Mueller Water Products, Inc.
Form 10-K
November 29, 2011

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, 2011
OR

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

Commission file number: 001-32892

MUELLER WATER PRODUCTS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-3547095
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification 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

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 o 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. o 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 o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.505 of this chapter) 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): x Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company
(Do not check if a smaller reporting company)

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

There were 155,801,883 shares of Series A common stock of the registrant outstanding at November 14, 2011. At March 31, 2011, the aggregate market value of the voting and non-voting common stock held by non-affiliates was $689 million based on the closing price per share 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 25, 2012 are incorporated by reference into Part III of this Form 10-K.

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Introductory Note

In this annual report on Form 10-K (the "annual report"), (1) the "Company," "we," "us" or "our" refer to Mueller Water Products, Inc. and its subsidiaries, including Mueller Co., U.S. Pipe and Anvil International or their management; (2) "Mueller Co." refers to Mueller Co. Ltd., our subsidiary; (3) "U.S. Pipe" refers to United States Pipe and Foundry Company, LLC, our subsidiary; and (4) "Anvil International" refers to Anvil International, L.P., our subsidiary. With regard to the Company's segments, "we," "us" or "our" may also refer to the segment being discussed or its management.

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 year, we mean the fiscal year ended or ending September 30 in that particular calendar year. We manage our businesses and report operations through three business segments: Mueller Co., US Pipe and Anvil, based largely on the products sold and the customers served.

Industry and Market Data

In this annual report, we rely on and refer to information and statistics from third-party sources regarding economic conditions and trends, the demand for our water infrastructure products, flow control and piping component system products and services and the competitive conditions we face in serving our customers and end users. We believe that these sources of information and estimates are accurate, but we have not independently verified them.

Most of our primary competitors are not publicly traded. Accordingly, only limited current public information is available with respect to the size of our end markets or our relative strength or competitive position. Our statements in this annual report about our relative market strength and competitive position with respect to other products are based on our beliefs, studies and judgments concerning industry trends.

Forward-Looking Statements

This annual report contains certain statements that may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements that address activities, events or developments that we intend, expect, plan, project, believe or anticipate will or may occur in the future are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding general economic conditions, spending by municipalities, the outlook for the residential and non-residential construction markets, the market reception of Mueller Systems' and Echologics' products and services, the remediation of the material weakness in our internal control over financial reporting and the outcome of our evaluation of strategic alternatives for US Pipe and the impacts of these factors on our businesses. Forward-looking statements are based on certain assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ materially from those contemplated by the forward-looking statements due to a number of factors, including regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- the spending level for water and wastewater infrastructure;
- the level of manufacturing and construction activity;
- our ability to service our debt obligations; and
- the other factors that are described under the section entitled "RISK FACTORS" in Item 1A of Part I of this annual report.

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

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* All or a portion of the referenced section incorporated by reference from our definitive proxy statement that will be issued in connection with the Annual Meeting of Stockholders to be held on January 25, 2012.

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PART I

Item 1. BUSINESS

Our Company

Mueller Water Products, Inc. is a leading North American manufacturer and marketer of a broad range of products and services that are used in the transmission, distribution and measurement of drinking water and in water treatment facilities. Our product portfolio includes ductile iron pipe, water and gas valves, fire hydrants, water meter products and systems and a broad range of pipe fittings, couplings, hangers and nipples, which are used by municipalities, as well as the residential and non-residential construction industries, for heating, ventilation and air conditioning (“HVAC”), fire protection, industrial, energy and oil & gas applications. Our products enjoy leading positions due to their strong brand recognition and reputation for quality and service. We believe that we have one of the largest installed bases of iron gate valves and fire hydrants in the United States. At September 30, 2011, our installed products included more than 11 million iron gate valves and more than three million fire hydrants. Our valve or fire hydrant products are specified for use in the 100 largest 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 and end users of our products. Approximately 75% of our net sales during 2011 came from products for which we believe we have a leadership position in the United States and Canada. Our net sales were $1,339.2 million in 2011.

We manage our businesses and report operations through three business segments, based largely upon the products sold and the customers served: Mueller Co., US Pipe and Anvil.

Mueller Co.

Mueller Co. manufactures valves for water and gas systems, including iron gate, butterfly, tapping, check, plug and ball valves, as well as dry-barrel and wet-barrel fire hydrants and a broad line of pipe repair products such as clamps and couplings used to repair leaks. The business also provides residential and commercial water meter products and systems. Sales of Mueller Co. products are driven principally by spending on water and wastewater infrastructure upgrade, repair and replacement and construction of new water and wastewater infrastructure, which is typically associated with construction of new residential communities. Mueller Co. products are sold primarily through waterworks distributors. We estimate that a substantial majority of Mueller Co.'s 2011 net sales were for infrastructure upgrade, repair and replacement.

US Pipe

US Pipe manufactures a broad line of ductile iron pipe, restraint joint products and other products. US Pipe products are sold primarily to waterworks distributors, contractors, municipalities, utilities and other governmental agencies. A substantial percentage of ductile iron pipe orders result from contracts that are bid by distributors. We estimate that a substantial majority of US Pipe's 2011 net sales were for infrastructure upgrade, repair and replacement.

Anvil

Anvil manufactures and sources a broad range of products, including a variety of fittings, couplings, hangers, nipples, valves and related products for use in many forms of non-residential construction for HVAC, fire protection, industrial, energy and oil & gas applications. Anvil sells primarily to distributors who then sell the products to a wide variety of end users. These distributors are serviced primarily through Anvil's distribution centers. We believe Anvil's network of distributors is the largest such distribution network serving similar end users.

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Major products and selected brand names

The table below illustrates each segment's net sales during 2011, major product lines, product positions, selected brand names and primary end users.

	Mueller Co.	U.S. Pipe	Anvil
Net sales (in millions)	$605.5	$374.6	$359.1
Major product lines (product position in U.S. and Canada*)	Fire hydrants (#1) Iron gate valves (#1) Butterfly and ball valves (#1) Plug valves (#2) Brass water products (#2)	Ductile iron pipe (#1)	Pipe fittings and couplings (#1) Grooved products (#2) Pipe hangers (#2)
Selected brand names	Mueller® Pratt® Milliken™ Jones® Hersey® HydroGate® Canada Valve™ Mueller Service℠ Mueller Systems℠ Mi.Data™ Mi.Net™ Mi.Hydrant™ LeakTuner™ LeakFinderRT™ LeakListener™	U.S. Pipe® Tyton® Tyton Joint® TR Flex® Usiflex® Field Lok® MJ Field Lok® HP Lok ® Fast Fab™ Trim Tyton®	Anvil® AnvilStar® SPF® Merit® Gruvlok® J.B. Smith™ Anvil-Strut® Catawissa™
Primary end users	Water and wastewater infrastructure	Water and wastewater infrastructure	HVAC, fire protection, industrial, energy and oil & gas

* Product position information is based on our net sales compared to our estimates of the net sales of our principal competitors for these product categories. Our estimates were based on internal analyses and information from trade associations and our distributor networks, where available.

The Public Offerings 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. It 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. We changed our name to Mueller Water Products, Inc. on February 2, 2006. On June 1, 2006, we completed an initial public offering of 28,750,000 shares of Series A common stock.

On December 14, 2006, Walter Energy, Inc. (“Walter Energy”, formerly Walter Industries, Inc.) distributed to its shareholders 85,844,920 shares of our Series B common stock (the “Spin-off”). On January 28, 2009, each share of Series B common stock was converted into one share of Series A common stock.

On September 23, 2009, we completed a public offering of 37,122,000 shares of common 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 to capitalize on the large, attractive and growing water infrastructure markets worldwide. Key elements of this strategy are as follows:

We will maintain our leadership positions with our customers and end users.

We will maintain our leadership positions with our customers and end users by leveraging our brand names and large installed base; the specification of our products (valves or fire hydrants) in all of the largest 100 metropolitan areas in the United States; our established and extensive distribution channels; and our broad range of leading water infrastructure, flow control and piping component system products, as well as by developing and introducing additional products and services.

We will continue to enhance operational excellence.

We will continue to pursue superior product engineering, design and manufacturing 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 safely by increasing the use of automated ductile iron pipe processes and the use of our manufacturing facility in China and continuing our other cost-reduction and efficiency initiatives. We will continue to expand the use of LEAN manufacturing and Six Sigma business improvement methodologies where appropriate to safely capture higher levels of quality, service and operational efficiency. We will also continue to evaluate sourcing certain products wherever doing so will lower our costs while maintaining quality and service.

We will increase the breadth and depth of our products and services.

We will continue to focus on delivering value to our customers and end users by increasing the breadth and depth of our products and services. Further, through acquisition and internal development of proprietary technologies and intellectual capital, we will continue to enhance and develop products and services that will be recognized for their superior quality and reliability.

We will expand internationally.

We will selectively pursue attractive international opportunities, including potential acquisitions, that may enable us to enter new markets with growth potential, strengthen our current competitive positions, enhance our existing product offerings, expand our technological capabilities or provide synergy opportunities.

Description of Products and Services

We offer a broad line of water infrastructure, flow control and piping component system products primarily in the United States and Canada. Our principal products are ductile iron pipe, water and gas valves, fire hydrants, water meter products and systems, leak detection and a broad range of pipe fittings, couplings, hangers and nipples. Our products are generally designed, manufactured and tested in compliance with industry standards.

Mueller Co.

Water and Gas Valves and Related Products. Mueller Co. manufactures valves for water and gas systems, including iron gate, butterfly, tapping, check, plug and ball valves. Water and gas valves and related products accounted for \$387.9 million, \$411.6 million and \$370.0 million of our gross sales during 2011, 2010 and 2009, respectively. All of our valve products are used to control transmission of potable (drinkable) water, non-potable water or gas. Water valve products typically range in size from ¾ inch to 36 inches in diameter, but we also manufacture significantly larger valves as custom order work through our Henry Pratt division. Most of these valves are used in water distribution and water treatment facilities.

We also produce small valves, meter bars and line stopper fittings for use in gas systems. In addition, we manufacture machines and tools for tapping, drilling, extracting, installing and stopping-off, which are designed to work with our water and gas fittings and valves as an integrated system.

Fire Hydrants. Mueller Co. manufactures dry-barrel and wet-barrel fire hydrants. Sales of fire hydrants and fire hydrant parts accounted for \$137.6 million, \$137.6 million and \$114.4 million of our gross sales in 2011, 2010 and

2009, respectively. We sell fire hydrants for new water infrastructure development, fire protection systems and water infrastructure repair and replacement projects.

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Our fire hydrants consist of an upper barrel and nozzle section and a lower barrel and valve section that connects to a water main. In dry-barrel hydrants, the valve connecting the barrel of the hydrant to the water main is located below ground at or below the frost line, which keeps the hydrant upper barrel dry. We sell 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 wet-barrel hydrants, where the valves are located in the hydrant nozzles and the barrel contains water at all times. Wet-barrel hydrants are made for warm weather climates in locations such as California and Hawaii and sold under the Jones brand name.

Most municipalities have a limited number of fire hydrant brands that are approved for installation within their system due to the desire to use the same tools and operating instructions across their system and to minimize inventories of spare parts. We believe that our large installed base of fire hydrants throughout the United States and Canada and our reputation for superior quality and performance, together with our incumbent specification position, have contributed to the leading positions of our fire hydrants. Our large installed base of more than three million fire hydrants also leads to recurring sales as components of an installed hydrant are replaced.

