MUELLER INDUSTRIES INC
Form 10-Q
October 27, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-Q

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

For the quarterly period ended October 1, 2011	Commission file number 1–6770

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

Delaware (State or other jurisdiction of incorporation or organization)	25-0790410 (I.R.S. Employer Identification No.)
8285 Tournament Drive, Suite 150 Memphis, Tennessee (Address of principal executive offices)	38125 (Zip Code)

(901) 753-3200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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). Yes x Noo

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.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares of the Registrant's common stock outstanding as of October 27, 2011, was 38,226,303.

MUELLER INDUSTRIES, INC.

FORM 10-Q

For the Quarterly Period Ended October 1, 2011

As used in this report, the terms "Company," "Mueller," and "Registrant" mean Mueller Industries, Inc. and its consolidated subsidiaries taken as a whole, unless the context indicates otherwise.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

MUELLER INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data)	For the Quarter Ended October 1, 2011	For the Quarter Ended September 25, 2010	For the Nine Months Ended October 1, 2011	For the Nine Months Ended September 25, 2010
Net sales	$ 585,809	$ 507,240	$ 1,926,413	$ 1,532,896
Cost of goods sold	523,984	437,597	1,687,735	1,317,290
Depreciation and amortization	8,716	9,934	27,581	30,372
Selling, general, and administrative expense	34,245	28,810	102,944	99,601
Insurance settlement	—	12	—	(21,284)
Litigation settlement	—	—	(10,500)	—
Operating income	18,864	30,887	118,653	106,917
Interest expense	(2,822)	(3,072)	(9,004)	(8,568)
Other income (expense), net	102	30	1,425	(2,348)
Income before income taxes	16,144	27,845	111,074	96,001
Income tax expense	(5,403)	(9,098)	(37,060)	(26,418)
Consolidated net income	10,741	18,747	74,014	69,583
Net (income) loss attributable to noncontrolling interest	(266)	162	(621)	(1,158)
Net income attributable to Mueller Industries, Inc.	$ 10,475	$ 18,909	$ 73,393	$ 68,425
Weighted average shares for basic earnings per share	37,878	37,710	37,779	37,657
Effect of dilutive stock-based awards	483	92	367	77
Adjusted weighted average shares for diluted earnings per share	38,361	37,802	38,146	37,734
Basic earnings per share	$ 0.28	$ 0.50	$ 1.94	$ 1.82
Diluted earnings per share	$ 0.27	$ 0.50	$ 1.92	$ 1.81
Dividends per share	$ 0.10	$ 0.10	$ 0.30	$ 0.30

See accompanying notes to condensed consolidated financial statements.

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MUELLER INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except share data)	October 1, 2011	December 25, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 448,853	$ 394,139
Accounts receivable, less allowance for doubtful accounts of $1,807 in 2011 and $5,447 in 2010	315,709	269,258
Inventories	214,868	209,892
Current deferred income taxes	19,303	19,227
Other current assets	34,063	19,798
Total current assets	1,032,796	912,314
Property, plant, and equipment, net	207,761	229,498
Goodwill	102,250	102,250
Other assets	16,103	14,934
Total assets	$ 1,358,910	$ 1,258,996
Liabilities		
Current liabilities:		
Current portion of debt	$ 52,827	$ 32,020
Accounts payable	65,743	67,849
Accrued wages and other employee costs	35,257	33,338
Other current liabilities	78,566	61,920
Total current liabilities	232,393	195,127
Long-term debt, less current portion	156,726	158,226
Pension liabilities	16,545	18,249
Postretirement benefits other than pensions	23,104	22,690
Environmental reserves	23,111	23,902
Deferred income taxes	19,788	24,081
Other noncurrent liabilities	2,187	824
Total liabilities	473,854	443,099
Equity		
Mueller Industries, Inc. stockholders' equity:		
Preferred stock - $1.00 par value; shares authorized 5,000,000; none outstanding	—	—
Common stock - $.01 par value; shares authorized 100,000,000; issued 40,091,502; outstanding 38,221,076 in 2011 and 37,854,760 in 2010	401	401
Additional paid-in capital	265,830	263,233
Retained earnings	673,276	611,279
Accumulated other comprehensive loss	(38,714)	(37,046)

Treasury common stock, at cost	(44,604)	(49,131)
Total Mueller Industries, Inc. stockholders' equity	856,189	788,736
Noncontrolling interest	28,867	27,161
Total equity	885,056	815,897
Commitments and contingencies	—	—
Total liabilities and equity	$ 1,358,910	$ 1,258,996

See accompanying notes to condensed consolidated financial statements.

