HASBRO INC
Form 8-K
January 04, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of Earliest Event Reported): January 4, 2007

HASBRO, INC.
(Exact name of registrant as specified in its charter)

RHODE ISLAND	1-6682	05-0155090
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1027 NEWPORT AVE., PAWTUCKET, RHODE ISLAND	02862
(Address of Principal Executive Offices)	(Zip Code)

(401) 431-8697
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On January 4, 2007 Hasbro, Inc. (the "Company") issued a press release announcing that, as a result of the Company's common stock (the "Common Stock") closing above $23.76 per share for at least twenty of the last thirty trading days in the fourth calendar quarter of 2006, holders of the Company's 2.75% Convertible Senior Debentures Due 2021 (the "Debentures") may elect to convert their Debentures into shares of Common Stock during the calendar quarter beginning January 1, 2007 and ending March 31, 2007.

A copy of the press release is furnished as exhibit 99 to this press release.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99 Press Release, dated January 4, 2007, of Hasbro, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HASBRO, INC.
(Registrant)

Date: January 4, 2007

By: /s/ David D. R. Hargreaves
David D. R. Hargreaves

Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

HASBRO, INC.
Current Report on Form 8-K
Dated January 4, 2007

Exhibit Index

Exhibit No.	Exhibits
99	Press Release, dated January 4, 2007, of Hasbro, Inc.

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67.2

Total current liabilities
49.7

96.7

7.5

—

153.9

Long-term debt
597.5

1.8

—

—

599.3

Deferred income taxes
124.9

—

0.6

—

125.5

Other noncurrent liabilities
72.6

7.8

2.1

—

82.5

Intercompany accounts
(937.8
)

911.7

26.1

—

—

Total liabilities
(93.1
)

1,018.0

36.3

—

961.2

Stockholders' equity
238.7

41.6

36.3

(77.9

)

238.7

Total liabilities and stockholders' equity
$
145.6

$
1,059.6

$
72.6

$
(77.9
)

$
1,199.9

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Mueller Water Products, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
September 30, 2012

	Issuer	Guarantor companies	Non-guarantor companies	Eliminations	Total
			(in millions)		
Assets:					
Cash and cash equivalents	$53.3	$(3.7)	$33.4	$—	$83.0
Receivables, net	—	146.9	19.2	—	166.1
Inventories	—	169.3	13.9	—	183.2
Deferred income taxes	18.5	—	1.1	—	19.6
Other current assets	10.5	26.3	1.2	—	38.0
Total current assets	82.3	338.8	68.8	—	489.9
Property, plant and equipment, net	1.8	134.2	8.7	—	144.7
Identifiable intangible assets	—	572.2	1.5	—	573.7
Other noncurrent assets	30.5	0.7	1.4	—	32.6
Investment in subsidiaries	27.2	37.9	—	(65.1)	—
Total assets	$141.8	$1,083.8	$80.4	$(65.1)	$1,240.9
Liabilities and stockholders' equity:					
Current portion of long-term debt	$—	$1.1	$—	$—	$1.1
Accounts payable	8.3	68.7	7.5	—	84.5
Other current liabilities	29.9	49.0	3.9	—	82.8
Total current liabilities	38.2	118.8	11.4	—	168.4
Long-term debt	619.9	1.8	—	—	621.7
Deferred income taxes	132.0	—	0.8	—	132.8
Other noncurrent liabilities	77.2	7.6	2.0	—	86.8
Intercompany accounts	(956.7)	928.4	28.3	—	—
Total liabilities	(89.4)	1,056.6	42.5	—	1,009.7
Stockholders' equity	231.2	27.2	37.9	(65.1)	231.2
Total liabilities and stockholders' equity	$141.8	$1,083.8	$80.4	$(65.1)	$1,240.9

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Mueller Water Products, Inc. and Subsidiaries
Condensed Consolidating Statement of Operations
Three months ended December 31, 2012