Water technologies and other products and services. Through its Mueller Systems business, Mueller Co. manufactures a variety of intelligent water technology products that are designed to help waterworks providers accurately measure water usage. These products include water meters, advanced metering infrastructure systems and automated meter reading products. Water meters are marketed under the Hersey Meters name. These products have the capability to measure water usage from small residential flows to large fire and master meter applications. Through its Echologics business, Mueller Co. offers pipe condition assessment and leak detection services. It also offers installation, replacement and maintenance services on new and existing valves, fire hydrants and service lines under the Mueller Service brand name. Services include wet taps, dry installs, line stops and main-to-meter connections with full excavation and refurbishment.

Other products include pipe repair products, such as clamps and couplings used to repair leaks and municipal castings, such as manhole covers and street drain grates. We sell these products under the Mueller and Jones brand names.

US Pipe

US Pipe manufactures a broad line of ductile iron pipe, restraint joint products, fittings and other products. Ductile iron is a cast iron that is heat-treated to make it less brittle. US Pipe's net sales were $374.6 million, $377.8 million and $410.9 million during 2011, 2010 and 2009, respectively.

Our ductile iron pipe typically ranges from 4 inches to 64 inches in diameter and up to 20 feet in length. Ductile iron pipe is used primarily for potable water distribution systems, small water system grids, reinforcing distribution systems (including looping grids and supply lines), major water transmission mains, wastewater collection systems, sewer force mains and water treatment plants. We believe ductile iron pipe is preferred for most municipal uses because of its longevity, strength, ease of installation, lack of maintenance problems and environmental sustainability.

Our Fast Fabricators business manufactures and sells a broad line of fabricated pipe, coated pipe and lined pipe products used primarily in wastewater treatment facilities.

Anvil

Anvil products include a variety of fittings, couplings, hangers, nipples, valves and related pipe products for use in non-residential construction for industrial, HVAC, fire protection, energy and oil & gas applications. Anvil's net sales were $359.1 million, $346.9 million and $469.9 million in 2011, 2010 and 2009, respectively, of which $87.9 million, $100.3 million and $179.5 million, respectively, were of products manufactured by third parties.

The majority of Anvil's products are not specified by an architect or an engineer, but are required to be manufactured to industry specifications, which could include material composition, tensile strength and various other requirements. Many products carry the Underwriters Laboratory (“UL”), Factory Mutual (“FM”) or other approval rating.

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Fittings and Couplings. Anvil manufactures threaded and grooved pipe fittings and couplings. 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.

- Cast Iron Fittings. Cast iron is the most economical threaded fittings material and is the standard used in the United States for low pressure applications, such as sprinkler systems and other fire protection systems. We believe that the substantial majority of our cast iron products are used in the fire protection industry, with the remainder used in steam and other HVAC applications.
- Malleable Iron Fittings and Unions. Malleable iron is a cast iron that is heat-treated to make it stronger, allowing a thinner wall and a lighter product. Malleable iron is primarily used to join pipe in various gas, plumbing and HVAC applications.
- Grooved Fittings, Couplings and Valves. Grooved products use a threadless pipe-joining method that does not require welding.
- Threaded Steel Pipe Couplings. Threaded steel pipe couplings are used by plumbing and electrical end users to join pipe and conduit and by pipe mills as threaded end protectors.

Hangers. Anvil manufactures a broad array of pipe hangers and supports. Standard pipe hangers and supports are used in fire protection sprinkler systems and HVAC applications where the objective is to provide rigid support from the building structure. Special order, or engineered, pipe supports are used in power plants, petrochemical plants and refineries where the objective is to support a piping system that is subject to thermal, dynamic or seismic movement.

Nipples. Anvil manufactures pipe nipples, which are used to expand or compress the flow between pipes of different diameters. The pipe nipples product line is a complementary product offering that is packaged with cast iron fittings for fire protection products, malleable iron fittings for industrial applications and our forged steel products for oil & gas and chemical applications. Pipe nipples are also general plumbing items.

Other Products. Anvil also distributes other products, including forged steel pipe fittings, hammer unions, bull plugs and swage nipples used to connect pipe in oil & gas applications.

Sales, Marketing and Distribution

We sell primarily to distributors. Our distributor relationships are generally non-exclusive, but we attempt to align ourselves with key distributors in every market we serve. We believe that Mueller and US Pipe are the two most recognized brands in the U.S. water infrastructure industry.

Mueller Co.

Mueller Co. sells its products, primarily through waterworks distributors, to a wide variety of end user customers, including municipalities, water and wastewater utilities, gas utilities, and fire protection and construction contractors. Sales of our products are heavily influenced by the specifications for the underlying projects. Approximately 20%, 22% and 17% of Mueller Co.'s net sales were to Canadian customers in 2011, 2010 and 2009, respectively.

At September 30, 2011, Mueller Co. had 109 sales representatives in the field and 104 inside marketing and sales professionals, as well as 84 non-employee manufacturers' representatives. In addition to calling on distributors, these representatives also call on municipalities, water companies and other end users to ensure that the products specified for their projects are our products or comparable to our products. Municipalities often require contractors to use the same products that have been historically used by that municipality.

Mueller Co.'s large installed base, broad product range and well-known brands have led to many long-standing relationships with the leading distributors in the industries we serve. Our distribution network covers all of the major locations for our products 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 them and we do not have written contracts with our two largest distributors. These top two distributors together accounted for approximately 29%, 31% and 31% of Mueller Co.'s gross sales in 2011, 2010 and 2009, respectively. The loss of either of these distributors could have a material adverse effect on our business. See “Item 1A. RISK FACTORS-We depend on a small group of major distributors for a significant portion of our sales.”

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US Pipe

US Pipe sells primarily to waterworks distributors, contractors, municipalities, utilities and other governmental agencies. A substantial percentage of ductile iron pipe orders result from contracts that are bid by contractors or directly issued by municipalities or utilities. An increasing portion of ductile iron pipe sales is made through independent waterworks distributors. We maintain numerous supply depots throughout the United States to better serve our customers.

At September 30, 2011, US Pipe had a sales force of 37 sales representatives.

US Pipe's top customer, HDS IP Holding, LLC (“HD Supply”) with whom we do not have a written contract, represented approximately 19%, 14% and 15% of US Pipe's gross sales in 2011, 2010 and 2009, respectively. The loss of this customer could have a material adverse effect on our business. See “Item 1A. RISK FACTORS-We depend on a small group of major distributors for a significant portion of our sales.”

Anvil

Anvil sells primarily to distributors who then sell the products to a wide variety of end users, including commercial contractors. At September 30, 2011, Anvil's sales force consisted of 128 sales and customer service representatives and 23 independent sales representatives. Anvil ships products primarily from four major regional distribution centers, from which we are generally able to provide 24-hour turnaround. Approximately 7%, 14% and 26% of Anvil's net sales were to Canadian customers during 2011, 2010 and 2009, respectively. Anvil sold its Canadian wholesale distribution business in January 2010.

Anvil generally does not have written contracts with its distributors, although it has long-term relationships with most of its top distributors. Anvil's top three distributors together accounted for approximately 17%, 14% and 12% of Anvil's gross sales in 2011, 2010 and 2009, respectively. The loss of any one of these distributors could have a material adverse effect on our business. See “Item 1A. RISK FACTORS-We depend on a small group of major distributors for a significant portion of our sales.”

Backlog

Our backlog is not significant, except for US Pipe and the Henry Pratt division of Mueller Co. Henry Pratt 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 long as nine months. Backlog in 2011 at US Pipe increased primarily because of a significant order from the Middle East. Backlog for US Pipe and Henry Pratt is presented below.

	September 30,	
	2011	2010
	(in millions)	
US Pipe	$68.3	$27.0
Henry Pratt	57.7	61.3

Manufacturing

See “Item 2. PROPERTIES” for a description of our principal manufacturing facilities.

We will continue to expand the use of LEAN manufacturing and Six Sigma business improvement methodologies where appropriate to capture higher levels of quality, service and operational efficiency safely.

Mueller Co.

At September 30, 2011, Mueller Co. operated 12 manufacturing facilities in the United States, Canada and China. Our manufacturing operations include foundry, machining, fabrication, assembly, testing and painting operations. Not all facilities perform each of these operations. Our existing manufacturing capacity is sufficient for near-term requirements. We have no current plans to expand capacity.

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

US Pipe

At September 30, 2011, US Pipe operated two facilities in the United States for manufacturing ductile iron pipe. We utilize the DeLavaud centrifugal casting process, which consists of introducing molten iron into a rapidly turning steel mold and relying on the centrifugal force to distribute molten iron around the inner surface of the mold to produce ductile iron pipe of uniform thickness. Our Bessemer facility includes our relatively new automated ductile iron pipe processes to improve manufacturing efficiency.

Fast Fabricators operates a small number of relatively small facilities throughout the United States that primarily fabricate, coat and line ductile iron pipe.

Anvil

At September 30, 2011, Anvil operated eight manufacturing facilities in the United States. Our manufacturing operations include foundry, heat treating, machining, fabricating, assembling, testing and painting operations. Not every facility performs each of these operations. Our foundry operations employ automated vertical and horizontal green sand molding equipment. Our products are made in a high volume production environment extensively using high-speed computer controlled machines and other automated equipment.

Raw Materials and Purchased Components

Our products are made using several basic raw materials, including scrap steel, scrap iron, sand, resin, brass ingot, steel pipe, coke and various purchased components. These materials have been and are expected to continue to be readily available and competitively priced.

We have experienced raw material cost increases in all segments, and we believe these cost increases may persist in 2012. Mueller Co. experienced a 23% increase in the average cost of brass ingot purchased and a 16% increase in the average cost per ton of scrap steel purchased in 2011 compared to 2010. US Pipe's average scrap iron cost per ton purchased in 2011 was 26% higher than in 2010, and Anvil experienced a 22% increase in the average cost per ton of scrap steel purchased in 2011 compared to 2010.

We can give no assurance that the price of raw materials will meet our expectations or that we will be able to increase prices to our customers to offset any future cost increases. See “Item 1A. RISK FACTORS- The costs of our raw materials or purchased components can be volatile.”

Research and Development

Our primary research and development (“R&D”) facilities are located in Smithfield, Rhode Island for Mueller Co. and Anvil and Bessemer, Alabama for US Pipe. The primary focus of these groups is to develop new products, improve and refine existing products and obtain and assure compliance with industry approval certifications or standards (such as American Water Works Association, UL, FM and The Public Health and Safety Company). At September 30, 2011, we employed 63 people dedicated to R&D activities. R&D expenses were $10.1 million, $8.0 million and $6.9 million during 2011, 2010 and 2009, respectively. We actively seek patent protection where possible to prevent copying of our proprietary products.

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Patents, Licenses and Trademarks

We have active patents and trademarks relating to the design of our products and trademarks for our brands and products. We have filed and continue to file, when appropriate, patent applications used in connection with our businesses and products. Most of the patents for technology underlying our products have been in the public domain for many years, and we do not believe third-party patents individually or in the aggregate are material to our businesses. However, we consider the pool of proprietary information, consisting of expertise and trade secrets relating to the design, manufacture and operation of our products to be particularly important and valuable. We generally own the rights to the products that we manufacture and sell and we 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 ductile iron pipe accessories, such as joint restraint systems. See "Item 1A. RISK FACTORS-We may not adequately prevent others from using our intellectual property."