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MUELLER INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended	
(In thousands)	October 1, 2011	September 25, 2010
Cash flows from operating activities		
Consolidated net income	$ 74,014	$ 69,583
Reconciliation of consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	27,844	30,550
Stock-based compensation expense	2,583	2,185
Insurance settlement	—	(21,284)
Insurance proceeds – noncapital related	10,000	5,561
(Gain) loss on disposal of properties	(99)	252
Deferred income taxes	(2,785)	(8,386)
Income tax benefit from exercise of stock options	(867)	(89)
Changes in assets and liabilities, net of businesses acquired:		
Receivables	(38,480)	(50,810)
Inventories	(10,432)	2,800
Other assets	(9,263)	6,158
Current liabilities	13,703	21,562
Other liabilities	1,907	2,839
Other, net	759	(225)
Net cash provided by operating activities	68,884	60,696
Cash flows from investing activities		
Capital expenditures	(13,128)	(14,210)
Acquisition of businesses	(6,882)	(2,021)
Insurance proceeds for property and equipment	—	17,703
Net (deposits into) withdrawals from restricted cash balances	(5,120)	1,649
Proceeds from sales of properties	1,745	26
Net cash (used in) provided by investing activities	(23,385)	3,147
Cash flows from financing activities		
Dividends paid to stockholders of Mueller Industries, Inc.	(11,345)	(11,300)
Debt issuance cost	(1,942)	—
Issuance (repayment) of debt by joint venture, net	19,316	(1,097)
Acquisition of treasury stock	(8,211)	(85)
	11,885	2,463

Issuance of shares under stock-based incentive plans from treasury		
Repayments of long-term debt	(1,902)	—
Income tax benefit from exercise of stock options	867	89
Net cash provided by (used in) financing activities	8,668	(9,930)
Effect of exchange rate changes on cash	547	202
Increase in cash and cash equivalents	54,714	54,115
Cash and cash equivalents at the beginning of the period	394,139	346,001
Cash and cash equivalents at the end of the period	$ 448,853	$ 400,116

See accompanying notes to condensed consolidated financial statements.

MUELLER INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

General

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted. Results of operations for the interim periods presented are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K, including the annual financial statements incorporated therein.

The accompanying unaudited interim financial statements include all normal recurring adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

Note 1 – Earnings per Common Share

Basic per share amounts have been computed based on the average number of common shares outstanding. Diluted per share amounts reflect the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options and vesting of restricted stock awards, computed using the treasury stock method.

Note 2 – Commitments and Contingencies

The Company is involved in certain litigation as a result of claims that arose in the ordinary course of business, which management believes will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. The Company may also realize the benefit of certain legal claims and litigation in the future; these gain contingencies are not recognized in the Condensed Consolidated Financial Statements.

Environmental Matters

The Company is subject to environmental standards imposed by federal, state, local, and foreign environmental laws and regulations. Environmental costs related to non-operating properties are classified as a component of other income (expense), net and costs related to operating properties are classified as cost of goods sold. Environmental reserves totaled $23.1 million at October 1, 2011 and $23.9 million at December 25, 2010.

The following is an update of recent developments for ongoing environmental matters:

Operating Properties

On April 25, 2011, the Company received approval from the Michigan Department of Environmental Quality (MDEQ) notifying it that the actions contained in the Company's proposed Conceptual Interim Response Plan dated April 4, 2011, in respect of the soil remediation at the Belding site, are acceptable for implementation. Soil sampling of 47 residential properties near that plant has identified 16 properties with lead levels above the Michigan residential clean-up standards. The remediation is expected to be complete in the fourth quarter. The Company does not anticipate any material adverse effect on its financial position, results of operations, or cash flows as a result of this remediation.

The Company has negotiated a draft administrative consent order (ACO) with the MDEQ to resolve a violation notice from the MDEQ dated December 28, 2009, alleging that the Company exceeded emission limits for lead, particulate matter and hydrogen chloride at the West Chip Dryer. Additional controls were subsequently installed to ensure consistent compliance with the air permits. Under the draft ACO, which is currently undergoing public review and comment, the Company does not admit violations and does not anticipate any material adverse effect on its financial position, results of operations, or cash flows.

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Non-operating properties:

There have been no material changes with respect to environmental matters for non-operating properties during the third quarter of 2011.

United States Department of Commerce Antidumping Review

On December 24, 2008, the United States Department of Commerce (DOC) initiated an antidumping administrative review of the antidumping duty order covering circular welded non-alloy steel pipe and tube from Mexico to determine the final antidumping duties owed on U.S. imports during the period November 1, 2007, through October 31, 2008, by certain subsidiaries of the Company. On April 19, 2010, the DOC published the final results of this review and assigned Mueller Comercial de Mexico, S. de R.L. de C.V. (Mueller Comercial) an antidumping duty rate of 48.3 percent. The Company has appealed the final determination to the U.S. Court of International Trade. The Company anticipates that certain of its subsidiaries will incur antidumping duties on subject imports made during the period of review and, as such, established a reserve of approximately $4.2 million for this matter.