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net sales	$—	$221.8	$23.3	$—	$245.1
Cost of sales	—	167.6	20.4	—	188.0
Gross profit	—	54.2	2.9	—	57.1
Operating expenses:					
Selling, general and administrative	7.1	39.2	3.2	—	49.5
Restructuring	—	0.7	—	—	0.7
Total operating expenses	7.1	39.9	3.2	—	50.2
Operating income (loss)	(7.1)	14.3	(0.3)	—	6.9
Interest expense, net	13.4	0.1	—	—	13.5
Income (loss) from before income taxes	(20.5)	14.2	(0.3)	—	(6.6)
Income tax expense (benefit)	(5.0)	3.5	(0.1)	—	(1.6)
Equity in income (loss) of subsidiaries	10.5	(0.2)	—	(10.3)	—
Income (loss) from continuing operations	(5.0)	10.5	(0.2)	(10.3)	(5.0)
Income from discontinued operations, net of tax	12.0	—	—	—	12.0
Net income (loss)	$7.0	$10.5	$(0.2)	$(10.3)	$7.0

Mueller Water Products, Inc. and Subsidiaries
Condensed Consolidating Statement of Operations
Three months ended December 31, 2011

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net sales	$—	$193.4	$22.0	$—	$215.4
Cost of sales	—	145.1	17.5	—	162.6
Gross profit	—	48.3	4.5	—	52.8
Operating expenses:					
Selling, general and administrative	6.5	36.0	4.0	—	46.5
Restructuring	—	0.4	—	—	0.4
Total operating expenses	6.5	36.4	4.0	—	46.9
Operating income (loss)	(6.5)	11.9	0.5	—	5.9
Interest expense, net	15.6	—	—	—	15.6
Income (loss) before income taxes	(22.1)	11.9	0.5	—	(9.7)
Income tax expense (benefit)	(7.9)	4.6	0.1	—	(3.2)
Equity in income of subsidiaries	7.7	0.4	—	(8.1)	—
Income (loss) from continuing operations	(6.5)	7.7	0.4	(8.1)	(6.5)
Loss from discontinued operations, net of tax	(5.4)	—	—	—	(5.4)
Net income (loss)	$(11.9)	$7.7	$0.4	$(8.1)	$(11.9)

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Mueller Water Products, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income (Loss)
Three months ended December 31, 2012

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net income (loss)	$7.0	$10.5	$(0.2)	$(10.3)	$7.0
Other comprehensive income (loss):					
Equity in other comprehensive income (loss) of subsidiaries	(0.7)	(0.7)	—	1.4	—
Natural gas hedges, net of tax	—	—	—	—	—
Interest rate swap contracts, net of tax	—	—	—	—	—
Foreign currency translation	—	—	(0.7)	—	(0.7)
Minimum pension liability, net of tax	3.4	—	—	—	3.4
	2.7	(0.7)	(0.7)	1.4	2.7
Comprehensive income (loss)	$9.7	$9.8	$(0.9)	$(8.9)	$9.7

Mueller Water Products, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income (Loss)
Three months ended December 31, 2011

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net income (loss)	$(11.9)	$7.7	$0.4	$(8.1)	$(11.9)
Other comprehensive income (loss):					
Equity in other comprehensive income of subsidiaries	0.6	0.6	—	(1.2)	—
Natural gas hedges, net of tax	(0.2)	—	—	—	(0.2)
Interest rate swap contracts, net of tax	0.9	—	—	—	0.9
Foreign currency translation	—	—	0.6	—	0.6
Minimum pension liability, net of tax	0.5	—	—	—	0.5
	1.8	0.6	0.6	(1.2)	1.8
Comprehensive income (loss)	$(10.1)	$8.3	$1.0	$(9.3)	$(10.1)

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Mueller Water Products, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
Three months ended December 31, 2012