Seasonality

See "Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-Effect of Inflation; Seasonality" and "Item 1A. RISK FACTORS-Sales of certain of our products are seasonal."

Competition

The U.S. and Canadian markets for water infrastructure, flow control and piping component system products are competitive. See "Item 1A. RISK FACTORS-Our industry is very competitive and some of our products are similar to those manufactured by our competitors." However, there are only a few competitors for most of our product offerings. Many of our competitors are well-established companies with strong brand recognition. We consider our installed base, product quality, customer service level, brand recognition, price, distribution and technical support to be competitive strengths.

The competitive environment for most Mueller Co. products is mature and many end users are slow to transition to brands other than their historically preferred brand. It is difficult to increase market share in this environment. We believe that Mueller Co. fire hydrants and valves enjoy strong competitive positions based largely on their quality, dependability, installed base and strong brand names. Our principal competitors for fire hydrants and iron gate valves are McWane, Inc. and American Cast Iron Pipe Company. The primary competitors for our brass products are The Ford Meter Box Company, Inc. and A.Y. McDonald Mfg. Co. Many brass valves are interchangeable among different manufacturers.

The ductile iron pipe industry is highly competitive with a small number of manufacturers of ductile iron pipe and fittings. Our major competitors are McWane, Inc., Griffin Pipe Products Co., Inc. and American Cast Iron Pipe Company. Additional competition for ductile iron pipe comes from pipe composed of other materials, such as PVC, high-density polyethylene ("HDPE"), concrete, fiberglass reinforced plastic and steel. Existing pipes may also be re-lined as an alternative to replacing the pipe. Although ductile iron pipe is typically more expensive to purchase than most competing forms of pipe, ductile iron pipe has the advantages of longevity, strength, ease of installation, lack of maintenance problems and environmental sustainability.

The environment for Anvil's products is highly competitive, price sensitive and vulnerable to the increased acceptance of products produced in perceived low-cost countries, such as China and India. We compete primarily on the basis of availability, service, price and breadth of product offerings. Our primary competitors in the United States are Ward Manufacturing L.L.C. for cast iron and malleable iron fittings, Victaulic Company and Tyco International Ltd. for ductile grooved fittings and ERICO International Corporation, Cooper Industries plc and Carpenter & Paterson, Inc. for pipe hangers. Our mechanical and industrial customers have been slower to accept products manufactured outside the United States than our fire protection customers.

Environmental Matters

See “Item 3. LEGAL PROCEEDINGS-Environmental”.

Safety

We continuously strive to reduce injuries at our properties. In 2011, our total recordable injury rate increased by 17% to 3.7 injuries per 100 employees and our days away from work rate increased by 7% to 0.4 cases per 100 employees, each compared to 2010. This resulted in 14 more injuries and 11 more days away from work cases in 2011 compared to 2010.

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Regulatory Matters

The production and marketing of our products is subject to the rules and regulations of various U.S. and non-U.S. 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 “Item 3. LEGAL PROCEEDINGS,” and “Item 1A. RISK FACTORS-Some of our brass water infrastructure products contain lead, and such products are restricted by existing state and impending federal law.”

Employees

At September 30, 2011, we employed approximately 4,800 people, of whom approximately 90% work in the United States. At September 30, 2011, approximately 69% of our hourly workforce was covered by collective bargaining agreements.

Our locations with employees covered by such agreements are presented below.

Location	Expiration of current agreement(s)
Albertville, AL	September 2014
Bessemer, AL	October 2013, October 2014, October 2015 and December 2015
Union City, CA	October 2015
Aurora, IL	August 2015
Decatur, IL	June 2012
University Park, IL	April 2014
Bloomington, MN	March 2012
Burlington, NJ	May 2014
Columbia, PA	April 2014 and May 2014
Chattanooga, TN	September 2013 and October 2014
Henderson, TN	December 2011
St. Jerome, Canada	November 2014
Simcoe, Canada	November 2013

We believe that relations with our employees, including those represented by collective bargaining agreements, are good.

Geographic Information

See "Notes to Consolidated Financial Statements - Note 18. Segment information."

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Item 1A. RISK FACTORS

Risks Relating to Our Businesses

Our end markets are subject to economic cycles.

Our primary end markets are the repair and replacement of municipal water distribution and treatment systems, non-residential construction and new water and wastewater infrastructure, which is dependent on residential construction associated with new community developments. Sustained uncertainty about these end markets could cause our distributors and our end use customers to delay purchasing, or determine not to purchase, our products. Other general economic factors, including high levels of unemployment and foreclosures, interest rate fluctuations, fuel and other energy costs, labor and healthcare costs, the state of credit markets (including mortgages, home equity loans and consumer credit), weather, natural disasters and other factors beyond our control, could adversely affect our sales, profitability and cash flows.

Our business depends on government spending for water and wastewater infrastructure construction activity.

A portion of our business depends on local, state and federal spending on water and wastewater infrastructure upgrade, repair and replacement. A significant percentage of our products are ultimately used by municipalities or other governmental agencies in water transmission, distribution, collection and treatment systems.

Average total investment in public water and wastewater systems from state and local government in recent years has been approximately 95% according to the U.S. Census Bureau. Funds for water infrastructure repair and replacement typically come from local taxes or water rates, and the ability of state and local governments to increase taxes or water rates may be limited. In addition, state and local governments that do not budget for capital expenditures in setting tax rates and water rates may be unable to pay for water infrastructure repair and replacement if they do not have other funding sources. 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 governmental regulations. Some state and local governments have placed or may place significant restrictions on the use of water by their constituents. These water use restrictions have or may similarly lead to reduced water revenues by municipalities or other governmental agencies, which could similarly affect funding decisions for water-related projects.

Poor economic conditions may cause states and municipalities to receive lower than anticipated revenues, which may lead to reduced or delayed funding for water infrastructure projects. Even if favorable economic conditions exist, state and local governments may choose not to address deferred infrastructure needs among competing spending priorities. Low levels of government spending for water and wastewater projects may adversely affect our sales, profitability and cash flows.

Our business depends on non-residential construction activity.

A portion of our business depends on non-residential construction, which is cyclical. Low levels of non-residential construction activity could adversely affect our sales, profitability and cash flows.

Our business depends on new residential construction activity.

A portion of our business depends on new water and wastewater infrastructure spending, which in turn depends on residential construction, which is cyclical and has historically represented a significant portion of our sales, profitability and cash flows. Since January 2006, there have been steep declines in the construction of new homes in the United States, which has adversely affected our sales, profitability and cash flows. The disruption in the financial markets late in calendar 2008 exacerbated these declines. Any recovery of our residential construction-related business may lag any recovery in new home construction. Low levels of new residential construction activity may continue to adversely affect our sales, profitability and cash flows.

Our business depends on a small group of major distributors for a significant portion of our sales.

We sell our products primarily to distributors and our success depends on these outside parties operating their businesses profitably and effectively. Their effectiveness can vary significantly from company to company and among regional groups served by the same company. Further, our distributors generally also carry competing products. We may fail to align our businesses with the most successful distributors in any market.

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Approximately 34% of our 2011 gross sales were to our 10 largest distributors, and approximately 25% of our 2011 gross sales were to our three largest distributors: HD Supply, Ferguson Enterprises, Inc. and MSC Waterworks, LLC. In 2011, HD Supply accounted for 14% and 19% of gross sales for Mueller Co. and US Pipe, respectively.

While our relationships with our 10 largest distributors have been long-lasting, distributors in our industry have experienced consolidation in recent years. If such consolidation continues, our distributors could be acquired by other distributors who have better relationships with our competitors. Pricing pressure may also result if consolidation among distributors continues. Pricing pressure or the loss of any one of our major distributors in any market could adversely affect our sales, profitability and cash flows.

Sales of certain of our products are seasonal.

Sales of some of our products, including ductile iron pipe, valves and fire hydrants are seasonal, with lower sales in our first and second fiscal quarters when weather conditions throughout most of North America tend to be cold resulting in lower levels of construction activity. In general, approximately 45% of a year's net sales occurs in the first half of the fiscal year with 55% occurring in the second half of the fiscal year. This seasonality in demand has resulted in fluctuations in our sales and operating results. In order to satisfy demand during expected peak periods, we may incur costs associated with inventory build-up, and our projections as to future needs may not be accurate. Because many of our expenses are fixed, seasonal trends can cause reductions in our profitability and profit margins and deterioration of our financial condition during periods affected by lower production or sales activity.

Our business strategy partly depends upon executing current and future cost-control measures successfully.

Part of our business strategy is to enhance our profitability by realizing cost savings. We have taken steps in recent years to lower our costs by reducing staff, compensation and employee benefits, consolidating operating locations and implementing general cost-control measures, and we expect to continue cost-control efforts for the foreseeable future. Our total operating costs may be greater than anticipated if we do not achieve the expected savings from, or if our operating costs increase as a result of, these initiatives. Reductions in staff, compensation and benefits could also adversely affect our ability to attract and retain key employees and directors. If we are unable to execute our current and future cost control measures successfully, our total operating costs would be greater than expected, which would adversely affect our profitability and cash flows.

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

The U.S. and Canadian markets for water infrastructure, flow control and piping component system products are very competitive. While there are only a few competitors for most of our offerings, many of our competitors are well-established companies with strong brand recognition. We compete on the basis of a variety of factors, including the quality and price of our products and services. Anvil's products in particular also compete on availability and breadth of product and are sold in fragmented markets with low barriers to entry. Our ability to retain our customers in the face of competition depends on our ability to market our products and services to our customers effectively. Also, competition for ductile iron pipe sold by US Pipe comes not only from ductile iron pipe produced by a concentrated number of other manufacturers, but also from pipe composed of other materials, such as PVC, HDPE, concrete, fiberglass reinforced plastic and steel.

In addition to competition from U.S. companies, we face the threat of competition from companies from other countries. The intensity of competition from these companies is affected by fluctuations in the value of the U.S. dollar against their local currencies, by the cost to ship competitive products into North America and by the availability of trade remedies. Competition may also increase as a result of U.S. competitors shifting their operations to low-cost countries or otherwise reducing their costs.

Our competitors may reduce the prices of their products or services, improve their quality, improve their functionality or enhance their marketing or sales activities. Any of these potential developments could adversely affect our sales, profitability and cash flows.

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The costs of our raw materials and purchased components can be volatile.

Our operations require substantial amounts of raw materials or purchased components, such as scrap steel, scrap iron, sand, resin, brass ingot, steel pipe and coke. The cost and availability of these materials are subject to economic forces largely beyond our control, including North American and international demand, foreign currency exchange rates, freight costs and speculation. We generally purchase raw materials at current market costs and any hedging activities are small in relation to total purchases. We may not be able to pass on the entire cost of price increases for raw materials and purchased components to our customers or offset fully the effects of these higher costs through productivity improvements. In particular, when raw material and purchased component costs increase rapidly or to significantly higher than normal levels, we may not be able to pass cost increases through to our customers on a timely basis, if at all, which would reduce our profitability and cash flows. In addition, if raw materials or purchased components were not available or not available on commercially reasonable terms, that would reduce our sales, profitability and cash flows. Our competitors could operate better under such changing market conditions than we do, which would give them a cost advantage compared to us.

