Mueller Water Products, Inc.
Form 10-Q/A
February 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1 to Form 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended April 2, 2005.**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 333-116590

MUELLER WATER PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

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

4211 W. Boy Scout Blvd.
Tampa, FL 33607
(Address of principal executive offices)

(813) 871-4811

(Registrant s telephone number, including area code)

Mueller Water Products, LLC
500 West Eldorado Street
Decatur, IL 62522-1808

(Former Name and Former Address if Changed Since Last Reported)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.) Yes o No x

	Common Stock	Shares Outstanding As of May 6, 2005
Class A	$0.01 Par Value	131,208,998
Class B	$0.01 Par Value	89,343,699

Explanatory Note

Organizational Change

Mueller Water Products, Inc., a Delaware corporation (the Company), was formerly known as Mueller Holding Company, Inc., and, effective February 2, 2006, is the successor issuer to Mueller Water Products, LLC, a Delaware limited liability company, pursuant to Rule 15d-5 promulgated under the Securities and Exchange Act of 1934, as amended.

Purpose of Amendment to Quarterly Report

The purpose of this Amendment No. 1 to the Quarterly Report on Form 10-Q of the Company is to restate the Company s consolidated financial statements as of and for the three and six months ended April 2, 2005. On December 14, 2005, the Company s management and the Audit Committee of the Board of Directors determined that the financial statements of the Company for the two years ended September 30, 2004 and interim periods of fiscal years 2005 and 2004 required restatement.

The 2005 Restatements reflect adjustments to correct cash flow statement errors related to foreign currency translation and book cash overdrafts, the misclassification of deferred income tax assets between current and non-current classifications in the balance sheet and the misclassification of depreciation expense between selling, general and administrative expense and cost of sales. The 2005 Restatements had no impact on the Company s consolidated net income or the Consolidated Statement of Stockholders Deficit. The nature and impact of these adjustments are described in Note 2: Restatements in this Form 10-Q/A.

For the convenience of the reader, this Form 10-Q/A sets forth the original Form 10-Q in its entirety. Except for the revision of management s conclusion regarding the effectiveness of the Company s disclosure controls and procedures as of April 2, 2005 presented under Part1, Item 4, the Company has not modified or updated other disclosures presented in the original report on Form 10-Q except for the required effects of the restatement. Accordingly, other than the items indicated above, this Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures. Information not affected by the restatement is unchanged and reflects the disclosure made at the time of the original filing of the Form 10-Q with the Securities and Exchange Commission on May 13, 2005. Accordingly, this Form 10-Q/A should be read in conjunction with the Company s filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q. The following items have been amended as a result of the restatement:

- Part I Item 1. Unaudited Financial Statements
- Part I Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
- Part I Item 4. Controls and Procedures; and
- Part II Item 6. Exhibits

MUELLER WATER PRODUCTS, INC.
REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED APRIL 2, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MUELLER WATER PRODUCTS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2004 (restated)	April 2, 2005 (restated)
	(unaudited)	
	(dollars in millions)	
Assets		
Cash and cash equivalents	$ 60.5	$ 56.9
Receivables, net of allowance for doubtful accounts of $5.1 and $5.3, respectively	162.0	163.7
Inventories	260.2	304.0
Income taxes receivable	4.1	3.7
Deferred income taxes	21.8	23.5
Prepaid expenses and other current assets	28.9	27.6
Total current assets	537.5	579.4
Property, plant and equipment, net	186.8	177.1
Goodwill, net	163.2	163.2
Identifiable intangibles, net	55.2	53.8
Pension intangible	0.8	0.8
Deferred financing fees, net	37.4	34.8
Deferred income taxes	8.3	9.6
Total assets	$ 989.2	$ 1,018.7
Liabilities		
Accounts payable	$ 57.6	$ 61.0
Current portion of long-term debt	3.2	3.9
Accrued expenses and other current liabilities	85.9	84.3
Total current liabilities	146.7	149.2
Long-term debt, net of current portion	1,036.2	1,043.8
Accrued pension liability	29.2	32.3
Other long-term liabilities	7.8	4.8
Total liabilities	1,219.9	1,230.1
Commitments and contingencies (Note 9)		
Redeemable common stock	1.7	1.7
Shareholders equity		
Common stock:		
Class A, $0.01 par value (400,000,000 shares authorized and 131,208,998 issued)	1.3	1.3
Class B, $0.01 par value, convertible, non-voting (150,000,000 shares authorized and 89,343,699 shares issued)	0.9	0.9
Additional paid-in capital		
Accumulated deficit	(218.6)	(202.7)
Accumulated other comprehensive loss	(16.0)	(12.6)
Total shareholders equity	(232.4)	(213.1)
Total liabilities and shareholders equity	$ 989.2	$ 1,018.7