	Issuer	Guarantor companies	Non-guarantor companies	Eliminations	Total
			(in millions)		
Operating activities:					
Net cash provided by (used in) operating activities from continuing operations	$(5.9)	$6.0	$0.5	$—	$0.6
Investing activities:					
Capital expenditures	—	(6.0)	(0.2)	—	(6.2)
Acquisitions, net of cash acquired	—	(0.3)	—	—	(0.3)
Net cash used in investing activities from continuing operations	—	(6.3)	(0.2)	—	(6.5)
Financing activities:					
Dividends paid	(2.7)	—	—	—	(2.7)
Shares retained for employee taxes	(1.3)	—	—	—	(1.3)
Payment of deferred financing fees	(0.7)	—	—	—	(0.7)
Other	(0.4)	0.1	—	—	(0.3)
Net cash used in financing activities from continuing operations	(5.1)	0.1	—	—	(5.0)
Net cash flows from discontinued operations:					
Operating activities	(1.7)	—	—	—	(1.7)
Investing activities	4.5	—	—	—	4.5
Net cash provided by discontinued operations	2.8	—	—	—	2.8
Effect of currency exchange rate changes on cash	—	—	(0.4)	—	(0.4)
Net change in cash and cash equivalents	(8.2)	(0.2)	(0.1)	—	(8.5)
Cash and cash equivalents at beginning of period	53.3	(3.7)	33.4	—	83.0
Cash and cash equivalents at end of period	$45.1	$(3.9)	$33.3	$—	$74.5

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Mueller Water Products, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
Three months ended December 31, 2011

	Issuer	Guarantor companies	Non-guarantor companies	Eliminations	Total
			(in millions)		
Operating activities:					
Net cash provided by operating activities from continuing operations	$3.4	$7.0	$1.5	$—	$11.9
Investing activities:					
Capital expenditures	—	(5.2)	(0.1)	—	(5.3)
Acquisitions, net of cash acquired	—	—	—	—	—
Net cash used in investing activities from continuing operations	—	(5.2)	(0.1)	—	(5.3)
Financing activities:					
Dividends paid	(2.7)	—	—	—	(2.7)
Shares retained for employee taxes	(0.3)	—	—	—	(0.3)
Other	—	—	—	—	—
Net cash used in financing activities from continuing operations	(3.0)	—	—	—	(3.0)
Net cash flows from discontinued operations:					
Operating activities	(22.9)	—	—	—	(22.9)
Investing activities	(2.8)	—	—	—	(2.8)
Financing activities	1.0	—	—	—	1.0
Net cash used in discontinued operations	(24.7)	—	—	—	(24.7)
Effect of currency exchange rate changes on cash	—	—	0.4	—	0.4
Net change in cash and cash equivalents	(24.3)	1.8	1.8	—	(20.7)
Cash and cash equivalents at beginning of period	36.2	(3.8)	28.6	—	61.0
Cash and cash equivalents at end of period	$11.9	$(2.0)	$30.4	$—	$40.3

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto that appear elsewhere in this report. This report contains certain statements that may be deemed “forward-looking statements” within the meaning 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 the general municipal spending environment and the condition of our end markets. 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 other factors that are described in the section entitled “RISK FACTORS” in Item 1A. of our annual report on Form 10-K for the year ended September 30, 2012 ("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 and the Series A designation was discontinued.

On April 1, 2012, we sold the businesses comprising our former U.S. Pipe segment. U.S. Pipe's results of operations have been reclassified as discontinued operations for all periods presented.

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

Business

Most of the net sales of Mueller Co. are for water infrastructure related directly to municipal spending and residential construction activity in the United States.

Spending on water infrastructure is based on the condition of the infrastructure systems and access to funding from existing resources, the issuance of debt, higher tax rates or higher water rates. Municipalities and water authorities may find it challenging to increase tax or water rates. We believe the general municipal spending environment continues to improve, although budget pressures and economic uncertainty persist. According to U.S. Census Bureau data at September 30, 2012, state and local tax receipts during the quarter ended September 30, 2012 grew at over 3.9% over the prior year period. The U.S. Census Bureau may revise published survey data from time to time.