We partially rely on the labor of individuals represented by collective bargaining agreements to produce and distribute our goods.

We are subject to a risk of work stoppages and other labor relations matters because a large portion of our hourly workforce is represented by collective bargaining agreements. These employees are represented by locals from various different unions, including the Glass, Molders, Pottery, Plastics and Allied Workers International Union, which represents the largest number of our employees. If we are unable to negotiate acceptable new agreements with the unions representing our employees upon expiration of existing contracts, we could experience strikes, work stoppages or other forms of labor slowdowns. Such actions could cause a significant disruption of operations at our facilities, which could have an adverse impact on us. New agreements with unions representing our employees could call for higher wages or benefits paid to union members, which would increase our operating costs. Labor costs are a significant element of the total costs involved in our manufacturing process, and an increase in the costs of labor could reduce profitability and cash flows.

In addition, the freight companies that deliver our products to our customers generally use truck drivers represented by collective bargaining agreements, and our businesses could be harmed if these truck drivers face work stoppages or support other work stoppages.

In December 2010, Local No. 2140 of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union engaged in a 10 day strike action at US Pipe's facilities located in Bessemer Alabama.

Normal operations at our key manufacturing facilities may be interrupted.

Some of our key products, including fire hydrants, valves and ductile iron pipe, are manufactured at single or few manufacturing facilities that depend on critical pieces of heavy equipment that cannot be economically moved to other locations. We are therefore limited in our ability to shift production between locations. The operations at our manufacturing facilities may be interrupted or impaired by various operating risks, including, but not limited to:

- catastrophic events, such as fires, floods, explosions, natural disasters, severe weather or other similar occurrences;
- interruptions in the delivery of raw materials or other manufacturing inputs;
- adverse government regulations;
- equipment breakdowns or failures;
- information systems failures;
- violations of our permit requirements or revocation of permits;
- releases of pollutants and hazardous substances to air, soil, surface water or ground water;
- shortages of equipment or spare parts;
- labor disputes; and
- terrorist acts.

The occurrence of any of these events may impair our production capabilities and adversely affect our sales, profitability and cash flows.

In April 2011, the operations at our facilities in Albertville, Alabama and Cleveland, Tennessee were interrupted by severe storms in the southeastern United States. The most significant impacts related to lost electrical power at the Albertville facility for one week.

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Some of our brass water infrastructure products contain lead, and such products are restricted by existing state and impending federal law.

Federal legislation to substantially restrict lead content in water infrastructure products was signed into law in January 2011 and will take effect in January 2014. States are increasingly restricting the use of lead in water infrastructure products.

Complying with these new restrictions will increase our manufacturing costs, which may adversely affect our profitability, and we may not be able to maintain our current production levels.

Transportation costs are relatively high for most of our products.

Transportation costs can be an important factor in a customer's purchasing decision. Our valve, hydrant and pipe products are generally big, bulky and heavy, which tend to increase transportation costs. We also have relatively few manufacturing sites, which tends to increase transportation distances to our customers and costs. High transportation costs could make our products less competitive compared to the same or alternative products from competitors.

We typically depend on 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 adversely affecting our sales, profitability and cash flows.

We manage our business as a decentralized organization.

We have multiple business segments and operate under a decentralized organizational structure. Our operations have different business practices, accounting policies, internal controls, procedures and compliance programs. Further, we may need to modify existing programs and processes to increase efficiency and operating effectiveness and improve corporate visibility into our decentralized operations. We also regularly update compliance programs and processes to comply with existing laws, new interpretations of existing laws and new laws and we may not implement those modifications effectively. It could take time for any such modifications to be implemented across our operations. During the implementation periods, our decentralized operating approach could result in inconsistent management practices and procedures, which could adversely affect our businesses. Once achieved, it may also be difficult to maintain operational consistency across our businesses.

We may be unsuccessful in identifying, acquiring or integrating suitable acquisitions.

A part of our growth strategy depends on expansion through acquisitions of businesses that can be integrated successfully into our existing businesses and that will provide us with complementary manufacturing capabilities, products, services, technologies, customers or end users. Any future growth through acquisitions will depend on the availability of suitable acquisition candidates at favorable prices and on satisfactory terms and conditions. In addition, if we identify a suitable acquisition candidate, our ability to complete the acquisition will depend on a variety of factors, including our ability to finance the acquisition. Our ability to finance an acquisition is subject to a number of factors, including the availability of adequate cash, cash flows or acceptable financing terms and the availability of financing under our existing debt agreements. Moreover, other companies, some of which may have substantially greater financial resources, may compete with us for the right to acquire such businesses, and these companies may be able to offer better terms for an acquisition than we can offer. In addition, there may be many challenges to integrating acquired businesses into our Company, including eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing different corporate cultures and achieving cost reductions and cross-selling opportunities. We may not be able to meet these challenges.

We may not adequately prevent others from using our intellectual property.

Our businesses depend on our technology and expertise, which is largely developed internally and not subject to statutory protection. 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. The measures that we take to protect our intellectual property rights may not adequately deter infringement, misappropriation or independent third-party development of our technology, and they may not prevent an unauthorized third party from obtaining or using information or intellectual property that we regard as proprietary or 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 our resources to respond to these claims.

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We have a significant amount of debt and we may not be able to increase our borrowings.
We are a relatively highly leveraged company. At September 30, 2011, our total debt was $678.3 million compared to total assets of $1,485.0 million and total stockholders' equity of $379.0 million. We may have a need or desire to incur significant additional debt from time to time. The level of our debt could limit our ability to obtain additional debt financing with satisfactory terms in the future for working capital, capital expenditures, acquisitions or other purposes.
We may not be able to generate sufficient cash flows from operating activities to service all of our debt.
Our businesses may not generate cash flows from operating activities in an amount sufficient to enable us to pay our debt or to fund our other debt service obligations. As discussed above, our cash flows are dependent upon the levels of government spending for water and wastewater infrastructure projects and both non-residential and residential construction activity.
If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce investments and capital expenditures, sell assets, seek additional capital, or restructure or refinance our debt. However, we may not be able to accomplish these actions on satisfactory terms, or at all. In addition, these actions, if accomplished, could adversely affect the operation and growth of our businesses and may not permit us to meet our debt service obligations.
Certain of our debt instruments contain restrictive covenants.
Our debt instruments contain various covenants that limit our ability to engage in certain transactions. The indentures governing our notes restrict our ability to, among other things, borrow money or issue preferred stock, pay dividends, make certain types of investments and other restricted payments, create liens, sell certain assets or merge with or into other companies, engage in sale and leaseback transactions and enter into certain transactions with affiliates. Our asset based lending agreement also requires the maintenance of a specified amount of excess availability when our fixed charge coverage ratio is below a certain level.
Our ability to satisfy the fixed charge coverage ratio or other covenants can be affected by events beyond our control, and we may 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 were not remedied timely, the holders of our applicable debt would be able to declare the debt immediately due and payable; certain events of default cannot be remedied. Upon the occurrence of an event of default under our asset based lending agreement, 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 debt under our asset based lending agreement. We have pledged all of our U.S. receivables, inventories and certain other assets as security under our asset based lending agreement. If any lender is entitled to accelerate the repayment of borrowings, we may not have sufficient assets to repay these obligations.
Our ability to borrow money may be impacted by changes in our credit ratings or macroeconomic conditions.
Our cost of borrowing and ability to access the capital markets are affected not only by market conditions but also by the short-and long-term debt ratings assigned to our debt by major credit rating agencies. These ratings are based, in significant part, on our performance as measured by credit metrics, such as interest coverage and leverage ratios. Our Senior Unsecured Notes and Senior Subordinated Notes are each rated by Standard & Poor's and Moody's Investors Service and both series of notes are rated below investment grade by both rating agencies. Any future borrowings will reflect the impact of these ratings, and additional reductions in our credit ratings could reduce our access to credit markets, make new borrowings more expensive, subject us to more onerous terms and reduce our borrowing flexibility. Such limitations on our financing options may affect our ability to refinance existing debt or fund major acquisitions or capital-intensive internal initiatives.
In addition, deteriorating economic conditions, including a recession, market disruptions, tightened credit markets or significantly wider corporate borrowing spreads, may make it more difficult or costly for us to finance significant transactions or obtain replacement financing for our existing debt.
Our expenditures for postretirement benefits and pension obligations are significant and could be materially higher than we have predicted.
We provide pensions and postretirement healthcare benefits to certain former employees. In determining our future payment obligations under the plans, we assume certain rates of return on the plan assets and growth rates of certain

costs. We contributed $23.3 million, $23.0 million and $24.0 million in 2011, 2010 and 2009, respectively, to our pension plans. At September 30, 2011, the market value of our pension plan assets was approximately $331.8 million, which represents an 87% funded status. The Pension Protection Act of 2006 ("PPA") incents U.S. plans to be fully funded by 2015. PPA funded status is assessed annually on January 1. At January 1, 2011, the funded status of our U.S. plan was 80%.

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Assumed discount rates, expected return on plan assets, expected compensation increases and estimated healthcare cost trend rates have a significant effect on the amounts reported for the pension and healthcare plans. We expect that healthcare costs will increase generally at a rate above the rate of inflation. Our actual cost growth rates could be materially higher than projected. Further, significant adverse changes in credit and capital markets or changes in investments could result in actual rates of return on plan assets being materially lower than projected. As a result, we may be required to increase the amount of cash contributions we make into our pension plans and other plans in the future in order to meet funding level requirements. If increased funding requirements are particularly significant and sustained, our overall liquidity could be materially reduced, which could force us to reduce investments and capital expenditures, sell assets, seek additional capital or restructure or refinance our debt.

We are subject to the newly adopted healthcare legislation.

We provide a range of benefits to our current and retired employees, including healthcare coverage. In March 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Act of 2010 (collectively, the "Healthcare Reform Legislation") were signed into law in the United States. Provisions of the Healthcare Reform Legislation have begun taking effect and a number of additional steps are required to implement future requirements, including further guidance and clarification in the form of implementing regulations. Due to the complexity of the Healthcare Reform Legislation, the pending status of implementing regulations and lack of interpretive guidance, and gradual implementation, the higher costs resulting from the Healthcare Reform Legislation on our businesses are not yet fully known and may not be known for several years. The validity of the Healthcare Reform Legislation is currently being challenged in the judicial system and it is not known what changes to the Healthcare Reform Legislation, if any, will result from this challenge.

We may be subject to product liability or warranty claims.

We are exposed to product liability, warranty and other claims in the event that the use of our products results, or is alleged to result in, a failure to perform properly, bodily injury or property damage. We could incur product liability or warranty losses in the future, along with the related expenses to defend such claims, and such losses and expenses may be material and completely independent of the value of the underlying product or service. In some cases, replacement of our products can involve significant excavation and labor costs.

While we maintain product liability insurance, our product liability insurance coverage may not be adequate for liabilities that may ultimately be incurred or the coverage may not continue to be available on terms acceptable to us. A successful product liability 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.

We rely on successors to Tyco to indemnify us for certain liabilities and they may become financially unable or fail to comply with the terms of the indemnity.