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

MUELLER WATER PRODUCTS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended	
	March 27, 2004	April 2, 2005
	(restated)	(restated)
	(unaudited)	
	(dollars in millions)	
Net sales	$ 236.3	$ 285.2
Cost of sales	171.4	199.0
Gross profit	64.9	86.2
Selling, general and administrative expense, including stock compensation expense	38.4	46.0
Facility rationalization, restructuring and related costs	0.9	1.5
Operating income	25.6	38.7
Interest expense and early repayment costs	(6.7)	(23.5)
Interest income	0.2	0.2
Income before income taxes	19.1	15.4
Income tax expense	7.7	6.2
Net income	$ 11.4	$ 9.2

	Six months ended	
	March 27, 2004	April 2, 2005
	(restated)	(restated)
	(unaudited)	
	(dollars in millions)	
Net sales	$ 456.5	$ 541.3
Cost of sales	334.7	380.9
Gross profit	121.8	160.4
Selling, general and administrative expense, including stock compensation expense.	75.4	87.9
Facility rationalization, restructuring and related costs	0.9	1.6
Operating income	45.5	70.9
Interest expense and early repayment costs	(20.4)	(44.6)
Interest income	0.4	0.6
Income before income taxes	25.5	26.9
Income tax expense	10.2	11.0
Net income	$ 15.3	$ 15.9

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

MUELLER WATER PRODUCTS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended	
	March 27, 2004	April 2, 2005
	(restated)	(restated)
	(unaudited)	
	(dollars in millions)	
Cash flows from operating activities		
Net income	$ 15.3	$ 15.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23.2	22.6
Amortization of intangibles and tooling	10.0	2.8
Unrealized gain on interest rate swaps	(6.3)	(2.9)
All other adjustments	2.3	(0.2)
Changes in assets and liabilities, net of the effects of acquisitions:		
Receivables	(14.0)	(0.6)
Inventories	(15.4)	(42.1)
Accounts payable and accrued expenses	(8.3)	(3.8)
All other changes, net	3.4	14.0
Net cash provided by operating activities	10.2	5.7
Cash flows from investing activities		
Purchase of property, plant and equipment	(11.0)	(13.6)
Acquisition of businesses, net of cash acquired	(19.8)	
Net cash used in investing activities	(30.8)	(13.6)
Cash flows from financing activities		
Book cash overdrafts	5.9	4.9
Proceeds from short-term borrowings	9.2	
Payment of long-term debt, including capital lease obligations	(51.8)	(1.2)
Payment of deferred financing fees	(0.8)	
Net cash provided by (used in) financing activities	(37.5)	3.7
Effect of exchange rate changes on cash	0.4	0.6
Decrease in cash and cash equivalents	(57.7)	(3.6)
Cash and cash equivalents		
Beginning of period	73.0	60.5
End of period	$ 15.3	$ 56.9

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

MUELLER WATER PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED MARCH 27, 2004 AND APRIL 2, 2005
(UNAUDITED)

1. Basis of Presentation

Mueller Water Products, Inc. (formerly Mueller Holdings (N.A.), Inc.) (Mueller Water or the Company) is the parent company of Mueller Group, Inc. (Group). The accompanying unaudited condensed consolidated financial statements of Mueller Water Products, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, the unaudited condensed consolidated financial statements and notes do not contain certain information included in the Company s annual financial statements. In the opinion of management, all normal and recurring adjustments that are considered necessary for a fair financial statement presentation have been made. Operating results for the three and six months ended April 2, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2005. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2004 as found in the Company s Annual Report on Form 10-K.

2. Restatements

This note is comprised of two sections: 2005 Restatements and 2004 Restatements. The 2004 Restatements were previously reported in the original Form 10-Q.