We believe residential construction activity measures indicate the housing market is improving. U.S. Census Bureau data for housing starts, on a seasonally adjusted annualized basis, indicates that housing starts in December 2012 represented the fourth consecutive month of greater than 800,000 units. December 2012 housing activity of 954,000 starts was the highest level since June 2008. Furthermore, the December 2012 single family housing starts of 616,000 units was above 500,000 units for the ninth consecutive month and was the strongest since August 2008.

As another potential future indicator, U.S. Census Bureau data shows housing permits in December 2012 above 900,000 units for the second consecutive month. Total and single family permits grew 29% and 27%, respectively, in December 2012 on a year-over-year basis.

We believe an improving housing market would also bolster municipalities' fiscal condition, since local governments benefit from increased property taxes as well as connection and other ancillary fees associated with residential construction.

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Overall we think the signs we are seeing in our water infrastructure markets are mostly positive, giving us more confidence that our markets have stabilized and we could see some continued growth.
Most of Anvil's net sales are driven by commercial construction, and we expect a slight decrease in shipment volumes in the second quarter year-over-year as we face some softness in our end markets, primarily oil & gas. Additionally, we expect to recognize the remaining higher per-unit overhead costs capitalized in inventory related to lower production levels in the second half of fiscal 2012 in cost of sales during the quarter ending March 31, 2013.
Raw material costs for both segments have continued to be relatively stable year-over-year and we expect average per-unit costs for 2013 could be slightly lower than those for 2012.
Results of Operations
Three months ended December 31, 2012 compared to three months ended December 31, 2011

	2012			
	Mueller Co.	Anvil	Corporate	Total
	(in millions)			
Net sales	$151.1	$94.0	$—	$245.1
Gross profit	$32.9	$24.2	$—	$57.1
Operating expenses:				
Selling, general and administrative	24.1	18.3	7.1	49.5
Restructuring	0.7	—	—	0.7
Total operating expenses	24.8	18.3	7.1	50.2
Operating income (loss)	$8.1	$5.9	$(7.1)	6.9
Interest expense, net				13.5
Loss before income taxes				(6.6)
Income tax benefit				(1.6)
Loss from continuing operations				(5.0)
Income from discontinued operations, net of tax				12.0
Net income				$7.0

	2011			
	Mueller Co.	Anvil	Corporate	Total
	(in millions)			
Net sales	$128.1	$87.3	$—	$215.4
Gross profit	$28.5	$24.3	$—	$52.8
Operating expenses:				
Selling, general and administrative	23.4	16.5	6.6	46.5
Restructuring	0.4	0.1	(0.1)	0.4
Total operating expenses	23.8	16.6	6.5	46.9
Operating income (loss)	$4.7	$7.7	$(6.5)	5.9
Interest expense, net				15.6
Loss before income taxes				(9.7)
Income tax benefit				(3.2)
Loss from continuing operations				(6.5)
Loss from discontinued operations, net of tax				(5.4)
Net loss				$(11.9)

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Consolidated Analysis

Net sales for the quarter ended December 31, 2012 increased to $245.1 million from $215.4 million in the prior year period. Net sales increased primarily due to approximately $27 million of higher shipment volumes across both segments.

Gross profit for the quarter ended December 31, 2012 increased to $57.1 million from $52.8 million in the prior year period. However, gross margin declined 120 basis points to 23.3% in the quarter ended December 31, 2012 from 24.5% in the prior year period. The favorable gross margin effects of increased shipment volumes, higher sales pricing, and improved raw material costs were more than offset by the unfavorable effects of higher per-unit overhead costs and other cost increases of approximately 260 basis points.

Selling, general and administrative expenses ("SG&A") in the quarter ended December 31, 2012 increased to $49.5 million from $46.5 million in the prior year period. SG&A increased primarily due to higher expenses associated with higher shipment volumes. However, SG&A decreased as a percent of net sales to 20.2% in the quarter ended December 31, 2012 compared to 21.6% in the prior year period.