Under the terms of the acquisition agreement relating to the August 1999 sale by Tyco of the Mueller Co. and Anvil businesses to the prior owner of these businesses, 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 assumed defense of claims pursuant to this indemnification provision. In addition, Tyco's indemnity does not cover product liabilities to the extent caused by our products manufactured after the date of that transaction. In June 2007, Tyco was separated into three separate publicly traded companies. In September 2011, Tyco International Ltd., one of the companies that was separated in June 2007, announced it would split into three separate companies. Should any of Tyco's successors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities. See "Item 3. LEGAL PROCEEDINGS" for more information about our potential product liabilities.

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We are subject to complex corporate governance, public disclosure and accounting requirements.
We are subject to changing rules and regulations of federal and state government, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board ("PCAOB"), the Securities and Exchange Commission ("SEC") and the New York Stock Exchange, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by the U.S. Congress. For example, the Sarbanes-Oxley Act of 2002 and the rules and regulations subsequently implemented by the SEC and the PCAOB, imposed and may impose further compliance burdens and costs on us. Also, in July 2010, the Dodd-Frank Wall Street Reform and Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act includes significant corporate governance and executive compensation-related provisions that require the SEC to adopt additional rules and regulations in these areas. Our efforts to comply with new requirements of law and regulation are likely to result in an increase in expenses and a diversion of management's time from other business activities. Also, those laws, rules and regulations may make it more difficult and expensive for us to attract and retain key employees and directors and to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage.
We may be subject to any new governmental legislation or regulation relating to carbon dioxide emissions.
Certain of our manufacturing plants use significant amounts of electricity and natural gas and certain of our plants emit significant amounts of carbon dioxide. Federal and state courts and administrative agencies are considering the scope and scale of carbon dioxide emission regulation under various laws pertaining to the environment, energy use and development and greenhouse gas emissions. For example, the EPA has begun promulgating regulations governing carbon emissions. In addition, several states are considering various carbon dioxide registration and reduction programs. Final carbon dioxide legislation or regulation could increase the price of the electricity we purchase, increase costs for our use of natural gas, restrict access to or the use of natural gas or require us to purchase allowances to offset our own emissions. Further, federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind and solar, which may increase the cost of energy used in our operations. The final details and scope of these legislative and regulatory measures are unclear, and their potential to increase our costs remains uncertain.
The potential physical impacts of climate change on our operations are highly uncertain. The EPA has found that global climate change could increase the severity and possibly the frequency of severe weather patterns. Although the financial impact of these potential changes is not reasonably estimable at this time, our operations in certain locations and those of our customers and suppliers could potentially be adversely affected, which could adversely affect our profitability and cash flows.
We are subject to environmental, health and safety laws and regulations.
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, the imposition of penalties, suspension of production, changes to equipment or processes or a cessation of operations at our facilities. Because these laws are complex, subject to change and may be applied retroactively, these requirements, in particular as they change in the future, may adversely affect our sales, profitability and cash flows.
In addition, we incurred costs to comply with the National Emissions Standards for Hazardous Air Pollutants issued by the EPA for iron and steel foundries and for our foundries' painting operations. We may be required to conduct investigations and perform remedial activities that could require us to incur material additional costs in the future. Our operations involve the use of hazardous substances and the disposal of hazardous wastes. We may incur additional costs to manage these substances and wastes, and we may be subject to claims for damage for personal injury, property damage or damage to natural resources.
U.S. Pipe has been identified as a potentially responsible party liable under federal environmental laws for a portion of the cleanup costs with regard to two sites and is currently subject to an administrative consent order requiring certain monitoring and cleanup with regard to a property in New Jersey. Such cleanup costs could be substantial and could

adversely affect our profitability and cash flows in any given reporting period. For more information about our environmental compliance and potential environmental liabilities, see “Item 3. LEGAL PROCEEDINGS.”

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Potential international business opportunities may expose us to additional risks.

A part of our growth strategy depends on us expanding internationally. Although net sales outside of the United States and Canada have historically accounted for a small percentage of our total net sales, we expect to increase our level of business activity outside of the United States and Canada over the next few years. Some countries that present good business opportunities also face political and economic instability and vulnerability to infrastructure and other disruptions. Seeking to expand our business internationally exposes us to additional risks, which include political and economic uncertainties, currency fluctuations, changes in local business conditions and national and international conflicts. A primary risk that we face in connection with our export orders relates to our ability to collect amounts due from customers. We also face the potential risks that arise from staffing, monitoring and managing international operations, including the risk that such activities may divert our resources and management time.

In addition, compliance with the laws and regulations of multiple international jurisdictions increases our cost of doing business. International operations also are subject to more numerous anti-corruption laws and anti-competition regulations, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against the Company, our officers or our other employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also adversely affect our brands, our international expansion efforts, our businesses and our operating results.

Our decision to explore a variety of alternatives at US Pipe may not result in a transaction or a transaction may cause us to recognize a loss.

We announced on May 2, 2011 that our board of directors, after considering many factors, has authorized the exploration of a variety of alternatives for US Pipe, including strategic alternatives such as divestiture, sale of a controlling interest, a joint venture with a third party or other financial or structural alternatives. The process to explore these alternatives is subject to a number of uncertainties, some of which are not in our control. As a result, we cannot provide assurance that the process will result in a transaction or, if it does, that it would occur within any specified period of time or under what terms. Our evaluation of potential transactions may cause us to incur substantial costs and divert management's time from other business activities.

In addition, the fact that we are exploring alternatives for US Pipe may damage US Pipe's relationships with its customers, suppliers, employees and other business partners, which may result in a reduction of net sales and market position that US Pipe may not be able to regain if we are unable to successfully complete a transaction.

Even if the process results in a transaction, we cannot predict how the market price of our common stock would be affected by the announcement of a transaction. In addition, the market price of our common stock could be highly volatile during the period in which we explore alternatives and may continue to be more volatile if and when a transaction is announced or if we announce that we are no longer exploring alternatives.

Any eventual sale or other transaction involving US Pipe is subject to the negotiation of a final agreement and a negotiated transaction price could be below the current carrying value of US Pipe's net assets. This could result in recognition of a material loss on the disposition of US Pipe.

A material weakness in our internal control over financial reporting could lead to errors in our financial statements and a lack of investor confidence and a resulting decline in our stock price.

Management determined that a non-cash adjustment of $2.5 million was necessary to increase certain health and welfare accrued liabilities and related expenses at September 30, 2011. This adjustment did not result in any material misstatement of any previously issued financial statements. As a result of this adjustment, management concluded that we had a material weakness in our period end consolidating process for reconciling certain health and welfare accrued liability accounts. Consequently, management concluded that we had not maintained effective internal control over financial reporting. We have changed our period end consolidating account reconciliation process related to these certain accounts to address this matter. We expect this change to remediate our material weakness. The existence of the material weakness or any failure to remedy the material weakness could lead investors to question the reliability and accuracy of our reported financial information and could adversely impact the market price of our common stock. In addition, there can be no assurance that our remediation efforts will be effective, nor can there be any assurance that additional material weaknesses will not be identified.

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Risks Relating to Our Relationship with Walter Energy

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

Each member of a consolidated group for federal income tax purposes is severally liable for the federal income tax liability of each other member of the consolidated group for any year in which it is a member of the group at any time during such year. Each member of the Walter Energy consolidated group, which included us (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, we could be liable under such provisions in the event any such liability is incurred, and not discharged, by any other member of the Walter Energy consolidated group for any period during which we were included in the Walter Energy consolidated group.

A dispute exists with regard to federal income taxes for years 1980 to 1994 and 1999 to 2001 allegedly owed by the Walter Energy consolidated group, which included US Pipe during these periods. As a matter of law, we are jointly and severally liable for any final tax determination, which means that in the event Walter Energy is unable to pay any amounts owed, we would be liable.

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

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

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Item 2. PROPERTIES

Our principal properties are listed below.

Location	Activity	Size (sq. ft.)	Owned or leased
Mueller Co.:			
Albertville, AL	Manufacturing	422,481	Leased
Aurora, IL	Manufacturing	146,880	Owned
Decatur, IL	Manufacturing	467,044	Owned
Hammond, IN	Manufacturing	51,160	Owned
Cleveland, NC	Manufacturing	190,000	Owned
Bethlehem, PA	Manufacturing	104,000	Leased
Chattanooga, TN	Manufacturing	525,000	Owned
Brownsville, TX	Manufacturing	107,595	Leased
Barrie, Ontario	Distribution	50,000	Leased
St. Jerome, Quebec	Manufacturing	55,000	Owned
Jingmen, China	Manufacturing	154,377	Owned
US Pipe:			
Bessemer, AL	Manufacturing	962,000	Owned
Union City, CA	Manufacturing	139,000	Owned
Burlington, NJ	Distribution	158,289	Owned
Remington, VA	Manufacturing	73,000	Leased
Anvil:			
Ontario, CA	Distribution	72,994	Leased
University Park, IL	Distribution	192,000	Leased
Columbia, PA	Manufacturing and distribution	663,119	Owned
Greencastle, PA	Manufacturing	132,743	Owned
Waynesboro, PA	Manufacturing	72,836	Owned
North Kingstown, RI	Manufacturing	162,674	Leased
Henderson, TN	Manufacturing	167,700	Owned
Houston, TX	Manufacturing and distribution	104,534	Owned
Irving, TX	Distribution	218,400	Leased
Longview, TX	Manufacturing	114,000	Owned
Simcoe, Ontario	Distribution	126,090	Owned
Corporate:			
Atlanta, GA	Corporate headquarters	24,728	Leased

We consider our facilities to be well maintained and believe we have sufficient capacity to meet our anticipated needs through 2012. Our leased properties have terms expiring at various dates through August 2019.

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Item 3. LEGAL PROCEEDINGS

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

Environmental. We are subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the operations at many of our properties and with respect to remediating environmental conditions that may exist at our own or other properties. We strive to comply with federal, state and local environmental laws and regulations. We accrue for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable. These expenses were $3.6 million, $4.5 million and $4.3 million during 2011, 2010 and 2009, respectively. We capitalize environmental expenditures that increase the life or efficiency of long-term assets or that reduce or prevent environmental contamination. Capital expenditures for environmental requirements are anticipated to be approximately $2.9 million during 2012. Capitalized environmental-related expenditures were $1.8 million, $1.8 million and $3.7 million during 2011, 2010 and 2009, respectively.

In September 1987, U.S. Pipe implemented an Administrative Consent Order (“ACO”) for its Burlington, New Jersey property, which was required under the New Jersey Environmental Cleanup Responsibility Act (now known as the Industrial Site Recovery Act). The ACO required soil and ground-water cleanup, and U.S. Pipe has completed, and received final approval on, the soil cleanup required by the ACO. U.S. Pipe continues to address ground-water issues as well as issues associated with the demolition of its former manufacturing facilities at this site. Further remediation could be required. Long-term ground-water monitoring may also be required, but we do not know how long such monitoring will be required and do not believe monitoring or further remediation costs, if any, will have a material adverse effect on our financial condition or results of operations.

In June 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 EPA. U.S. Pipe and certain co-defendants subsequently reached a settlement with the 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 in January 2006. U.S. Pipe has reached a settlement agreement whereby Phelps Dodge Industries, Inc., 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 for contribution and cost recovery and they filed a motion for summary judgment to that effect. The district court granted the motion for summary judgment as to contribution claims in June 2008 and as to cost recovery claims in July 2010. The plaintiffs have appealed the grant of summary judgment to the Eleventh Circuit Court of Appeals, and the parties have filed briefs in support of their positions. While the district court granted summary judgment for U.S. Pipe and other defendants, plaintiffs have alleged that the issues raised in the appeal involve complex matters of law and that U.S. Pipe should share liability for cost recovery in excess of costs already incurred under the AOC, based on facts and expert testimony to be developed at trial. In view of the inherent difficulty of predicting the outcome of litigation such as this, where important factual information and legal issues remain to be developed or decided, we cannot at this time estimate the reasonably possible loss, or range of loss, if any, for this matter.