2005 Restatements

In the course of finalizing the September 30, 2005 financial statements, the Company determined that certain items included in the Statements of Consolidated Cash Flows, the Consolidated Statements of Operations and the Consolidated Balance Sheets were not properly classified in annual and interim periods. The interim financial statements for the three and six months ended March 27, 2004 and April 2, 2005, respectively, were restated for the following items:

Effect of exchange rate changes on cash

In interim periods during fiscal 2004 and 2005, the Company presented the entire change related to foreign currency translation in the Effect of exchange rate changes on cash line item in the Statements of Consolidated Cash Flows. The portion of cash flow changes related to increases or decreases in assets and liabilities associated with operating, investing and financing activities did not consider the amount of the change related to foreign currency translation.

Book cash overdrafts

In interim periods during fiscal 2004 and 2005, cash accounts in book cash overdraft positions were netted with accounts where legal right of offset did not exist. On the Consolidated Balance Sheets, cash and cash equivalents should have increased and a liability recorded with respect to such book cash overdrafts by comparable amounts. The change in the book cash overdraft should have been reflected as a financing activity in the Statements of Consolidated Cash Flows and should have been included in accounts payable and as an increase in cash and cash equivalents in the Consolidated Balance Sheet as of April 2, 2005.

Current and Non-current deferred income taxes

In interim periods during fiscal 2004 and 2005, the Company should have classified certain deferred income tax assets as current in the Consolidated Balance Sheets, based on the nature of the underlying temporary difference, but included such temporary differences incorrectly as non-current.

Misclassification of depreciation expense

In interim periods during fiscal 2004 and 2005, the Company incorrectly classified certain depreciation expense amounts as selling, general and administrative expense in the Consolidated Statements of Operations when it should have been reported as cost of sales.

The 2005 Restatements had no impact on the Company s consolidated net income or the Consolidated Statement of Stockholders Deficit for any of the prior periods presented.

<u>2004 Restatements</u>

In November 2004, our Audit Committee was notified of alleged potential accounting improprieties concerning our accounting for inventory reserves and certain questions concerning revenue recognition. The Audit Committee appointed an independent law firm to investigate the allegations. The report identified several areas requiring financial review by the Company principally concerning accounting for excess and obsolete (E&O) inventory, the capitalization of costs relating to a project that should have been expensed in prior periods, the accrual of reserves for this project without identifying support for such accruals and the timing of recognition of revenue with regard to full truckload shipments that were not immediately dispatched to customers by certain freight carriers used by the Company. The Company also identified some additional annual and interim items recorded in incorrect periods in the course of finalizing the 2004 financial statements. In addition, the Company determined that the value it assigned to stock compensation in connection with its April 2004 recapitalization should be revised. As a result of these findings, the Company restated its annual and interim financial statements.

The interim financial statements for the three and six months ended March 27, 2004 were restated for the following items:

Inventory valuation adjustments

The Company determined that certain reports utilized in the assessment and establishment of excess and obsolete provisions were inaccurate and that certain items were erroneously eliminated from the provision. The interim financial statements were restated to reflect the decrease in inventory value and increase in cost of goods sold to reflect the adjustment to properly record the provision for excess and obsolete inventory reserves.

Research and development costs

The Company purchased certain inventory and tooling for a development project that was initially recorded in inventory and capitalized to the extent such cost related to tooling. As there were no alternative future uses for these items, they should have been recorded as an expense as they were incurred and no expense should have been recorded in 2004 interim periods. The interim financial statements were restated to reflect this as a research and development expense (Selling, General & Administrative) in the proper periods.

Revenue recognition adjustments

Revenues related to certain full-truckload customer shipments which were not immediately dispatched to customers by certain freight carriers used by the Company originally recognized should have been deferred until such time as the trucks were dispatched and the products delivered to the customer. The interim financial statements were restated to reflect the recognition of revenue in the proper periods.

Inventory journal entries

Unauthorized journal entries were recorded, which increased the value of inventory inappropriately. The interim financial statements were restated to reduce the inventory value and increase cost of goods sold.

Intercompany profit elimination

There was an error, which initially arose in the first quarter of 2004, in the estimated amount of intercompany profit elimination recorded during the interim periods in the year ended September 30, 2004.