Interest expense, net decreased $2.1 million in the quarter ended December 31, 2012 compared to prior year period due to $1.4 million of non-cash costs for terminated interest rate swap contracts in the quarter ended December 31, 2011 and $0.7 million due primarily to lower levels of total debt outstanding in the quarter ended December 31, 2012.

The components of interest expense, net are detailed below.

	Three months ended December 31,	
	2012	2011
	(in millions)	
7.375% Senior Subordinated Notes	$7.7	$7.7
8.75% Senior Unsecured Notes	4.5	5.0
Interest rate swap contracts	—	1.4
ABL Agreement borrowings	0.5	1.0
Deferred financing fees amortization	0.6	0.6
Other interest expense	0.2	—
	13.5	15.7
Interest income	—	(0.1)
	$13.5	$15.6

The components of income tax benefit in continuing operations are provided below.

	Three months ended December 31,	
	2012	2011
	(in millions)	
Benefit from pre-tax operating loss	$(2.4)	$(3.8)
Deferred tax asset valuation allowance adjustment	0.8	—
Other discrete items	—	0.6
	$(1.6)	$(3.2)

Segment Analysis

Mueller Co.

Net sales in the quarter ended December 31, 2012 increased to $151.1 million from $128.1 million in the prior year period. Net sales increased primarily due to approximately $22 million of higher shipment volumes. Domestic unit shipments increased for valves, hydrants and brass products in the quarter ended December 31, 2012 compared to the prior year period. Also, net sales of our newer technology products more than doubled in the quarter ended December 31, 2012 compared to the prior year period. Over half of the $23 million net sales increase was attributable to our metering products.

Gross profit for the quarter ended December 31, 2012 increased to $32.9 million from $28.5 million in the prior year period primarily due to higher shipment volumes. However, gross margin decreased to 21.8% for the quarter ended December 31, 2012 compared to 22.2% in the prior year period primarily due to the increased sales of our newer technology

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products and services, which had lower gross margins, and an unfavorable mix of Henry Pratt valves sold in the quarter ended December 31, 2012 compared to the prior year period.

SG&A in the quarter ended December 31, 2012 increased to $24.1 million compared to $23.4 million in the prior year period was primarily due to higher shipment volumes.

Anvil

Net sales in the quarter ended December 31, 2012 increased to $94.0 million from $87.3 million in the prior year period. The increase in net sales was primarily due to approximately $5 million of higher shipment volumes primarily of Anvil's fire protection and mechanical market products. Net sales to Anvil's oil & gas market, which comprise approximately 20% of Anvil's net sales, had minimal growth in the quarter ended December 31, 2012 after exhibiting strong growth in fiscal 2012.

Gross profit in the quarter ended December 31, 2012 decreased to $24.2 million from $24.3 million in the prior year period. The increase attributable to higher net sales was more than offset by increased inventory costs reflecting higher per-unit overhead costs driven by lower production in the six months ended September 30, 2012. Gross margin declined to 25.7% in the quarter ended December 31, 2012 compared to 27.8% in the prior year period. Increased inventory costs reduced gross margin by approximately 350 basis points.

SG&A increased to $18.3 million in the quarter ended December 31, 2012 compared to $16.5 million in the prior year period. This was primarily the result of increased selling costs commensurate with increased shipment volumes.

Corporate

SG&A increased to $7.1 million in the quarter ended December 31, 2012 from $6.6 million in the prior year period primarily due to timing differences for professional fees.

Liquidity and Capital Resources

We had cash and cash equivalents of $74.5 million at December 31, 2012. We also had $122.1 million of borrowing capacity under our ABL Agreement using December 31, 2012 data.

On April 1, 2012, we sold our former U.S. Pipe segment and received proceeds of $94.0 million in cash, subject to adjustments, and the agreement by the purchaser to reimburse us for expenditures to settle certain previously-existing liabilities estimated at $10.1 million at March 31, 2012. During the quarter ended December 31, 2012, we received an additional $4.5 million in cash for certain purchase price adjustments and reduced our loss on sale of discontinued operations accordingly. Additional purchase price adjustments related to closing date balances, which would increase the purchase price by $1.0 million if resolved in our favor, remain in dispute.

