total return assuming (i) the investment of $100 in the Company s common stock, the Russell 2000, and the Dow Jones Industrial-Diversified on the dates indicated and (ii) reinvestment of all dividends.

Table of Contents

Index to Financial Statements

Item 6. Selected Financial Data

On October 3, 2005, Walter Industries Inc. (Walter Industries) acquired all outstanding shares of capital stock of Mueller Water Products, Inc. (Predecessor Mueller) and contributed United States Pipe and Foundry Company, LLC (U.S. Pipe) to Predecessor Mueller (the Acquisition). In accordance with accounting principles generally accepted in the United States of America (GAAP), U.S. Pipe is the acquiror of Predecessor Mueller. Accordingly, U.S. Pipe s historical financial information is used for the Company, and all historical financial data of the Company prior to October 3, 2005 included in this annual report is that of U.S. Pipe. The Consolidated Statements of Operations include the results of operations of Predecessor Mueller beginning October 3, 2005. The following selected financial and other data should be read in conjunction with, and are qualified by reference to, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and notes thereto included elsewhere in this annual report.

	For the years ended September 30,			For the nine months ended September 30,		For the years ended December 31,	
	2007(a)	2006(a)	2005	2005(j)	2004(j)	2004	2003
Statement of Operations Data:							
Net sales	$ 1,849.0	$ 1,933.4	$ 598.1	$ 456.9	$ 437.2	$ 578.4	$ 465.4
Cost of sales(b)	1,385.8	1,525.7	530.7	402.2	402.9	531.4	427.4
Gross profit	463.2	407.7	67.4	54.7	34.3	47.0	38.0
Selling, general and administrative(c)	251.6	242.1	39.1	25.9	25.0	38.2	43.5
Related party corporate charges(d)	1.6	8.0	7.3	5.4	5.7	7.7	4.8
Restructuring and impairment charges(e)		28.6			0.1	0.1	5.9
Income (loss) from operations	210.0	129.0	21.0	23.4	3.5	1.0	(16.2)
Loss on early extinguishment of debt(f)	36.5	8.5					
Interest expense, net of interest income	86.8	107.4	0.4	0.3	0.4	0.5	0.5
Interest expense arising from payable to parent, Walter Industries(g)			21.1	15.2	13.0	18.9	16.4
Income (loss) before income tax expense (benefit)	86.7	13.1	(0.5)	7.9	(9.9)	(18.4)	(33.1)
Income tax expense (benefit)	38.5	8.0	3.9	2.8	(3.9)	(2.9)	(12.7)
Income (loss) before cumulative effect of change in accounting principle	48.2	5.1	(4.4)	5.1	(6.0)	(15.5)	(20.4)
Cumulative effect of change in accounting principle, net of tax							(0.5)
Net income (loss)	$ 48.2	$ 5.1	$ (4.4)	$ 5.1	$ (6.0)	$ (15.5)	$ (20.9)
Income (loss) per share(h)	$ 0.42	$ 0.05	$ (0.05)	$ 0.06	$ (0.07)	$ (0.18)	$ (0.23)
Other Data:							
Depreciation and amortization	$ 101.4	$ 96.9	$ 25.9	$ 19.4	$ 20.0	$ 26.5	$ 25.2
Capital expenditures	$ 88.3	$ 71.1	$ 24.4	$ 16.5	$ 12.4	$ 20.4	$ 15.7

Table of Contents

Index to Financial Statements

	As of September 30,				As of December 31,	
	2007(a)	2006(a)	2005	2004	2004	2003
			(dollars in millions)			
Balance Sheet Data:						
Cash and cash equivalents(i)	$ 98.9	$ 81.4	$	$ 0.1	$	$ 0.2
Working capital	709.7	680.0	188.7	176.6	163.5	157.0
Property, plant and equipment, net	351.8	337.0	149.2	152.2	152.9	160.1
Total assets	3,009.2	2,989.9	514.7	491.6	473.5	452.9
Intercompany indebtedness to Walter Industries		3.6	443.6	435.4	422.8	409.2
Total liabilities	1,698.2	1,762.9	669.9	626.7	618.6	581.9
Total unit/stockholder s equity (net capital deficiency)	1,311.0	1,227.0	(155.2)	(135.1)	(145.1)	(129.0)

(a) Data for the years ended September 30, 2007 and 2006 and as of September 30, 2007 and 2006 include results from Predecessor Mueller, which was acquired by the Company on October 3, 2005.