Deferred financing fees

Previously expensed financing fees associated with an amendment to our senior credit facility in the first quarter of 2004 which were expensed should have been capitalized and amortized over the remaining term of the facility.

Income tax effect of adjustments

As a result of the aforementioned adjustments, the income tax provisions in the interim financial statements were also revised.

The following tables set forth the effects of the 2005 and 2004 Restatements discussed above on the financial statements as of April 2, 2005 and for the three and six months ended March 27, 2004 and April 2, 2005 as follows:

Consolidated Statement of Operations

	Three months ended March 27, 2004			**Six months ended March 27, 2004**		
	as originally reported(A) (unaudited) (dollars in millions)	**as restated for 2004 Restatements(B) (unaudited)**	**as restated for 2005 Restatements (unaudited)**	**as originally reported(A) (unaudited)**	**as restated for 2004 Restatements(B) (unaudited)**	**as restated for 2005 Restatements (unaudited)**
Net sales	$ 236.9	$ 236.3	$ 236.3	$ 454.9	$ 456.5	$ 456.5
Cost of sales	169.4	169.7	171.4	328.0	331.2	334.7
Gross profit	67.5	66.6	64.9	126.9	125.3	121.8
Selling, general and administrative expense, including stock compensation expense	40.2	40.1	38.4	79.3	78.9	75.4
Facility rationalization and related costs	0.9	0.9	0.9	0.9	0.9	0.9
Operating income	26.4	25.6	25.6	46.7	45.5	45.5
Interest expense and early repayment costs	(6.7)	(6.7)	(6.7)	(21.2)	(20.4)	(20.4)
Interest income	0.2	0.2	0.2	0.4	0.4	0.4
Income before income taxes	19.9	19.1	19.1	25.9	25.5	25.5
Income tax expense	8.0	7.7	7.7	10.4	10.2	10.2
Net income	$ 11.9	$ 11.4	$ 11.4	$ 15.5	$ 15.3	$ 15.3

The following table shows the effects of the various 2004 Restatements on net income. The 2005 Restatements had no impact on the Company s consolidated net income.

	Three months ended March 27, 2004 (unaudited) (dollars in millions)	Six months ended March 27, 2004 (unaudited)
Net income, as originally reported(A)	$ 11.9	$ 15.5
Increased (decreased) pretax earnings:		
Inventory valuation adjustments	(0.1)	(0.1)
Research & development costs	0.1	0.4
Revenue recognition adjustments	(0.2)	0.5
Inventory journal entries		(0.2)
Intercompany profit elimination	(0.6)	(1.8)
Deferred financing fees		0.8
Total pre-tax adjustments	(0.8)	(0.4)
Income tax effect of adjustments	0.3	0.2
Net income, as restated(B)	$ 11.4	$ 15.3

	Three months ended April 2, 2005		Six months ended April 2, 2005	
	as originally reported(C) (unaudited) (dollars in millions)	as restated for 2005 Restatements (unaudited)	as originally reported(C) (unaudited)	as restated for 2005 Restatements (unaudited)
Cost of sales	$ 197.3	$ 199.0	$ 377.5	$ 380.9
Gross profit	$ 87.9	$ 86.2	$ 163.8	$ 160.4
Selling, general and administrative expense, including stock compensation expense	$ 47.7	$ 46.0	$ 91.3	$ 87.9

Consolidated Balance Sheets

	September 30, 2004		April 2, 2005	
	as originally reported(C) (unaudited) (dollars in millions)	as restated for 2005 Restatements (unaudited)	as originally reported(C) (unaudited)	as restated for 2005 Restatements (unaudited)
Cash and cash equivalents	$ 55.6	$ 60.5	$ 47.1	$ 56.9
Deferred income taxes current	$ 9.0	$ 21.8	$ 9.9	$ 23.5
Current assets	$ 519.8	$ 537.5	$ 556.0	$ 579.4
Deferred income taxes non-current	$ 21.1	$ 8.3	$ 23.2	$ 9.6
Total assets	$ 984.3	$ 989.2	$ 1,008.9	$ 1,018.7
Accounts payable	$ 52.7	$ 57.6	$ 51.2	$ 61.0
Total current liabilities	$ 141.8	$ 146.7	$ 139.4	$ 149.2
Total liabilities	$ 1,215.0	$ 1,219.9	$ 1,220.3	$ 1,230.1
Total liabilities and shareholders deficit	$ 984.3	$ 989.2	$ 1,008.9	$ 1,018.7