On July 13, 2010, Rohcan Investments Limited (“Rohcan”), the former owner of property leased by Mueller Canada Ltd. and located in Milton, Ontario, filed suit against Mueller Canada Ltd. and its directors seeking C$10 million in damages arising from the defendants' alleged environmental contamination of the property and breach of lease. Mueller Canada Ltd. leased the property from 1988 through 2008. We are pursuing indemnification from a former owner for certain potential liabilities that are alleged in this lawsuit, and we have accrued for other liabilities not covered by indemnification.

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In the acquisition agreement pursuant to which a predecessor to Tyco sold our Mueller Co. and Anvil businesses to the prior owners of these businesses in August 1999, Tyco agreed to indemnify us and our affiliates, among other things, for all “Excluded Liabilities.” Excluded Liabilities include, among other things, substantially all liabilities relating to the time prior to August 1999, including environmental liabilities. The indemnity survives indefinitely. In addition, Tyco's indemnity does not cover liabilities to the extent caused by us or the operation of our businesses after August 1999, nor does it cover liabilities arising with respect to businesses or sites acquired after August 1999. In June 2007, Tyco was separated into three separate publicly traded companies. In September 2011, Tyco International Ltd., one of the companies that was separated in the June 2007 split, announced it would split into three separate companies. Should Tyco's successors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

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

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been listed on the New York Stock Exchange under the trading symbol MWA since May 26, 2006.

Covenants contained in certain of the debt instruments referred to in Note 8 of "Notes to Consolidated Financial Statements" restrict the amount we can pay in cash dividends. Future dividends will be declared at the discretion of our board of directors and will depend on our future earnings, financial condition and other factors.

The range of high and low intraday sales prices of our common stock and the dividends declared per share is presented below.

	High	Low	Dividends per share
2011:			
4th quarter	$4.09	$1.94	$0.0175
3rd quarter	4.80	3.49	0.0175
2nd quarter	4.73	3.61	0.0175
1st quarter	4.45	2.80	0.0175
2010:			
4th quarter	$4.15	$2.21	$0.0175
3rd quarter	5.99	3.33	0.0175
2nd quarter	5.80	4.23	0.0175
1st quarter	5.93	4.26	0.0175

At September 30, 2011, there were 135 stockholders of record for our Series A common stock.

Equity Compensation Plan Information

The information regarding our 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."

Sale of Unregistered Securities

We did not issue any unregistered securities within the past three years.

Issuer Purchases of Equity Securities

We did not repurchase shares of our common stock in the quarter ended September 30, 2011.

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Stock Price Performance Graphs

The following graph compares the cumulative quarterly stock market performance of our Series A common stock with the Russell 2000 Stock Index ("Russell 2000") and the Dow Jones U.S. Building Materials & Fixtures Index ("DJ Building Materials & Fixtures") since September 30, 2006.

Total return values were calculated based on cumulative total return assuming (i) the investment of $100 in our common stock, the Russell 2000 and the DJ Building Materials & Fixtures on the dates indicated and (ii) reinvestment of all dividends.

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Item 6. SELECTED FINANCIAL DATA

The selected financial and other data presented below should be read in conjunction with, and are qualified by reference to, “Item 7. 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.

	2011	2010	2009	2008	2007
	(in millions, except per share data)				
Statement of operations data:					
Net sales	$1,339.2	$1,337.5	$1,427.9	$1,859.3	$1,849.0
Cost of sales	1,105.1	1,101.1	1,171.0	1,420.3	1,385.8
Gross profit	234.1	236.4	256.9	439.0	463.2
Selling, general and administrative expenses	219.9	219.3	239.1	274.6	253.2
Impairment (1)	—	—	970.9	—	—
Restructuring (2)	7.5	13.1	47.8	18.3	—
Income (loss) from operations	6.7	4.0	(1,000.9)	146.1	210.0
Interest expense, net	65.6	68.0	78.3	72.4	86.8
Loss on early extinguishment of debt	—	4.6	3.8	—	36.5
Income (loss) before income taxes	(58.9)	(68.6)	(1,083.0)	73.7	86.7
Income tax expense (benefit)	(20.8)	(23.4)	(86.3)	31.7	38.5
Net income (loss)	$(38.1)	$(45.2)	$(996.7)	$42.0	$48.2
Net income (loss) per share:					
Basic	$(0.25)	$(0.29)	$(8.55)	$0.36	$0.42
Diluted	$(0.25)	$(0.29)	$(8.55)	$0.36	$0.42
Weighted average shares outstanding:					
Basic	155.3	154.3	116.6	115.1	114.7
Diluted	155.3	154.3	116.6	115.5	115.3
Balance sheet data (at September 30):					
Cash and cash equivalents	$61.2	$83.7	$61.5	$183.9	$98.9
Working capital	404.0	452.7	525.3	755.6	709.7
Property, plant and equipment, net	243.8	264.4	296.4	356.8	351.8
Total assets	1,485.0	1,568.2	1,739.5	3,090.2	3,009.2
Total debt	678.3	692.2	740.2	1,095.5	1,100.5
Long-term obligations	911.2	979.2	1,082.4	1,466.6	1,457.9
Total liabilities	1,106.0	1,162.9	1,303.2	1,761.3	1,698.2
Stockholders’ equity	379.0	405.3	436.3	1,328.9	1,311.0
Other data:					
Depreciation and amortization	81.6	84.6	90.2	93.1	101.4
Capital expenditures	31.5	32.8	39.7	88.1	88.3
Cash dividends declared per share	0.07	0.07	0.07	0.07	0.07

(1) In 2009, goodwill was determined to be fully impaired resulting in charges of $717.3 million for Mueller Co., $92.7 million for Anvil and $59.5 million for US Pipe. Mueller Co.'s trademarks and trade names were determined to be partially impaired resulting in a charge of $101.4 million.

(2) 2011 and 2010 include $3.9 million and $12.0 million, respectively, resulting from actions to close US Pipe's North Birmingham facility and $3.6 million and $1.1 million, respectively, related to severance and other closing activities. 2009 includes $38.5 million resulting from actions related to US Pipe's North Birmingham facility to lower costs and reduce capacity and $9.3 million of primarily severance costs related to Company-wide workforce reductions in response to lower demand for our products. 2008 includes $18.3 million to cease manufacturing operations at US Pipe's Burlington, New Jersey facility.

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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 the Private Securities Litigation Reform Act of 1995. All statements, that address activities, events or developments that the Company's management intends, expects, plans, projects, believes or anticipates will or may occur in the future are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding general economic conditions, spending by municipalities, the outlook for the residential and non-residential construction markets, the market reception of Mueller Systems' and Echologics' products and services, the remediation of the material weakness in our internal control over financial reporting and the outcome of our evaluation of strategic alternatives for US Pipe and the impact of these factors on our businesses. Forward-looking statements are based on certain assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ materially from those contemplated by the forward-looking statements due to a number of factors, including regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- the spending level for water and wastewater infrastructure;
- the level of manufacturing and construction activity;
- our ability to service our debt obligations; and
- the other factors that are described in the section entitled “RISK FACTORS” in Item 1A. of this annual report.

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

Overview

Organization

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

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

Business

Most of the net sales of Mueller Co. and US Pipe are for water infrastructure related directly to municipal spending and residential construction activity in the United States. Anvil sells primarily to non-residential construction businesses in the United States.

Spending on water infrastructure by municipalities is based on the condition of their infrastructure systems and their access to funding. Funding generally comes from their overall fiscal condition, the availability of additional capital from the issuance of debt, higher tax rates or increased water rates. Municipalities may find it challenging to increase tax or water rates.

Within our end markets, we have seen little change with residential construction activity since September 30, 2010. Annualized housing starts in calendar 2012 are independently forecast to be about 0.7 million units, which is less than half of the 50-year average of about 1.5 million units per year. Based on these forecasts of housing starts, we do not expect substantial near-term recovery in residential construction, and we expect our related sales growth within our water infrastructure businesses to lag any recovery in the residential construction market.

Independent forecasts of non-residential construction activity indicate calendar 2012 will be similar to calendar 2011.

Most of our manufacturing facilities are operating significantly below their optimal capacities. Since the end of 2008, we have reduced headcount, consolidated facilities, reduced operating days and reduced overall spending activities in response to lower demand for our products. We adjust our production activities in response to evolving business conditions and we expect to take additional steps to improve financial results.

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We have experienced raw material cost increases in all segments, and we believe these cost increases may persist in 2012. Mueller Co. experienced a 23% increase in the average cost of brass ingot purchased and a 16% increase in the average cost per ton of scrap steel purchased in 2011 compared to 2010. US Pipe's average scrap iron cost per ton purchased in 2011 was 26% higher than in 2010, and Anvil experienced a 22% increase in the average cost per ton of scrap steel purchased in 2011 compared to 2010.

We have increased sales prices to offset these cost increases, and we anticipate maintaining higher year-over-year prices in 2012. US Pipe experienced a 13% increase in the average sales price per ton of ductile iron pipe in 2011 compared to 2010. Mueller Co. and Anvil net sales also benefited from sales price increases.

US Pipe received a $37 million order from the Middle East during the 2011 fourth quarter. A portion of that order shipped during 2011 and we expect the remainder to ship in the first half of 2012.

Our U.S. pension plan was 80% funded at January 1, 2011 under the provisions of the PPA. The total market value of our U.S. pension plan assets was $321.1 million and $301.9 million at September 30, 2011 and 2010, respectively. During 2011, the investment performance of these assets was a gain of $19.2 million and we contributed $23.3 million to this plan. We currently estimate contributing between $20 million and $22 million to our U.S. pension plan during 2012. If we lower our estimated rate of return on pension plan assets, pension expense and required Company contributions to these plans may increase.

We announced on May 2, 2011 that our board of directors, after considering many factors, has authorized the exploration of a variety of alternatives for US Pipe, including strategic alternatives such as divestiture , sale of a controlling interest, a joint venture with a third party or other financial or structural alternatives. We are making progress in this process, working very closely with our financial adviser, Bank of America Merrill Lynch. We have been particularly focused on a potential sale of the business and are actively engaged in this process with interested parties. No decision has been made at this time to enter into any transaction and there can be no assurance that the exploration of alternatives will result in a transaction or as to the terms, conditions or timetable of any such transaction. Any eventual sale or other transaction involving US Pipe is subject to the negotiation of a final agreement and a negotiated transaction price could be below the current carrying value of US Pipe's net assets. This could result in recognition of a material loss on the disposition of US Pipe.