(b) Cost of sales during the year ended September 30, 2006 includes $70.2 million of purchase accounting adjustments related to valuing inventory acquired in the Acquisition at fair value and $21.3 million of inventory write-offs and unabsorbed overhead costs resulting from the closure of U.S. Pipe s Chattanooga, Tennessee plant. Cost of sales during the nine months ended September 30, 2005 includes warranty cost of $2.3 million related to a construction project in Kansas City, Missouri.

(c) Selling, general and administrative expenses include:
Credits for environmental-related insurance settlement benefits of $1.6 million, zero, $5.1 million, $5.1 million and $1.9 million for the years ended September 30, 2007, 2006, and 2005, the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively;

Accrued expenses of $4.0 million relating to environmental liabilities for the year ended December 31, 2004 and a reversal of $1.0 million of that accrual for the year ended September 30, 2006; and

Settlement expenses for a commercial dispute of $1.7 million and settlement expenses for litigation matters of $6.5 million for the year ended December 31, 2003.

(d) Related party corporate charges represents costs incurred by Walter Industries that were allocated to U.S. Pipe. As of the Spin-off, these charges are no longer allocated to the Company.

(e) Restructuring and impairment charges for the year ended September 30, 2006 includes $28.6 million to close U.S. Pipe s Chattanooga, Tennessee plant and transfer the valve and hydrant production of that plant to Mueller Co. s Chattanooga, Tennessee and Albertville, Alabama plants. These charges primarily included employee benefits costs and the write-off of fixed assets. Restructuring and impairment charges for the year ended December 31, 2003 include $5.9 million to cease operations at the castings plant in Anniston, Alabama. These charges primarily included employee benefits costs and the write-off of fixed assets.

(f) In 2007, the Company restructured its public notes and term facilities. Loss on early extinguishment of debt relates to paydown of debt in 2006 with the use of IPO proceeds.

(g) Consists of interest expense allocated by Walter Industries to U.S. Pipe. Following the Acquisition on October 3, 2005, the allocation of the interest expense terminated because the intercompany indebtedness to Walter Industries was contributed to the capital of U.S. Pipe.

(h) Earnings (loss) per share for all periods presented prior to the year ended September 30, 2006 were determined using 85.8 million shares.

(i) Prior to the acquisition of Predecessor Mueller on October 3, 2005, cash and cash equivalents were transferred daily to Walter Industries, effectively reducing U.S. Pipe cash to virtually zero on a daily basis. Subsequent to October 3, 2005, all cash was deposited in Company accounts.

(j) Effective December 30, 2005, U.S. Pipe changed its fiscal year to September 30, which coincides with Predecessor Mueller s fiscal year end. This change resulted in a nine-month fiscal period in 2005, the year of adoption. Data for the nine months ended September 30, 2004 (unaudited) is shown for comparative purposes only.

Table of Contents

Index to Financial Statements

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto that appear elsewhere in this annual report. This report contains certain statements that may be deemed forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. All statements, other than statements of historical fact, that address activities, events or developments that the Company s management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in the section entitled Risk Factors in Item 1A of Part I of this annual report.

Overview

Organization

The Company was originally organized as United States Pipe and Foundry Company, Inc. and was a wholly-owned subsidiary of Walter Industries, Inc. (Walter Industries) since 1969. On October 3, 2005, through a series of transactions (the Acquisition), Walter Industries acquired all outstanding shares of capital stock of Mueller Water Products, Inc. (Predecessor Mueller), which immediately was converted into Mueller Water Products, LLC, a Delaware limited liability company, and contributed United States Pipe and Foundry Company, LLC (U.S. Pipe) to the acquired company. U.S. Pipe is treated as the acquirer of Predecessor Mueller for accounting purposes.

Effective October 3, 2005, U.S. Pipe s basis of accounting is used for the Company and all historical financial data of the Company included in this annual report is that of U.S. Pipe. The results of operations of Predecessor Mueller are included in the Consolidated Statements of Operations beginning October 3, 2005. In December 2005, U.S. Pipe changed its fiscal year-end to September 30, which coincides with the fiscal year end of Predecessor Mueller.