Statements of Consolidated Cash Flows

	Six months ended March 27, 2004			Six months ended April 2, 2005	
	as originally reported(A) (unaudited) (dollars in millions)	as restated for 2004 Restatements(B) (unaudited)	as restated for 2005 Restatements (unaudited)	as originally reported(C) (unaudited)	as restated for 2005 Restatements (unaudited)
Cash flows from operating activities:					
All other adjustments	$ 2.5	$ 2.3	$ 2.3	$ (0.1)	$ (0.2)
Receivables	$ (12.9)	$ (14.5)	$ (14.0)	$ (1.7)	$ (0.6)
Inventories	$ (18.6)	$ (16.3)	$ (15.4)	$ (43.8)	$ (42.1)
Accounts payable, accrued expenses and other current liabilities	$ (7.6)	$ (7.9)	$ (8.3)	$ (3.1)	$ (3.8)
Other, net	$ 3.3	$ 3.5	$ 3.4	$ 13.2	$ 14.0
Cash flows provided by operating activities	$ 9.1	$ 9.3	$ 10.2	$ 2.9	$ 5.7
Cash flows from financing activities:					
Book cash overdrafts	$	$	$ 5.9	$	$ 4.9
Cash flows used in financing activities	$ (42.8)	$ (43.4)	$ (37.5)	$ (1.2)	$ 3.7
Effect of exchange rate changes on cash	$ 1.3	$ 1.3	$ 0.4	$ 3.4	$ 0.6
Increase (decrease) in cash and cash equivalents	$ 63.1	$ (63.6)	$ (57.7)	$ (8.5)	$ (3.6)
Cash and cash equivalents beginning of period	$ 71.4	$ 71.4	$ 73.0	$ 55.6	$ 60.5
Cash and cash equivalents end of period	$ 8.3	$ 7.8	$ 15.3	$ 47.1	$ 56.9

Segment Information

	Three months ended March 27, 2004 as originally reported(A) (unaudited) (dollars in millions)	as restated for 2004 Restatements(B) (unaudited)	Six months ended March 27, 2004 as originally reported(A) (unaudited)	as restated for 2004 Restatements(B) (unaudited)
Net sales:				
Water infrastructure	$ 137.8	$ 137.2	$ 260.3	$ 261.9
Piping systems	99.1	99.1	194.6	194.6
Consolidated	$ 236.9	$ 236.3	$ 454.9	$ 456.5
Segment EBITDA:				
Water infrastructure	$ 36.6	$ 36.4	$ 66.2	$ 67.0
Piping systems	8.8	8.2	18.0	16.0
Total segment EBITDA	$ 45.4	$ 44.6	$ 84.2	$ 83.0
Operating income:				
Water infrastructure	$ 30.5	$ 30.3	$ 54.0	$ 54.8
Piping systems	4.5	3.9	9.6	7.6
Corporate	(8.6)	(8.6)	(16.9)	(16.9)
Consolidated	$ 26.4	$ 25.6	$ 46.7	$ 45.5

	At September 30, 2004 as originally reported(C) (unaudited) (dollars in millions)	as restated for 2005 Restatements (unaudited)	At April 2, 2005 as originally reported(C) (unaudited)	as restated for 2005 Restatements (unaudited)
Total assets:				
Water infrastructure	$ 500.0	$ 500.0	$ 508.6	$ 508.6
Piping systems	307.9	307.9	325.5	325.5
Corporate	176.4	181.3	174.8	184.6
Consolidated	$ 984.3	$ 989.2	$ 1,008.9	$ 1,018.7

(A) Represents the amounts originally reported before the 2004 and 2005 Restatements described herein.

(B) The 2004 Restatements were initially presented in the original fiscal year 2005 Form 10-Q filings. No previous Form 10-Q/A s were filed for the 2004 Restatements.

(C) Represents the amounts originally reported in the Form 10-Q in fiscal year 2005.