On December 23, 2009, the DOC initiated an antidumping administrative review of the antidumping duty order covering circular welded non-alloy steel pipe and tube from Mexico for the November 1, 2008, through October 31, 2009, period of review. The DOC selected Mueller Comercial as a respondent for this period of review. On June 21, 2011, the DOC published the final results of this review and assigned Mueller Comercial an antidumping duty rate of 19.8 percent. On July 8, 2011, the Company filed a notice of intent to seek judicial review of the final results. The Company anticipates that certain of its subsidiaries will incur antidumping duties on subject imports made during the period of review and, as such, established a reserve of approximately $1.0 million for this matter.

On December 28, 2010, the DOC initiated an antidumping administrative review of the antidumping duty order covering circular welded non-alloy steel pipe and tube from Mexico for the November 1, 2009, through October 31, 2010, period of review. The DOC selected Mueller Comercial as a respondent for this period of review. In August 2011, the DOC issued a preliminary determination to rescind the review based on a finding that Mueller Comercial did not ship subject merchandise to the United States during the relevant period of review. By the end of the year, the DOC is expected to issue a final determination which, if the result mirrors the preliminary determination, would result in zero antidumping liability for the Company and its subsidiaries for imports made during the period of review. Until the final determination is issued, however, the Company cannot estimate the impact, if any, that this matter will have on its financial position, results of operations, or cash flows.

Other

During the third quarter of 2011, a portion of the Company's Wynne, Arkansas, manufacturing operation was damaged by fire. There were no reported injuries. Certain inventories, production equipment, and portions of building structures were extensively damaged requiring further assessment which is underway; rehabilitation alternatives are also being evaluated. The total value of the loss, including business interruption, cannot be determined at this time, but is expected to be covered by property and business interruption insurance subject to customary deductibles. As a result of the fire, the Company reclassified $9.4 million representing the book value of inventories prior to potential scrap recoveries and $9.4 million representing the net book value of certain production equipment and building structures that were damaged. The Company also recorded a receivable of $0.2 million for clean-up and other out of pocket costs incurred to date. Any proceeds received for property damage in excess of the net book value of the related property will be recognized upon settlement of the insurance claim. The Company has received an advance of $10.0 million from the insurance company for this claim resulting in a net receivable of $9.0 million, classified as accounts receivable on the Condensed Consolidated Balance Sheet at October 1, 2011. The Company has deferred recognition of direct, identifiable costs associated with this matter. These costs will be recognized upon settlement of the insurance claim.

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Guarantees, in the form of letters of credit, are issued by the Company generally to assure the payment of insurance deductibles and certain retiree health benefits. The terms of the Company's guarantees are generally one year but are renewable annually as required. These letters are primarily backed by the Company's line of credit facility. The maximum payments that the Company could have been required to make under its guarantees at October 1, 2011, was $11.4 million.

Note 3 – Insurance Settlement

In November 2008, the Company's copper tube facility in Bilston, Great Britain, was damaged by fire. Certain production equipment and portions of building structures were extensively damaged. These losses were covered by property and business interruption insurance. During 2010, the Company settled the claim with its insurer for total proceeds of $35.3 million, net of the deductible of $0.5 million. As a result of the settlement with its insurer, all proceeds received and all costs previously deferred were recognized, resulting in a net pre-tax gain of $21.3 million.

The Company received $23.3 million of proceeds from its insurer in 2010 with the final settlement. Of the $23.3 million proceeds received in 2010, $17.7 million was classified as investing activities in the Condensed Consolidated Statements of Cash Flows representing the estimated amount of proceeds received for damaged building structures and equipment. All other receipts were classified as operating activities as they reflect the estimated amounts received for business interruption insurance and reimbursement of incremental cleaning and other noncapital costs.

Note 4 – Inventories

(In thousands)	October 1, 2011	December 25, 2010
Raw materials and supplies	$ 2,998	$ 47,737
Work-in-process	56,793	34,784
Finished goods	166,863	131,921
Valuation reserves	(11,786)	(4,550)
Inventories	$ 214,868	$ 209,892

The material component of the Company's U.S. copper tube and copper fittings inventories is valued on a last-in, first-out (LIFO) basis. These inventories were net of LIFO reserves of $118.2 million and $105.6 million at October 1, 2011 and December 25, 2010, respectively. The Company has partially liquidated inventories valued using the LIFO method during the first nine months of 2011. The Company expects to replenish these inventories by the end of 2011 and, as such, has not recognized the effects of liquidating LIFO layers. In the event these inventories are not replenished, due to lack of availability or operational reasons, the Company would recognize a reduction to cost of goods sold of approximately $18.7 million from the liquidation of LIFO layers based on quarter-end quantities.