The discussion of the Company s results of operations for the year ended September 30, 2006 includes the financial results of Predecessor Mueller from the Acquisition date. The inclusion of these results, plus the continuing integration process, may render direct comparison with the results for prior periods less meaningful. Accordingly, the discussion below addresses, where appropriate, trends that we believe are significant, separate and apart from the impact of the Acquisition. Supplemental information with comparisons of the year ended September 30, 2006 Statements of Operations data to the pro forma twelve months ended September 30, 2005 Statements of Operations data is provided below under the subheadings Supplemental Information Results of Operations for the Year Ended September 30, 2006 Compared to Pro Forma Results of Operations for the Twelve Months Ended September 30, 2005 .

Beginning with the quarter ended December 31, 2005, the Company has three operating segments that are named after its leading brands in each segment: Mueller Co. U.S. Pipe, and Anvil.

Business

The Company is a leading North American manufacturer and marketer of a broad range of water infrastructure and flow control products for use in water distribution networks and treatment facilities. The Company manages its business and report operations through three operating segments, based largely on the products they sell and the markets they serve.

- *Mueller Co.* The Mueller Co. segment produces and sells hydrants, valves and related products primarily to the water and wastewater infrastructure markets. Sales of Mueller Co. segment products are driven principally by spending on water and wastewater infrastructure upgrade, repair and replacement and new water and wastewater infrastructure. Subsequent to the Acquisition, effective January 1, 2006, U.S. Pipe transferred its valve and hydrant business to the Mueller Co. segment. Management estimates that a majority of fiscal 2007 Mueller Co. segment sales were for infrastructure upgrade, repair and replacement and the remainder were for new infrastructure. A significant portion of

Table of Contents

Index to Financial Statements

Mueller Co. s sales are made through its distributors. For most of Mueller Co. s products, end-users choose the brand or establish product specifications. Management believes Mueller Co. s reputation for quality, extensive distributor relationships, installed base and coordinated marketing approach have helped Mueller Co. products to be specified as an approved product for use in most major metropolitan areas throughout the United States.

- *U.S. Pipe.* The U.S. Pipe segment produces ductile iron pressure pipe, restraint joints and related products and sells these products and fittings to the water infrastructure market. U.S. Pipe products are sold primarily to water works distributors, contractors, municipalities, private utilities and other governmental agencies. A substantial percentage of ductile iron pressure pipe orders result from contracts that are bid by contractors or directly issued by municipalities or private utilities. To support its customers inventory and delivery requirements, U.S. Pipe uses numerous storage depots throughout the country. Management estimates that a majority of fiscal 2007 U.S. Pipe segment sales were for new infrastructure, with the remainder for upgrade, repair and replacement.

- *Anvil.* The Anvil segment produces or sources pipe, fittings, pipe hangers and pipe nipples and a variety of related products and sells these products to a wide variety of end users, including commercial construction contractors, municipalities, publicly and privately owned water and wastewater utilities and gas utilities. Sales of Anvil segment products are driven principally by spending on commercial construction projects.

Developments and Trends

Management has identified the following significant developments, trends, and factors that may impact the Company s future results:

- Management anticipates a further decline in residential construction and a continued downturn in new residential construction is likely to negatively impact our operations. In September 2007, new privately-owned housing unit starts declined 26% from September 2006.

- Management believes the Company will benefit from projected spending increases in the water infrastructure repair and replacement market. The American Water Works Association forecasts that utility capital spending for replace/upgrade infrastructure will increase 17% in 2008, compared to its forecast of 11% in 2007. While management does not expect this level of increased demand for its products in 2008, it does expect public water infrastructure spending to drive high single digit, low double digit net sales growth to this end-market.

- Management expects a modest growth in commercial construction spending in fiscal 2008. Additionally, Anvil will continue to increase sourcing of products from foreign countries. These sourced products typically have lower gross margins, but management expects to more than offset this through the results of its synergy actions completed in 2007, as well as other cost saving initiatives.

- On November 6, 2007, the Company announced that it intends to close its ductile iron pipe manufacturing operations in Burlington, N.J. by February 2008, eliminating approximately 180 jobs. The Burlington facility will continue to be used as a full-service distribution center for customers in the Northeast. In connection with this action, management expects to record a restructuring charge of approximately $19.0 million, substantially all of which will be expensed in the quarter ended December 31, 2007. This charge is comprised of approximately $15.0 million of asset write-offs and $4.0 million of cash costs, including severance and other costs associated with the closing. Incremental cash operating expenses associated with the restructuring of approximately $3.0 million are expected to be incurred throughout the nine months ended September 20, 2008.