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Results of Operations
Year Ended September 30, 2011 Compared to Year Ended September 30, 2010

	Year ended September 30, 2011				
	Mueller Co.	US Pipe	Anvil	Corporate	Total
	(in millions)				
Net sales	$605.5	$374.6	$359.1	$—	$1,339.2
Gross profit (loss)	$147.0	$(14.0)	$101.1	$—	$234.1
Operating expenses:					
Selling, general and administrative	91.8	28.1	68.1	31.9	219.9
Restructuring	1.4	3.9	1.2	1.0	7.5
	93.2	32.0	69.3	32.9	227.4
Income (loss) from operations	$53.8	$(46.0)	$31.8	$(32.9)	6.7
Interest expense, net					65.6
Loss before income taxes					(58.9)
Income tax benefit					(20.8)
Net loss					$(38.1)

	Year ended September 30, 2010				
	Mueller Co.	US Pipe	Anvil	Corporate	Total
	(in millions)				
Net sales	$612.8	$377.8	$346.9	$—	$1,337.5
Gross profit (loss)	$170.3	$(22.7)	$88.8	$—	$236.4
Operating expenses:					
Selling, general and administrative	89.2	30.5	66.2	33.4	219.3
Restructuring	0.1	12.5	0.5	—	13.1
	89.3	43.0	66.7	33.4	232.4
Income (loss) from operations	$81.0	$(65.7)	$22.1	$(33.4)	4.0
Interest expense, net					68.0
Loss on early extinguishment of debt, net					4.6
Loss before income taxes					(68.6)
Income tax benefit					(23.4)
Net loss					$(45.2)

Consolidated Analysis

Net sales for 2011 increased to $1,339.2 million from $1,337.5 million in 2010. Net sales increased $26.8 million after excluding the net sales of two businesses Anvil divested in 2010 of $25.1 million. Net sales increased $56.8 million due to higher pricing across all three business segments and $5.2 million of favorable Canadian currency exchange rates offset by $35.2 million of lower shipment volumes.

Gross profit for 2011 decreased to $234.1 million from $236.4 million in 2010. Gross profit decreased $43.0 million due to higher raw material costs, $13.4 million due to lower shipment volumes and $5.5 million due to the loss of gross profit from the divested Anvil businesses. These factors were substantially offset by $56.8 million of higher sales pricing and $1.2 million of manufacturing and other cost savings. Gross margin was 17.5% in 2011 and 17.7% in 2010.

Selling, general and administrative expenses in 2011 increased to $219.9 million from $219.3 million in 2010. Selling, general and administrative expenses in 2010 included $4.4 million of gains from the sale of two Anvil businesses. Excluding these gains, selling, general and administrative expenses declined primarily due to expenses related to Anvil's divested businesses.

In 2011 and 2010, we recorded restructuring charges of $7.5 million and $13.1 million, respectively, related primarily to closing US Pipe's North Birmingham facility.

Interest expense, net was $65.6 million in 2011 compared to $68.0 million in the prior year period. The components of interest expense, net are detailed below.

	2011	2010
	(in millions)	
7.375% Senior Subordinated Notes	$31.0	$31.0
8.75% Senior Unsecured Notes	20.0	2.0
2007 Credit Agreement, including swap contracts	8.0	28.8
ABL Agreement borrowings	1.9	0.2
Deferred financing fees amortization	2.3	2.9
Other interest expense	2.7	3.4
	65.9	68.3
Interest income	(0.3)	(0.3)
	$65.6	$68.0

Interest expense in both 2011 and 2010 included net expenses of $8.0 million related to terminated interest rate swap contracts. The losses on these swap contracts were initially recorded in other comprehensive loss and are being amortized to interest expense over the original lives of the swap contracts, which would have matured at various dates through May 2012. Interest expense decreased by $2.4 million primarily due to a lower effective interest rate.

Loss on early extinguishment of debt in 2010 represents writing off deferred financing fees pursuant to debt prepayments.

The income tax benefit for 2010 included a $2.2 million expense related to the repatriation of earnings from Canada. After the divestiture of a Canadian business early in 2010, we determined the Canadian operations no longer needed approximately $21 million of cash, which we repatriated. Excluding this item, the income tax benefit in 2010 would have resulted in an effective tax rate of 37%. In 2011 and 2010, the other differences between income taxes and that expected using the U.S. federal statutory rate of 35% related primarily to state income taxes and non-deductible compensation.

Segment Analysis

Mueller Co.

Net sales in 2011 decreased to $605.5 million from $612.8 million in 2010. Net sales decreased due to $30.8 million of lower shipment volumes, partially offset by $18.9 million of higher pricing and $4.6 million of favorable Canadian currency exchange rates.

Gross profit in 2011 decreased to $147.0 million from $170.3 million in 2010. Gross profit decreased $17.1 million due to higher raw material costs, $13.7 million due to higher net manufacturing costs and $12.2 million due to lower shipment volumes. Higher net manufacturing costs consisted primarily of generally comparable fixed costs allocated over lower production levels in 2011, which were offset by certain manufacturing and other cost savings. These factors were partially offset primarily by $18.9 million of higher sales pricing. Gross margin decreased to 24.3% in 2011 compared to 27.8% in 2010. Gross margin decreased primarily due to higher manufacturing costs.

Excluding restructuring charges, income from operations in 2011 was $55.2 million compared to $81.1 million in 2010. This decrease was primarily due to decreased gross profit of $23.3 million and higher selling, general and administrative expenses of $2.6 million. Expenses associated with the development of our newer technology businesses contributed to the higher selling, general and administrative expenses.

US Pipe

Net sales in 2011 decreased to $374.6 million from $377.8 million in 2010. Net sales decreased $29.4 million due to lower shipment volumes partially offset by $26.2 million of higher pricing.

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Gross loss in 2011 improved by $8.7 million to a loss of $14.0 million from $22.7 million in 2010. Gross loss benefited from $26.2 million of higher sales pricing and $7.6 million of manufacturing and other cost savings. These factors were partially offset by $17.9 million of higher raw material costs and $7.2 million of lower shipment volumes. Gross loss margin improved to 3.7% in 2011 from 6.0% in the prior year period. Gross loss margin improved primarily due to improved pricing and manufacturing and other cost savings.

In 2010, we closed US Pipe's manufacturing facility in North Birmingham, Alabama and recorded restructuring charges of $3.9 million in 2011 and $12.5 million in 2010. These restructuring charges in 2011 were primarily for environmental items and in 2010 included $4.4 million of asset impairment and $7.6 million of employee-related charges.

Excluding restructuring charges, the loss from operations improved by $11.1 million to $42.1 million in 2011 compared to $53.2 million in 2010. This improvement was due primarily to the reduced gross loss in 2011.

Anvil

Net sales in 2011 increased to $359.1 million from $346.9 million in 2010. Net sales increased $37.3 million excluding net sales of $25.1 million of two divested businesses in 2010. Net sales increased $25.0 million due to higher shipment volumes and $11.7 million due to higher pricing.

Gross profit in 2011 increased to $101.1 million from $88.8 million in 2010. Gross profit increased $11.7 million due to higher sales pricing, $7.3 million from manufacturing and other cost savings and $6.0 million from higher shipment volumes. These factors were partially offset primarily by $8.0 million of higher raw material costs and the loss of $5.5 million of gross profit from the divested businesses. Gross margin was 28.2% in 2011 compared to 25.6% in 2010. Gross margin improved primarily as a result of manufacturing and other cost savings.

Excluding restructuring charges, income from operations in 2011 increased to $33.0 million from $22.6 million in 2010. Selling, general and administrative expenses in 2010 included $4.4 million of gains from the sale of two businesses. Excluding these gains, income from operations increased $14.8 million due to $12.3 million of higher gross profit and $2.5 million of lower selling, general and administrative expenses, primarily as a result of expenses related to the divested businesses.

Corporate

Selling, general and administrative expenses decreased to $31.9 million in 2011 from $33.4 million in 2010 primarily due to lower employee-related costs.

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Year Ended September 30, 2010 Compared to Year Ended September 30, 2009

	Year ended September 30, 2010				
	Mueller Co.	US Pipe	Anvil	Corporate	Total
	(in millions)				
Net sales	$612.8	$377.8	$346.9	$—	$1,337.5
Gross profit (loss)	$170.3	$(22.7)	$88.8	$—	$236.4
Operating expenses:					
Selling, general and administrative	89.2	30.5	66.2	33.4	219.3
Restructuring	0.1	12.5	0.5	—	13.1
	89.3	43.0	66.7	33.4	232.4
Income (loss) from operations	$81.0	$(65.7)	$22.1	$(33.4)	4.0
Interest expense, net					68.0
Loss on early extinguishment of debt, net					4.6
Loss before income taxes					(68.6)
Income tax benefit					(23.4)
Net loss					$(45.2)

	Year ended September 30, 2009				
	Mueller Co.	US Pipe	Anvil	Corporate	Total
	(in millions)				
Net sales	$547.1	$410.9	$469.9	$—	$1,427.9
Gross profit (loss)	$134.3	$(5.7)	$128.2	$0.1	$256.9
Operating expenses:					
Selling, general and administrative	84.2	35.6	84.9	34.4	239.1
Impairment	818.7	59.5	92.7	—	970.9
Restructuring	2.0	41.6	4.0	0.2	47.8
	904.9	136.7	181.6	34.6	1,257.8
Loss from operations	$(770.6)	$(142.4)	$(53.4)	$(34.5)	(1,000.9)
Interest expense, net					78.3
Loss on early extinguishment of debt, net					3.8
Loss before income taxes					$(1,083.0)
Income tax benefit					(86.3)
Net loss					$(996.7)

Consolidated Analysis

Net sales for 2010 decreased to $1,337.5 million from $1,427.9 million in 2009. Net sales decreased $90.0 primarily due to the divestiture of two Anvil businesses and $35.8 million due to lower pricing at US Pipe. These decreases were partially offset by $20.5 million due to higher shipment volumes and $14.9 million due to favorable changes in Canadian currency exchange rates.

Gross profit for 2010 decreased to $236.4 million from $256.9 million in 2009. Gross profit decreased $35.8 million due to lower sales prices and $15.7 million due to the divestiture of two Anvil businesses. These decreases were partially offset by $17.2 million of manufacturing and other cost savings. Gross margin decreased to 17.7% for 2010 from 18.0% for 2009.

Selling, general and administrative expenses for 2010 decreased to $219.3 million from $239.1 million in 2009 primarily due to the divestiture of two Anvil businesses.

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During 2009, we suspended production throughout the Company for varying time periods in response to reduced demand for our products, implemented temporary compensation reductions, furloughs and reduced work weeks for certain employees and directors and reduced headcount by approximately 17%. Restructuring activities at North Birmingham resulted in lower fixed costs, reduced capacity and a $38.5 million non-cash restructuring charge, primarily for impairment of property, plant and equipment. 2009 restructuring charges also included $9.3 million of mostly severance and other charges.

We closed US Pipe's North Birmingham facility and recorded a restructuring charge of $12.0 million during 2010, consisting of $4.4 million of asset impairment charges and $7.6 million of employee-related and other charges.

During 2009, we recorded impairment charges of $970.9 million relating to goodwill and other intangible assets.

Interest expense, net was $68.0 million for 2010 compared to $78.3 million in 2009. The components of interest expense, net are detailed below.

	2010	2009
	(in millions)	
7.375% Senior Subordinated Notes	$31.0	$31.0
8.75% Senior Unsecured Notes	2.0	—
2007 Credit Agreement, including swap contracts	28.8	43.9
ABL Agreement borrowings	0.2	—
Deferred financing fees amortization	2.9	2.2
Other interest expense	3.4	2.9
	68.3	80.0
Interest income	(0.3)	(1.7)
	$68.0	$78.3

Net interest expense for 2010 declined from 2009 primarily due to lower borrowing levels under the 2007 Credit Agreement resulting from principal prepayments in June 2009, August 2009, September 2009, January 2010 and the termination of this agreement in August 2010. Some of these prepayments led to the cancellation of interest rate swap contracts. All deferred interest expense under interest rate swap contracts at such times was either immediately charged to expense or scheduled to be expensed over the remainder of the original term of the contracts.