Additionally, as of October 1, 2011, the Company has recorded a pre-tax provision of approximately $6.8 million, or 12 cents per diluted share after tax, to write-down certain inventories valued using the first-in, first-out and average cost methods to lower-of-cost-or-market.

Note 5 – Industry Segments

The Company's reportable segments are Plumbing & Refrigeration and Original Equipment Manufacturers (OEM). For disclosure purposes, as permitted under Accounting Standards Codification (ASC) 280, Segment Reporting, certain operating segments are aggregated into reportable segments. The Plumbing & Refrigeration segment is composed of Standard Products (SPD), European Operations, and Mexican Operations. The OEM segment is composed of Industrial Products (IPD), Engineered Products (EPD), and Mueller-Xingrong. These segments are classified primarily by the markets for their products. Performance of segments is generally evaluated by their operating income. Intersegment transactions are generally conducted on an arms-length basis.

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SPD manufactures copper tube and fittings, plastic fittings, plastic pipe, and line sets. These products are manufactured in the U.S. Outside the U.S., the Company's European Operations manufacture copper tube, which is sold in Europe and the Middle East. SPD also imports and resells brass and plastic plumbing valves, malleable iron fittings, faucets, and plumbing specialty products. Mexican Operations consist of pipe nipple manufacturing and import distribution businesses including product lines of malleable iron fittings and other plumbing specialties. The European Operations consist of copper tube manufacturing and the import distribution of fittings, valves, and plumbing specialties primarily in the U.K. and Ireland. The Plumbing & Refrigeration segment's products are sold primarily to plumbing, refrigeration, and air-conditioning wholesalers, hardware wholesalers and co-ops, and building product retailers.

IPD manufactures brass rod, impact extrusions, and forgings which are used in a wide variety of end products including plumbing brass, automotive components, valves, and fittings. EPD manufactures and fabricates valves and assemblies for the refrigeration, air-conditioning, gas appliance, and barbecue grill markets and specialty copper, copper-alloy, and aluminum tubing. Mueller-Xingrong manufactures engineered copper tube primarily for air-conditioning applications. These products are sold primarily to OEM customers.

Summarized segment information is as follows:

(In thousands)	For the Quarter Ended October 1, 2011 Plumbing & Refrigeration Segment	OEM Segment	Corporate and Eliminations	Total
Net sales	$ 325,776	$ 266,560	$ (6,527)	$ 585,809
Cost of goods sold	285,242	245,223	(6,481)	523,984
Depreciation and amortization	4,859	3,519	338	8,716
Selling, general, and administrative expense	21,791	5,646	6,808	34,245
Operating income	$ 13,884	$ 12,172	$ (7,192)	18,864
Interest expense				(2,822)
Other income, net				102
Income before income taxes				$ 16,144

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Segment information (continued):

(In thousands)	Plumbing & Refrigeration Segment	OEM Segment	Corporate and Eliminations	Total
	For the Quarter Ended September 25, 2010			
Net sales	$ 282,735	$ 228,981	$ (4,476)	$ 507,240
Cost of goods sold	245,013	196,894	(4,310)	437,597
Depreciation and amortization	6,082	3,594	258	9,934
Selling, general, and administrative expense	20,117	5,499	3,194	28,810
Insurance settlement	12	—	—	12
Operating income	$ 11,511	$ 22,994	$ (3,618)	30,887
Interest expense				(3,072)
Other income, net				30
Income before income taxes				$ 27,845

(In thousands)	Plumbing & Refrigeration Segment	OEM Segment	Corporate and Eliminations	Total
	For the Nine Months Ended October 1, 2011			
Net sales	$ 1,053,434	$ 899,982	$ (27,003)	$ 1,926,413
Cost of goods sold	904,470	809,959	(26,694)	1,687,735
Depreciation and amortization	16,042	10,590	949	27,581
Selling, general, and administrative expense	64,565	18,799	19,580	102,944
Litigation settlement	—	—	(10,500)	(10,500)
Operating income	$ 68,357	$ 60,634	$ (10,338)	118,653
Interest expense				(9,004)
Other income, net				1,425
Income before income taxes				$ 111,074

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Segment information (continued):

(In thousands)	For the Nine Months Ended September 25, 2010 Plumbing & Refrigeration Segment	OEM Segment	Corporate and Eliminations	Total
Net sales	$ 825,114	$ 718,965	$ (11,183)	$ 1,532,896
Cost of goods sold	695,987	631,988	(10,685)	1,317,290
Depreciation and amortization				