- Management expects reduced production and increased raw material and purchased component costs to continue to impact margins in the first half of fiscal 2008.

- The average purchased costs of brass ingot and scrap iron in fiscal 2007 were 16% and 8% higher than in fiscal 2006, respectively. These prices are expected to fluctuate based on marketplace demand and

[Table of Contents](#)

[Index to Financial Statements](#)

can be somewhat volatile. The Company is currently planning to implement price increases in 2008 to at least cover rising raw material costs. However, in certain market conditions, the full amount of any such increases may not be sustained.

- The Company acquired Predecessor Mueller on October 3, 2005. During the fourth quarter of fiscal 2007, management determined that, as the acquirer of Predecessor Mueller, the Company may have exposure with respect to certain state income tax matters of Predecessor Mueller. The Company believes the worst case state tax liability, excluding interest and penalties, related to the pre-acquisition period is approximately $7.5 million. This amount, net of federal tax benefit, has been recorded as an adjustment to goodwill. Also, the Company has estimated that it may incur an additional $1.1 million of state income tax expense related to the three month period subsequent to the acquisition. This amount, net of federal tax benefit, has been recorded as tax expense in the fourth quarter of fiscal 2007. In addition, the fourth quarter of fiscal 2007 includes $1.9 million of estimated interest expense related to these legacy tax obligations. Inherent uncertainties exist in estimates of tax contingencies, and the actual amounts payable could vary.

Table of Contents

Index to Financial Statements

Results of Operations

Year Ended September 30, 2007 As Compared to Year Ended September 30, 2006

	Year ended September 30,					
	2007		2006		2007 vs. 2006	
	Amount	Percentage of net sales(1)	Amount	Percentage of net sales(1)	Increase/ (decrease)	Percentage increase/ (decrease)
			(dollars in millions)			
Net sales						
Mueller Co.	$ 756.1	40.9%	$ 804.1	41.6%	$ (48.0)	(6.0)%
U.S. Pipe	537.1	29.0	594.7	30.8	(57.6)	(9.7)
Anvil	555.8	30.1	534.6	27.6	21.2	4.0
Consolidated	$ 1,849.0	100.0%	$ 1,933.4	100.0%	$ (84.4)	(4.4)%
Gross profit (loss)						
Mueller Co.	$ 235.8	31.2%	$ 223.0	27.7%	$ 12.8	5.7%
U.S. Pipe	78.0	14.5	62.5	10.5	15.5	24.8
Anvil	149.6	26.9	122.6	22.9	27.0	22.0
Consolidating eliminations	(0.2)		(0.4)		0.2	(50.0)
Consolidated	$ 463.2	25.0%	$ 407.7	21.1%	$ 55.5	13.6%
Selling, general and administrative						
Mueller Co.	$ 81.1	10.7%	$ 78.3	9.7%	$ 2.8	3.6%
U.S. Pipe	43.0	8.0	43.2	7.3	(0.2)	0.5
Anvil	92.2	16.6	90.8	17.0	1.4	1.5
Corporate	35.3	2.0	29.8	1.5	5.5	18.5
Consolidated	$ 251.6	13.6%	$ 242.1	12.5%	$ 9.5	3.9%
Related party corporate charges						
Mueller Co.	$	%	$	%	$	
U.S. Pipe	1.6	0.3	7.7	1.3	(6.1)	(79.2)%
Anvil						
Corporate			0.3		(0.3)	(100.0)
Consolidated	$ 1.6	%	$ 8.0	0.4%	$ (6.4)	(80.0)%
Facility rationalization, restructuring and related costs						
Mueller Co.	$	%	$	%	$	%
U.S. Pipe			28.6	4.8	(28.6)	(100.0)
Anvil						
Consolidated	$	%	$ 28.6	1.5%	$ (28.6)	(100.0)%
Income (loss) from operations						
Mueller Co.	$ 154.7	20.5%	$ 144.7	18.0%	$ 10.0	6.9%
U.S. Pipe	33.4	6.2	(17.0)	(2.9)	50.4	(296.5)