On January 23, 2013, we delivered notice to redeem $22.5 million of the Senior Unsecured Notes at a redemption price of 103% plus accrued and unpaid interest. The redemption date is February 22, 2013. We expect to record a loss on early extinguishment of debt of $1.4 million.

Cash flows from operating activities from continuing operations are categorized below.

	Three months ended December 31,	
	2012	2011
	(in millions)	
Collections from customers	$274.4	$241.1
Disbursements other than interest and income taxes	(257.7)	(212.7)
Interest payments, net	(16.0)	(16.3)
Income tax payments, net	(0.1)	(0.2)
	$0.6	$11.9

Collections of receivables were higher during the three months ended December 31, 2012 compared to the prior year period primarily related to the increased net sales compared to a year ago.

Increased disbursements other than interest and income taxes during the three months ended December 31, 2012 reflect higher purchasing activity associated with higher net sales and general timing differences of disbursements related to the

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purchase of material, labor and overhead. Also, we contributed $4.0 million to our pension plans in the three months ended December 31, 2011 and there were no comparable contributions during the three months ended December 31, 2012.

Capital expenditures were $6.2 million during the three months ended December 31, 2012 compared to $5.3 million in the prior year period. We estimate 2013 capital expenditures will be between $30 million and $34 million.

Our U.S. pension plan was 103% funded at January 1, 2012 (the most recent date this analysis has been performed) under the provisions of the Pension Protection Act. This reflects the revised governmental guidance of the Moving Ahead for Progress in the 21st Century Act . As a result of the MAP-21 changes, we do not expect to make any contributions to our U.S. pension plan during 2013. 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, pension expense and our required contributions to these plans may increase.

We anticipate that our existing cash, cash equivalents and borrowing capacity combined with our expected cash flows from operating activities will be sufficient to meet our anticipated operating expenses, capital expenditures and debt service obligations as they become due through December 31, 2013. However, our ability to make these payments will depend partly upon our future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

ABL Agreement

On December 18, 2012, we entered into a first amendment to our ABL Agreement, dated August 26, 2010. This amendment, among other things, provides for the following:

- a reduction of $50 million in the size of the revolving credit facility to $225 million;
- a 100 basis point per annum reduction in the interest rate margins;
- a reduction in the commitment fee to either 0.375% per annum or 0.25% per annum, based on daily average availability during the previous calendar quarter, from 0.50% per annum;
- the extension of the maturity date to the earlier of (1) December 18, 2017 and (2) 60 days prior to the final maturity of our 7.375% Senior Subordinated Notes;
- additional flexibility for us to incur debt, make investments (including acquisitions), dispose of assets and make restricted payments (whether as dividends or junior debt repayments); and
- a reduction in the springing consolidated fixed charge coverage ratio to 1.0:1.0 from 1.1:1.0.

At December 31, 2012, the ABL Agreement consisted of a revolving credit facility for up to $225 million of revolving credit borrowings, swing line loans and letters of credit. The ABL Agreement also permits us to increase the size of the credit facility by an additional $150 million in certain circumstances subject to adequate borrowing base availability. We may borrow up to $25 million through swing line loans and may have up to $60 million of letters of credit outstanding.

Borrowings under the ABL Agreement bear interest at a floating rate equal to LIBOR plus a margin ranging from 175 to 225 basis points, or a base rate, as defined in the ABL Agreement, plus a margin ranging from 75 to 125 basis points. At December 31, 2012, the applicable LIBOR-based margin was 200 basis points.

Our obligations are secured by a first-priority perfected lien on all of our U.S. receivables and inventory, certain cash and other supporting obligations. Borrowings are not subject to any financial maintenance covenants unless excess availability is less than the greater of $22.5 million and 10% of the aggregate commitments under the ABL Agreement. As measured using December 31, 2012 data, excess availability as reduced by outstanding letters of credit and accrued fees and expenses of $34.6 million was $122.1 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.