Loss on early extinguishment of debt represents writing off deferred financing fees pursuant to debt prepayments. A net gain of $1.5 million from repurchasing $5.0 million of our 7.375% Senior Subordinated Notes on the open market is also included in 2009.

The income tax benefit for 2010 included a $2.2 million expense related to the repatriation of earnings from Canada. After the divestiture of a Canadian business early in 2010, we determined the Canadian operations no longer needed approximately $21 million of cash, which we repatriated. Excluding this item, income tax benefit in 2010 would have resulted in an effective tax rate of 37%. There was very limited income tax benefit associated with the goodwill impairment recorded in 2009. Excluding goodwill impairment, the effective tax rate for 2009 was 38%. In 2010 and 2009, the other differences between income taxes and that expected using the U.S. federal statutory rate of 35% related primarily to state income taxes and non-deductible compensation.

Segment Analysis

Mueller Co.

Net sales for 2010 increased to $612.8 million from $547.1 million in 2009. Net sales increased primarily due to $55.7 million in higher shipment volumes.

Gross profit for 2010 increased to $170.3 million from $134.3 million in 2009. Gross profit increased $20.3 million due to higher shipment volumes and $16.8 million due to manufacturing and other cost savings. Gross margin was 27.8% in 2010 compared to 24.5% in 2009. Gross margin increased primarily due to manufacturing and other cost savings.

Selling, general and administrative expenses in 2010 increased to $89.2 million from $84.2 million in 2009. These expenses increased primarily due to additional development of our Mueller Systems meter and metering technology business.

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We recorded in 2009 impairment and restructuring charges of $820.7 million. The impairment charges were $717.3 million against goodwill and $101.4 against other intangible assets.

US Pipe

Net sales for 2010 decreased to $377.8 million from to $410.9 million in 2009. Net sales decreased $36.3 million due to lower prices.

Gross loss for 2010 increased to $22.7 million from $5.7 million in 2009. Gross loss increased primarily due to $36.3 million of lower sales prices. This increase was partially offset by $9.6 million of lower raw material costs and $10.9 million of manufacturing and other cost savings.

Selling, general and administrative expenses for 2010 decreased to $30.5 million from $35.6 million in 2009. The amount in 2009 included $3.2 million of bad debt expense for a specific customer. The decrease in these expenses is otherwise attributed primarily to lower headcount.

We closed our North Birmingham facility and recorded restructuring charges of $12.0 million during 2010, consisting of $4.4 million of asset impairment charges and $7.6 million of employee-related and other charges.

In 2009, we recorded impairment and restructuring charges of $101.1 million, which included goodwill impairment of $59.5 million and a non-cash restructuring charge of $38.5 million, primarily for impairment of property, plant and equipment, at our North Birmingham facility.

Anvil

Net sales for 2010 decreased to $346.9 million from $469.9 million in 2009. Net sales decreased $90.0 million due to divested businesses and $38.4 million due to lower shipment volumes.

Gross profit for 2010 decreased to $88.8 million from $128.2 million in 2009. Gross profit decreased $15.7 million due to divested businesses, $13.5 million due to lower shipment volumes and $10.4 million due to higher manufacturing and other costs. Gross margin was 25.6% in 2010 compared to 27.3% in 2009. Gross margin decreased primarily due to higher per-unit overhead costs, partially offset by eliminating the lower margin divested businesses.

Selling, general and administrative expenses for 2010 decreased to $66.2 million from $84.9 million in 2009. These expenses declined $16.3 million related to the divested businesses. The amount in 2010 included $4.4 million of gains from the sale of divested businesses. The amount in 2009 included a $3.5 million gain from the sale of a building.

We recorded impairment and restructuring charges of $96.7 million in 2009.

Corporate

Selling, general and administrative expenses for 2010 decreased to $33.4 million from $34.4 million in 2009. This decrease was primarily due to $1.2 million of fees incurred in 2009 related to the conversion of Series B common stock into Series A common stock.

Financial Condition

Cash and cash equivalents were $61.2 million at September 30, 2011 compared to $83.7 million at September 30, 2010. Cash and cash equivalents decreased during 2011 as a result of cash used in investing and financing activities of $39.3 million and $22.9 million, respectively, offset by cash provided by operating activities of $40.1 million. Cash and cash equivalents decreased $0.4 million during 2011 due to changes in currency exchange rates.

Receivables, net were $220.8 million at September 30, 2011 compared to $202.5 million at September 30, 2010. Receivables at September 30, 2011 represented approximately 53.8 days net sales compared to September 30, 2010 receivables representing approximately 53.2 days net sales.

Inventories were $237.7 million at September 30, 2011 compared to $268.4 million at September 30, 2010. We continue improving our processes to minimize inventory levels. Inventory turns per year during 2011 improved compared to 2010.

Property, plant and equipment, net was $243.8 million at September 30, 2011 compared to $264.4 million at September 30, 2010. Capital expenditures were $31.5 million and depreciation expense was $51.5 million in 2011.

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Identifiable intangible assets were $610.9 million at September 30, 2011 compared to $632.4 million at September 30, 2010. Finite-lived intangible assets, $309.9 million of net book value at September 30, 2011, are amortized over their estimated useful lives. Such amortization expense was $30.1 million during 2011 and is expected to be a similar amount for each of the next five years. Indefinite-lived identifiable intangible assets, $301.0 million at September 30, 2011, are not amortized, but tested at least annually for possible impairment.
Accounts payable and other current liabilities were $193.9 million at September 30, 2011 compared to $183.0 million at September 30, 2010. Payment patterns for various purchases vary significantly, ranging from payroll that is paid frequently to incentive compensation and customer rebates that might only be paid once per year.
Outstanding borrowings were $678.3 million at September 30, 2011 compared to $692.2 million at September 30, 2010. The decrease of $13.9 million during 2011 was due primarily to repayments of $15 million of borrowings under our ABL Agreement.
Deferred income taxes were net liabilities of $125.5 million at September 30, 2011 compared to net liabilities of $135.2 million at September 30, 2010. Deferred tax liabilities related to property, plant and equipment and identifiable intangible assets were $238.6 million and $247.9 million at September 30, 2011 and 2010, respectively.

Liquidity and Capital Resources
We had cash and cash equivalents of $61.2 million and $130.8 million of additional borrowing capacity under our asset based lending agreement (the “ABL Agreement”) at September 30, 2011.
Cash flows from operating activities are categorized below.

	2011		2010	
	(in millions)			
Collections from customers	$1,320.8		$1,339.1	
Disbursements, other than interest and income taxes	(1,221.3	)	(1,227.8	)
Interest payments, net	(54.8	)	(77.5	)
Income tax refunds (payments), net	(4.6	)	29.2	
Cash provided by operating activities	$40.1		$63.0	

Collections of receivables were lower during 2011 compared to 2010 due primarily to the relatively low level of net sales in the 2010 fourth quarter.
Reduced disbursements, other than interest and income taxes, during 2011 reflect timing differences of material, labor and overhead purchased.
Interest payments in 2010 included $18.3 million to cancel interest rate swap contracts. Interest payments do not include $0.4 million and $9.8 million in 2011 and 2010, respectively, that were capitalized as deferred financing fees.
A $26.2 million income tax refund was received in 2010 by carrying back the 2009 losses to earlier years.
Capital expenditures were $31.5 million during 2011 compared to $32.8 million during 2010. Also during 2011, Mueller Co. acquired Echologics, a water leak detection and pipe condition and diagnostic assessment company, for $7.9 million and purchased automated flushing systems technologies for $1.3 million. 2012 capital expenditures are estimated to be between $35 million and $40 million.
Our U.S. pension plan was 80% funded at January 1, 2011 under the provisions of the PPA. A significant portion of the assets invested in our defined benefit pension plans is invested in equity securities. If we lower our estimated rate of return on these assets, this would cause pension expense to increase and require higher levels of Company contributions to these plans. We currently estimate contributing between $20 million and $22 million to our pension plans during 2012.
We anticipate that our existing cash, cash equivalents and borrowing capacity combined with our expected operating cash flows will be sufficient to meet our anticipated operating expenses, capital expenditures, pension contributions and debt service obligations as they become due through September 30, 2012. However, our ability to make these payments will depend partly upon our future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

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ABL Agreement

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

Borrowings under the ABL Agreement bear interest at a floating rate equal to LIBOR plus a margin ranging from 275 to 325 basis points, or a base rate as defined in the ABL Agreement plus a margin ranging from 175 to 225 basis points. At September 30, 2011, the applicable rate was LIBOR plus 300 basis points.

The ABL Agreement terminates in August 2015 and had outstanding borrowings of $34.0 million at September 30, 2011. We pay a commitment fee of 50 basis points for any unused borrowing capacity under the ABL Agreement. The borrowing capacity under the ABL Agreement is not subject to any financial maintenance covenants unless excess availability is less than the greater of $34 million and 12.5% of the aggregate commitments under the ABL Agreement. Excess availability, as reduced by outstanding borrowings, outstanding letters of credit and accrued fees and expenses of $38.9 million, was $165.2 million at September 30, 2011. At September 30, 2011, our additional borrowing capacity was $130.8 million.

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

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

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

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

8.75% Senior Unsecured Notes

We owed $225 million of principal of 8.75% Senior Unsecured Notes at September 30, 2011. Interest on the Senior Unsecured Notes is paid semi-annually and the principal is due September 2020. We may redeem up to $22.5 million of the Senior Unsecured Notes at a redemption price of 103% plus accrued and unpaid interest once each year ending September 1, 2012 and 2013. We may also redeem up to $78.8 million of the original issued principal amount of the Senior Unsecured Notes at a redemption price of 108.75%, plus accrued and unpaid interest, with the net cash proceeds from certain equity offerings prior to September 2013, provided that at least $146.2 million remains outstanding immediately after such redemption. After August 2015, the Senior Unsecured Notes may be redeemed at specified redemption prices plus accrued and unpaid interest. Upon a “Change of Control” (as defined in the indenture securing the Senior Unsecured Notes), we are required to offer to purchase the outstanding Senior Unsecured Notes at a purchase price of 101%, plus accrued and unpaid interest. The Senior Unsecured Notes are essentially guaranteed by all of our U.S. subsidiaries, but are subordinate to borrowings under the ABL Agreement.

7.375% Senior Subordinated Notes

We also owed $420 million of principal of 7.375% Senior Subordinated Notes (“Senior Subordinated Notes”) at September 30, 2011. Interest on the Senior Subordinated Notes is payable semi-annually and the principal is due June 2017. After May 2012, we may redeem any portion of the Senior Subordinated Notes at specified redemption prices plus accrued and unpaid interest. Upon a “Change of Control” (as defined in the indenture securing the Senior Subordinated Notes), we are required to offer to purchase the outstanding Senior Subordinated Notes at 101%, plus accrued and unpaid interest. The Senior Subordinated Notes are secured by the guarantees of essentially all of our

U.S. subsidiaries, but are subordinate to the borrowings under the ABL Agreement and the Senior Unsecured Notes.