Anvil	57.4	10.3	31.8	5.9	25.6	80.5
Corporate	(35.3)	(1.9)	(30.1)	(1.6)	(5.2)	17.3
Consolidating eliminations	(0.2)		(0.4)		0.2	(50.0)
Consolidated	210.0	11.4%	129.0	6.7%	81.0	62.8%
Interest expense, net of interest income	86.8	4.7	107.4	5.6	(20.6)	(19.2)
Loss on early extinguishment of debt	36.5	2.0	8.5	0.4	28.0	329.4
Income before income taxes	86.7	4.7	13.1	0.7	73.6	561.8
Income tax expense	38.5	2.0	8.0	0.4	30.5	381.3
Net income	$ 48.2	2.6%	$ 5.1	0.3%	$ 43.1	845.1%

(1) Segment percentages for gross profit, selling, general and administrative, related party corporate charges, facility rationalization, restructuring and related costs, and income (loss) from operations are calculated using segment net sales.

Table of Contents

Index to Financial Statements

Consolidated Analysis

Net Sales. Consolidated net sales for the year ended September 30, 2007 were $1,849.0 million, a decrease of $84.4 million, or 4.4%, from $1,933.4 million in the prior year. Net sales decreases were principally caused by a downturn in residential construction demand. While volume related to repair and replacement work in the municipal sector increased year-over-year, it did not offset weakness in residential construction. Volume declines of approximately $204.0 million were partially offset by higher pricing of approximately $120.0 million and net sales from Fast Fabricators, which was acquired in January 2007. The prior year includes approximately $30.0 million of ductile iron pipe sales resulting from contractors substituting ductile iron pipe for plastic pipe in certain construction projects that were underway immediately after Hurricane Katrina due to the limited availability of plastic pipe.

Gross Profit. Consolidated gross profit for the year ended September 30, 2007 was $463.2 million, an increase of $55.5 million, or 13.6% compared to $407.7 million in the prior year. Gross margin increased to 25.0% in the current year compared to 21.1% in the prior year. Excluding $91.7 million of prior year costs associated with the closure of U.S. Pipe s Chattanooga, Tennessee plant and purchase accounting adjustments related to valuing inventory acquired in the Acquisition at fair value, gross margin would have been 25.8% in the prior year.

The decline in margin excluding these adjustments is due primarily to reduced production and lower shipments of higher-margin water infrastructure products such as hydrants and valves, lower ductile iron pipe shipments, and increased raw material and purchased component costs. A decline in sales volume and an initiative to lower inventory levels drove a decision to reduce production. Overall results were partially offset by higher pricing and synergy related cost savings associated with plant consolidations and other expense reduction initiatives.

Selling, General and Administrative. Consolidated selling, general and administrative expenses for the year ended September 30, 2007 were $251.6 million, an increase of $9.5 million, compared to $242.1 million in the prior year. Expenses as a percentage of net sales increased to 13.6% in the current year compared to 12.5% in the prior year. The increase is due to higher overall costs associated with operating the Company on a stand-alone basis as a public company.

Related Party Corporate Charges. Certain overhead costs incurred by Walter Industries such as insurance, executive salaries, professional service fees, human resources, transportation, and other centralized business functions were partially allocated to U.S. Pipe and recorded as a component of operating income. The current year includes such charges through December 14, 2006, the date the Company was spun off from Walter Industries.

Facility Rationalization, Restructuring and Related Costs. Restructuring costs of $28.6 million for the year ended September 30, 2006 were due to the closure of U.S. Pipe s Chattanooga, Tennessee plant. These costs are comprised of fixed asset impairments of $21.5 million, severance for terminated hourly and salaried employees of $3.8 million, and pension and other post-employment benefit costs of $3.3 million.

Interest Expense, Net of Interest Income. Interest expense, net of interest income for the year ended September 30, 2007 was $86.8 million, compared to $107.4 million for the year ended September 30, 2006, as follows:

	Year ended September 30, 2007	2006
	(dollars in millions)	
Interest expense on debt obligations	$ 86.4	$ 109.5
Deferred financing fee amortization	2.5	3.1
Other, net	1.1	2.6
Total interest expense	90.0	115.2
Interest income	(3.2)	(7.8)
Total interest expense, net of interest income	$ 86.8	$ 107.4