3. Segment Information

Our operations consist of two operating segments: water infrastructure and piping systems. Water infrastructure products consist primarily of hydrants, water and gas valves and related products used in water, power and gas distribution. Piping systems products consist primarily of pipe fittings and couplings, pipe nipples and hangers and purchased products related to piping systems used in a variety of applications.

Intersegment sales and transfers are made at established intersegment selling prices generally intended to cover costs. Our determination of segment earnings does not reflect allocations of certain corporate expenses not attributable to segment operations and intersegment eliminations, which we designate as Corporate in the segment presentation, and is before interest expense and early debt repayment costs, interest income and income taxes. Corporate expenses include costs related to financial and administrative matters, treasury, risk management, human resources, legal counsel, and tax functions. Corporate assets include items booked at the date of the Company s inception in 1999 related to purchase accounting valuation adjustments associated with property, plant and equipment and non-compete agreements with the predecessor parent company, as well as intangibles associated with intellectual property. These assets and any related depreciation or amortization expense were not pushed down to our water infrastructure products and piping systems products segments and are maintained as Corporate items. Therefore, segment earnings are not reflective of results on a stand-alone basis.

The Company evaluates segment performance based on segment EBITDA. Segment EBITDA is defined as net income plus income tax expense, interest expense (not net of interest income), depreciation and amortization expense. Segment assets consist primarily of accounts receivable, inventories, property, plant and equipment net, goodwill, and identifiable intangibles. Summarized financial information for our segments follows:

	Three months ended March 27, 2004	Three months ended April 2, 2005	Six months ended March 27, 2004	Six months ended April 2, 2005
	(restated)		(restated)	
Net Sales:				
Water infrastructure	$ 137.2	$ 170.1	$ 261.9	$ 308.7
Piping systems	99.1	115.1	194.6	232.6
Consolidated	236.3	285.2	456.5	541.3
Intersegment sales:				
Water infrastructure	3.1	3.4	6.1	6.8
Piping systems	0.2	0.1	0.3	0.3
Consolidated	3.3	3.5	6.4	7.1
Segment EBITDA:				
Water infrastructure	36.4	44.4	67.0	79.2
Piping systems	8.2	14.2	16.0	30.3
Total segment EBITDA	44.6	58.6	83.0	109.5
Depreciation and amortization:				
Water infrastructure	6.1	6.0	12.2	12.0
Piping systems	4.3	4.3	8.4	8.6
Corporate	6.3	2.5	12.6	4.8
Consolidated	16.7	12.8	33.2	25.4
Impairment charges:				
Water infrastructure				
Piping systems	0.1		0.1	
Corporate				
Consolidated	0.1		0.1	
Capital expenditures:				
Water infrastructure	3.6	6.2	6.2	9.0
Piping systems	2.9	2.1	4.8	3.9
Corporate		0.6		0.7
Consolidated	6.5	8.9	11.0	13.6

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	At September 30, 2004 (restated)	At April 2, 2005 (restated)
Total assets:		
Water infrastructure	$ 500.0	$ 508.6
Piping systems	307.9	325.5
Corporate	181.3	184.6
Consolidated	989.2	1,018.7
Goodwill:		
Water infrastructure	149.1	149.1
Piping systems	14.1	14.1
Consolidated	163.2	163.2
Identifiable intangibles:		
Water infrastructure	5.3	4.9
Piping systems	7.2	6.2
Corporate	42.7	42.7
Consolidated	55.2	53.8

The Company evaluates segment performance based on segment EBITDA. A reconciliation of segment EBITDA to consolidated income before income taxes follows:

	Three months ended March 27, 2004 (restated)	Three months ended April 2, 2005	Six months ended March 27, 2004 (restated)	Six months ended April 2, 2005
Total segment EBITDA	$ 44.6	$ 58.6	$ 83.0	$ 109.5
Unallocated corporate costs	(2.1)	(6.9)	(3.9)	(12.6)
Interest expense and early repayment costs	(6.7)	(23.5)	(20.4)	(44.6)
Depreciation and amortization	(16.7)	(12.8)	(33.2)	(25.4)
Income before income taxes	$ 19.1	$ 15.4	$ 25.5	$ 26.9

Geographical area information with respect to net sales, as determined by the location of the customer invoiced, and property, plant and equipment net, as determined by the physical location of the assets, were as follows for the three and six months ended March 27, 2004 and April 2, 2005:

	Three months ended March 27, 2004 (restated)	Three months ended April 2, 2005	Six months ended March 27, 2004 (restated)	Six months ended April 2, 2005
Net sales:				
United States	$ 195.7	$ 237.7	$ 382.0	$ 448.1
Canada	38.3	44.9	70.2	89.3
Other Countries	2.3	2.6	4.3	3.9
	$ 236.3	$ 285.2	$ 456.5	$ 541.3

	At September 30, 2004	At April 2, 2005
Property, plant and equipment, net:		
United States	$ 173.7	$ 163.9
Canada	11.7	11.8
Other Countries	1.4	1.4

		$	186.8		$	177.1

4. Summary of Significant Accounting Policies

Fiscal Year The Company s fiscal year ends on September 30. The Company s second quarter ends on the Saturday closest to March 31.

Inventory Inventories are recorded at the lower of cost (first-in, first-out) or market value. Additionally, the Company evaluates its inventory reserves in terms of excess and obsolete exposures. This evaluation includes such factors as anticipated usage, inventory turnover, inventory levels and ultimate product sales value. As such, these factors may change over time causing the reserve level to adjust accordingly.

Warranty Costs The Company accrues for the estimated cost of product warranties at the time of product sale based on historical experience. Adjustments to obligations for warranties are made as changes in the obligations become reasonably estimable. The following table summarizes information concerning the Company s product warranty obligations:

	Three months ended		Six months ended	
	March 27, 2004	**April 2, 2005**	**March 27, 2004**	**April 2, 2005**
Balance at beginning of period	$ 1.1	$ 1.3	$ 0.9	$ 1.6
Accruals for warranties	1.8	0.5	2.5	1.1
Settlement of warranty claims	(2.0)	(0.4)	(2.5)	(1.3)
Balance at end of period	$ 0.9	$ 1.4	$ 0.9	$ 1.4

Comprehensive Income The Company s comprehensive income for the three months ended March 27, 2004, and April 2, 2005 includes foreign currency translation losses of $(0.8) million and $(0.6) million, respectively. The Company s comprehensive income for the six months ended March 27, 2004 and April 2, 2005 includes foreign currency translation gains of $1.3 million and $3.4 million, respectively.

Related Party Transactions Substantially all of the outstanding shares of our common stock are held by the Donaldson, Lufkin & Jenrette (DLJ) Merchant Banking funds. We pay DLJ an annual advisory fee in connection with a financial advisory agreement. Credit Suisse First Boston LLC, an affiliate of DLJ, has received and will receive customary fees and reimbursement of expenses in connection with the arrangement and syndication of Group s senior credit facility and as a lender and agent thereunder. The aggregate amount of all fees incurred by the Company with these related parties in connection with advisory services and financing arrangements was approximately $0.1 million for each of the three-month periods ended March 27, 2004 and April 2, 2005 and $0.5 million and $0.2 million for the six-month periods ended March 27, 2004 and April 2, 2005, respectively.

5. Acquisitions

Effective January 15, 2004, the Company acquired certain assets of Star Pipe, Inc. (Star). The acquisition was accounted for in accordance with SFAS No. 141 and the operating results were included in the consolidated results since the date of acquisition. Star is a leading distributor of foreign-sourced cast and grooved fittings and couplings. The Star acquisition provides an entry into the foreign-sourced product marketplace. The acquisition s purchase price was $17 million, and was paid in cash.

The following summary presents the estimated fair values of the assets and liabilities assumed as of January 15, 2004:

(dollars in millions)	
Current assets	$ 13.1
Property, plant & equipment	0.4
Intangible assets	6.7
Total assets	$ 20.2
Current liabilities	3.2
Net assets acquired	$ 17.0

As part of the acquisition, the Company has agreed to a future payment to be made to the seller to the extent that the gross profit of the acquired business exceeds a targeted gross profit. The maximum potential deferred payment amount is $23 million. Management currently estimates the deferred payment could total approximately $3 to $6 million for the deferred payment period which begins February 1, 2004 and ends January 31, 2007. The deferred payment amount indicated above is based on management s best estimate, but the actual adjustment could be materially different. The liability for such deferred payment will be recorded at the end of each deferred payment period, in accordance with the purchase agreement. No deferred payment was earned in 2004.