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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 transactions with affiliates.

8.75% Senior Unsecured Notes

We owed $202.5 million aggregate principal amount of 8.75% Senior Unsecured Notes at December 31, 2012. Interest on the Senior Unsecured Notes is paid semi-annually and the principal is due September 2020. On January 23, 2013, we delivered notice to redeem $22.5 million aggregate principal amount at a redemption price of 103% plus accrued and unpaid interest on February 22, 2013. We may redeem up to $33.8 million aggregate 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. 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 secured by the guarantees of essentially all of our U.S. subsidiaries, but are subordinate to borrowings under the ABL Agreement.

7.375% Senior Subordinated Notes

We owed $420 million of principal of 7.375% Senior Subordinated Notes at December 31, 2012. Interest on the Senior Subordinated Notes is payable semi-annually and the principal is due June 2017. We may redeem any portion of the Senior Subordinated Notes at specified redemption prices plus accrued and unpaid interest, subject to limitations under our ABL agreement and the indenture related to our Senior Unsecured Notes. 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.

Our corporate credit rating and the credit rating for our debt are presented below.

	Moody’s		Standard & Poor's	
	December 31, 2012	September 30, 2012	December 31, 2012	September 30, 2012
Corporate credit rating	B3	B3	B	B
ABL Agreement	Not rated	Not rated	Not rated	Not rated
8.75% Senior Unsecured Notes	B2	B2	B+	B+
7.375% Senior Subordinated Notes	Caa2	Caa2	CCC+	CCC+
Outlook	Positive	Positive	Positive	Stable

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which could have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, any derivative contracts or synthetic leases. Therefore, we are not exposed to any financing, liquidity, market or credit risk that could have arisen if we had engaged in such relationships.

We use letters of credit and surety bonds in the ordinary course of business to ensure the performance of contractual obligations. At December 31, 2012, we had $34.4 million of letters of credit and $50.5 million of surety bonds outstanding.

Seasonality

Our business is dependent upon the construction industry, which is seasonal due to the impact of cold weather conditions. Net sales and operating income have historically been lowest in the quarterly periods ending December 31 and March 31 when the northern United States and all of Canada generally face weather conditions that restrict significant construction activity.

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Item 4. CONTROLS AND PROCEDURES

During the quarter ended December 31, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and our Chief Financial Officer have concluded, based on an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls can prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Refer to the information provided in Note 10 to the notes to the condensed consolidated financial statements presented in Item 1 of Part I of this report.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in PART I, “Item 1A. RISK FACTORS” in our Annual Report, each of which could materially affect our business, financial condition or operating results. These described risks are not the only risks facing us. Additional risks and uncertainties not known to us or that we deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended December 31, 2012, we repurchased shares of our common stock as follows.

Period	Total number of shares purchased(1)	Average price paid per share	Total number of shares purchased as part of publically announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1-31, 2012	5,328	$4.75	—	—
November 1-30, 2012	176,960	5.51	—	—
December 1-31, 2012	55,866	5.58	—	—
Total	238,154	$5.51	—	—

(1) The total number of shares purchased consists of shares surrendered to us to pay the tax withholding obligations of participants in connection with the lapsing of restrictions on restricted stock units.

Item 6. EXHIBITS

Exhibit No.	Document
10.21.1	First Amendment to Credit Agreement dated December 18, 2012. Incorporated by reference to Exhibit 10.21.1 to Mueller Water Products Inc. Form 8-K (File no. 001-32892) filed on December 19, 2012.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from the Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language), (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Other Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to Condensed Consolidated Financial Statements.

* Filed with this quarterly report

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MUELLER WATER PRODUCTS, INC.

Date: February 11, 2013   By: /s/ Evan L. Hart

Evan L. Hart

Chief Financial Officer

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