Table of Contents

Index to Financial Statements

Interest expense on the Company s outstanding debt obligations was $86.4 million, net of interest rate swap gains of $2.2 million in fiscal 2007, compared to $109.5, net of interest rate swap gains of $0.4 million, in fiscal 2006. The Company refinanced its debt in May 2007 with lower interest rate debt and repaid $40.0 million of that debt in July 2007. In the prior year, the Company used proceeds from its June 2006 initial public offering to reduce debt. These actions contributed to lower interest expense in fiscal 2007 as compared to fiscal 2006. Other, net in fiscal 2007 includes $1.9 million related to the legacy income tax exposure, partially offset by $0.8 million of capitalized interest. Other, net for fiscal 2006 was comprised primarily of a $2.5 million bridge loan fee incurred in connection with financing the Acquisition of Predecessor Mueller. Interest income for fiscal 2006 includes a $2.9 million prepayment penalty and $1.8 million in interest income earned on a loan to the Company s former parent.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt for the fiscal year ended September 30, 2007 was $36.5 million compared to $8.5 million in the prior year. In May 2007, the Company retired its outstanding senior subordinated notes and senior discount notes primarily with the proceeds from the issuance of $425.0 million of 7 3/8 % Senior Subordinated Notes and amended its credit agreement. During fiscal 2006, the Company partially redeemed outstanding debt using the net proceeds from its initial public offering.

Income Tax Expense. Income tax expense for the current year was $38.5 million as compared to $8.0 million in the prior year. The effective tax rates for fiscal year 2007 and fiscal year 2006 were 44.4% and 61.1%, respectively. The estimated effective tax rates differ from the statutory rate primarily due to non-deductible interest, non-deductible compensation, manufacturing production deductions and state income taxes. In addition, the current year includes $1.1 million of state income tax expense with respect to certain state income tax matters associated with the acquisition of Predecessor Mueller.

Segment Analysis

Mueller Co.

Mueller Co. segment net sales for the year ended September 30, 2007 were $756.1 million, a decrease of $48.0 million, or 6.0 % from $804.1 million in the prior year. This decline is primarily due to lower volumes of iron gate valves, hydrants, and brass products partially offset by the effect of price increases. These reduced unit volumes were the result of continuing weakness in residential construction. Distributor orders that were placed before the effective dates of May and June 2006 price increases also contributed to an overall higher level of shipments in the fourth quarter of fiscal 2006.

Mueller Co. segment gross profit for the year ended September 30, 2007 was $235.8 million, an increase of $12.8 million, or 5.7% compared to $223.0 million in the prior year. Gross margin increased to 31.2% in the current year compared to 27.7% in the prior year. Included in cost of sales in the prior year were $53.1 million of purchase accounting adjustments related to valuing inventory acquired in the Acquisition at fair value. Excluding the impact of these adjustments, gross margin would have been 34.3%. The decline in margin excluding these adjustments is due primarily to volume declines in higher-margin iron gate valves and hydrants, higher raw material and purchased component costs, and reduced manufacturing production that led to under-absorbed overhead and ultimately higher per unit costs. The effects of these items were partially offset by higher pricing.

Mueller Co. segment income from operations for the year ended September 30, 2007 was $154.7 million, an increase of $10.0 million compared to $144.7 million in the prior year. Excluding $53.1 million of purchase accounting adjustments discussed above, and the causes of the changes in gross profit, there was an increase in certain administrative costs, primarily related to personnel costs, that previously were included in the Corporate segment prior to being a stand-alone public company.

U.S. Pipe

U.S. Pipe segment net sales for the year ended September 30, 2007 were $537.1 million, a decrease of $57.6 million, or 9.7% from $594.7 million in the prior year. Net sales decreased primarily due to volume declines during the current year of approximately $101.0 million, partially offset by higher selling prices, sales of higher margin products and sales resulting from the acquisition of Fast Fabricators, which was acquired in January 2007. Volume declines were attributable to a weak residential construction market and were partially offset by increased sales for repair and replacement products. The prior year includes approximately

Table of Contents

Index to Financial Statements

$30.0 million of sales of ductile iron pipe that customers substituted for unavailable PVC pipe as a result of Hurricane Katrina and approximately $15.4 million of net sales from valves and hydrants manufactured at U.S. Pipe s Chattanooga, Tennessee plant. Effective January 1, 2006, U.S. Pipe branded valve and hydrant manufacturing was transferred to the Mueller Co. segment.