The intangible assets acquired include trademarks, customer relationships and a non-compete agreement with the former owners. These intangibles are being amortized over their estimated useful lives of ten years, three years and five years, respectively.

Also effective January 15, 2004, the Company acquired certain assets of Modern Molded Products (Modern Molded). The acquisition was accounted for in accordance with SFAS No. 141 and the operating results were included in the consolidated results since the date of acquisition. The purchase of the assets and technology of Modern Molded enables the company to internally produce parts that we previously purchased, thereby reducing spending and increasing product supply line predictability. The acquisition s purchase price was $2.8 million, and was paid in cash.

The following summary presents the estimated fair values of the assets and liabilities assumed as of January 15, 2004:

(dollars in millions)	
Current assets	$ 0.2
Property, plant & equipment	0.7
Intangible assets	1.9
Net assets acquired	$ 2.8

The intangible assets acquired include a non-compete agreement with the former owners and purchased technology. These intangibles are being amortized over their estimated useful lives of five years.

The following unaudited pro forma summary presents the consolidated results of operations for the three and six months ended March 27, 2004 as if the acquisitions of Star and Modern Molded had occurred as of October 1, 2003:

	Three months ended March 27, 2004	**Six months ended March 27, 2004**
	(dollars in millions)	
Net Sales	$ 237.4	$ 463.9
Net income	11.4	15.5

The unaudited consolidated pro forma information is not necessarily indicative of the combined results that would have occurred had the acquisitions occurred on that date, nor is it indicative of the results that may occur in the future.

6. New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), Share-Based Payment. SFAS No. 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. Public companies are required to adopt the new standard using a modified prospective method and may elect to restate prior periods using the modified retrospective method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method. Under the modified retrospective method, companies record compensation costs for prior periods retroactively through restatement of such periods using the exact pro forma amounts disclosed in the companies footnotes. Also, in the period of adoption and after, companies record compensation based on the modified prospective method. SFAS No. 123(R), as amended in April 2005 for compliance dates, allows companies to implement the standard at the beginning of their next fiscal year. The Company plans to adopt SFAS No. 123(R) as of October 1, 2005, the beginning of its next fiscal year and to use the modified prospective method. The adoption of SFAS 123(R) is not expected to have a material impact on the Company s financial statements, as all options previously outstanding have been cancelled as part of the April 2004 recapitalization.

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, Inventory Costs. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company intends to adopt SFAS No. 151 on October 1, 2005, the beginning of its 2006 fiscal year. The Company is currently evaluating the impact of this standard on its financial statements.

FASB Staff Position (FSP) No. FAS 109-1 and 109-2 were issued in December 2004, providing guidance on foreign earnings repatriation and qualified production activities of the American Jobs Creation Act (AJCA) that was enacted on October 22, 2004. The AJCA created a temporary incentive for United States multinationals to repatriate accumulated earnings outside the United States by providing an 85 percent dividends received deduction for certain qualifying earnings repatriations in either fiscal 2005 or in fiscal 2006. As of April 2, 2005, the Company has not provided deferred taxes on foreign earnings because any taxes on dividends would be substantially offset by foreign tax credits or because the Company intends to reinvest those earnings indefinitely. Due to the complexity of the repatriation provision, the Company is still evaluating the effects of this provision on its plan for repatriation of foreign earnings and does not expect to be able to complete this evaluation until after Congress or the Treasury Department provides additional guidance clarifying key elements of the provision.

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. FIN 47 provides clarification of certain sections of FASB Statement No. 143, Accounting for Asset Retirement Obligations. Specifically, FIN 47 clarifies the meaning of the term conditional asset retirement obligation as used in SFAS 143 and also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company is currently evaluating the impact of this standard on its financial statements.

7. Long-Term Debt

	September 30, 2004	April 2, 2005
	(dollars in millions)	
Senior credit facility term loans	$ 515.0	$ 514.3
Second Priority Senior Secured Notes	100.0	100.0
10% Senior Subordinated Notes	315.0	315.0
14 3⁄4% Senior discount notes(1)	106.8	116.0
Capital lease obligations	2.6	2.4
	1,039.4	1,047.7
Less current portion	(3.2)	(3.9)
	$ 1,036.2	