U.S. Pipe segment gross profit for the year ended September 30, 2007 was $78.0 million, an increase of $15.5 million, or 24.8%, compared to $62.5 million in the prior year. Gross margin increased to 14.5% in the current year compared to 10.5 % in the prior year. Excluding $21.3 million of Chattanooga-closure related costs included in cost of sales, the prior year gross margin would have been 14.1%. Increased pricing offset higher raw material costs.

U.S. Pipe segment income from operations for the year ended September 30, 2007 was $33.4 million, an increase of $50.4 million compared to a loss from operations of $17.0 million in the prior year. The current year includes the result of the Fast Fabricators acquisition completed in January 2007, as well as certain cost reductions in selling, general and administrative costs. The prior year included $49.9 million of Chattanooga restructuring and closure-related costs and an additional $4.2 million in related party corporate charges.

Anvil

Anvil segment net sales for the year ended September 30, 2007 were $555.8 million, an increase of $21.2 million, or 4.0%, from $534.6 million in the prior year. The increase was due primarily to higher selling prices.

Anvil segment gross profit for the year ended September 30, 2007 was $149.6 million, an increase of $27.0 million, or 22.0%, compared to $122.6 million in the prior year. Gross margin increased to 26.9% in the current year compared to 22.9% in the prior year. Excluding $17.3 million of prior year purchase accounting adjustments related to valuing inventory acquired in the Acquisition at fair value, gross margin in the prior year would have been 26.2%. The increase in margin excluding these costs is due primarily to higher selling prices.

Anvil segment income from operations for the fiscal year ended September 30, 2007 was $57.4 million compared to $31.8 million in the prior year. The current year includes approximately $2.7 million of anti-dumping duties received from the federal government. The remaining increase is primarily related to the $17.3 million of prior year purchase accounting adjustments discussed above and increased selling prices.

Corporate

Corporate segment expenses for the year ended September 30, 2007 were $35.3 million compared to $29.8 million for the prior year. The increase is due to higher overall costs associated with operating the Company on a stand-alone basis as a public company. On December 14, 2006, the remaining 75% of the Company not already publicly traded was distributed in a tax-free spin-off from its former parent company. As a result, a separate corporate headquarters office was created and established in Atlanta, Georgia during the first quarter of fiscal 2007. This corporate office provides functions including, but not limited to, treasury, risk management, legal, accounting, human resources, investor relations, and business planning and analysis. The cost of these functions as well as costs related to Sarbanes-Oxley compliance and the annual audit of the Company s consolidated financial statements are recorded in the Corporate segment. Prior year expenses of $8.0 million for services previously provided by its former parent were recorded in the U.S. Pipe segment. These charges were discontinued in conjunction with the Company s separation from its former parent in December 2006. The only costs incurred by the Corporate segment that are allocated to its segments are personnel and benefit costs directly attributable to segment employees.

Table of Contents

Index to Financial Statements

Fiscal Year Ended September 30, 2006 As Compared to the Twelve Months Ended September 30, 2005

	Fiscal year and twelve months ended September 30,				2006 vs. 2005
	2006		2005		
	Amount	Percentage of net sales(1)	Amount	Percentage of net sales(1)	Increase/ (decrease)
			(dollars in millions)		
Net sales					
Mueller Co.	$ 804.1	41.6%	$	%	$ 804.1
U.S. Pipe	594.7	30.8	598.1	100.0	(3.4)
Anvil	534.6	27.6			534.6
Consolidated	$ 1,933.4	100.0%	$ 598.1	100.0	$ 1,335.3
Gross profit (loss)					
Mueller Co.	$ 223.0	27.7%	$	%	$ 223.0
U.S. Pipe	62.5	10.5	67.4	11.3	(4.9)
Anvil	122.6	22.9			122.6
Consolidating eliminations	(0.4)				(0.4)
Consolidated	$ 407.7	21.1%	$ 67.4	11.3%	$ 340.3
Selling, general and administrative					
Mueller Co.	$ 78.3	9.7%	$	%	$ 78.3
U.S. Pipe	43.2	7.3	39.1	6.5	4.1
Anvil	90.8	17.0			90.8
Corporate	29.8	1.5			29.8
Consolidated	$ 242.1	12.5%	$ 39.1	6.5%	$ 203.0
Related party corporate charges					
Mueller Co.	$	%	$	%	$
U.S. Pipe	7.7	1.3	7.3	1.2	0.4
Anvil					
Corporate	0.3				0.3
Consolidated	$ 8.0	0.4%	$ 7.3	1.2%	$ 0.7
Facility rationalization, restructuring and related costs					
Mueller Co.	$	%	$	%	$
U.S. Pipe	28.6	4.8			28.6
Anvil					
Consolidated	$ 28.6	1.5%	$	%	$ 28.6
Income (loss) from operations					
Mueller Co.	$ 144.7	18.0%	$	%	$ 144.7

U.S. Pipe		(17.0)	(2.9)		21.0	3.5		(38.0)
Anvil		31.8	5.9					31.8
Corporate		(30.1)	(1.6)					(30.1)
Consolidating eliminations		(0.4)						(0.4)
Consolidated		129.0	6.7%		21.0	3.5%		108.0
Interest expense arising from related party payable to Walter Industries			%		21.1	3.5%		(21.1)
Loss on early extinguishment of debt		8.5	0.4					8.5
Interest expense, net of interest income		107.4	5.6		0.4	0.1		107.0
Income (loss) before income taxes		13.1	0.7		(0.5)	(0.1)		13.6
Income tax expense		8.0	0.4		3.9	0.7		4.1
Net income (loss)	$	5.1	0.3%	$	(4.4)	(0.7)%	$	9.5

(1) Segment percentages for gross profit, selling, general and administrative, related party corporate charges, facility rationalization, restructuring and related costs, and income (loss) from operations are calculated using segment net sales.

Table of Contents

Index to Financial Statements

Consolidated Analysis

Net Sales. Consolidated net sales for the year ended September 30, 2006 were $1,933.4 million, an increase of $1,335.3 million from $598.1 million in the comparable prior year period. The increase was primarily related to the October 3, 2005 acquisition of Predecessor Mueller, which accounted for almost all of the overall increase.

Gross Profit. Consolidated gross profit for the year ended September 30, 2006 was $407.7 million, an increase of $340.3 million compared to $67.4 million in the comparable prior year period. The Acquisition of Predecessor Mueller contributed $345.2 million. Included in cost of sales for the year ended September 30, 2006 was $70.4 million of purchase accounting adjustments related to valuing inventory acquired in the Acquisition at fair value and $21.3 million of inventory write-offs and unabsorbed overhead costs resulting from the closure of U.S. Pipe s Chattanooga, Tennessee plant.

Selling, General and Administrative. Consolidated expenses for the year ended September 30, 2006 were $242.1 million, an increase of $203.0 million, compared to $39.1 million in the comparable prior year period. The prior year period included a favorable $5.1 million insurance claim settlement. The Acquisition of Predecessor Mueller accounted for $198.9 million of the increase. Expenses as a percentage of net sales increased to 12.5% in the current year compared to 6.5% in the prior year period. Excluding the $5.1 million favorable insurance settlement, prior year expenses were 7.4% as a percentage of net sales.

Related Party Corporate Charges. Certain costs incurred by Walter Industries such as insurance, executive salaries, professional service fees, human resources, transportation, and other centralized business functions were allocated to its subsidiaries. Costs incurred by Walter Industries that could not be directly attributed to its subsidiaries were allocated to its subsidiaries based on estimated annual revenues.

Facility Rationalization, Restructuring and Related Costs. The Company expensed $28.6 million of restructuring costs for the year ended September 30, 2006, related to the closure of the U.S. Pipe Chattanooga, Tennessee plant. These costs are comprised of fixed asset impairments of $21.5 million, severance for terminated hourly and salaried employees of $3.8 million, and pension and other post-employment benefit costs of $3.3 million.

Interest Expense Arising from Related Party Payable to Walter Industries. Interest expense was allocated to the Company up to the date of the Acquisition based upon the outstanding balance of the intercompany note. The intercompany note to Walter Industries of $443.6 million was forgiven by Walter Industries prior to October 3, 2005. There was no intercompany interest expense for the year ended September 30, 2006 and $21.1 million for the twelve months ended September 30, 2005.

Interest Expense, Net of Interest Income. Interest expense, net of interest income for the year ended September 30, 2006 was $107.4 million, compared to $0.4 million for the year ended September 30, 2005, as follows:

	Twelve months ended September 30,	
	2006	2005
	(dollars in millions)	
Interest expense on debt obligations	$ 109.5	$ 0.4
Deferred financing fee amortization	3.1	
Other	2.6	