

MUELLER INDUSTRIES INC  
Form 10-Q  
July 25, 2014

Index

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 June 28, 2014      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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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  No

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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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

Yes  No

The number of shares of the Registrant's common stock outstanding as of July 22, 2014, was 56,712,056.

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MUELLER INDUSTRIES, INC.

FORM 10-Q

For the Quarterly Period Ended June 28, 2014

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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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IndexPART I. FINANCIAL INFORMATION  
Item 1. Financial StatementsMUELLER INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In thousands, except per share data)	For the Quarter Ended		For the Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	\$ 649,691	\$ 582,282	\$ 1,224,065	\$ 1,141,972
Cost of goods sold	557,775	501,125	1,053,552	983,975
Depreciation and amortization	8,592	8,328	16,699	16,482
Selling, general, and administrative expense	35,120	34,814	67,303	66,157
Insurance settlement	—	(106,332)	—	(106,332)
Operating income	48,204	144,347	86,511	181,690
Interest expense	(1,457)	(1,101)	(2,483)	(1,697)
Other income, net	127	319	215	3,482
Income before income taxes	46,874	143,565	84,243	183,475
Income tax expense	(11,665)	(51,723)	(24,080)	(65,199)
Consolidated net income	35,209	91,842	60,163	118,276
Net income attributable to noncontrolling interest	) (164)	) (692)	) (412)	) (924)
Net income attributable to Mueller Industries, Inc.	\$ 35,045	\$ 91,150	\$ 59,751	\$ 117,352
Weighted average shares for basic earnings per share (1)	55,973	55,681	55,946	55,663
Effect of dilutive stock-based awards (1)	747	740	800	744
Adjusted weighted average shares for diluted earnings per share (1)	56,720	56,421	56,746	56,407
Basic earnings per share (1)	\$ 0.63	\$ 1.64	\$ 1.07	\$ 2.11
Diluted earnings per share (1)	\$ 0.62	\$ 1.62	\$ 1.05	\$ 2.08

Dividends per share (1)	\$	0.0750	\$	0.0625	\$	0.1500	\$	0.1250
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See accompanying notes to condensed consolidated financial statements.

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(1) Adjusted retroactively to reflect the two-for-one stock split that occurred on March 14, 2014.

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

(In thousands)	For the Quarter Ended				For the Six Months Ended			
	June 28, 2014		June 29, 2013		June 28, 2014		June 29, 2013	
Consolidated net income	\$	35,209	\$	91,842	\$	60,163	\$	118,276
Other comprehensive income (loss), net of tax:								
Foreign currency translation		1,795		(644)		2,962		(5,968)
Net change with respect to derivative instruments and hedging activities		(360)	(2)	2,198	(3)	(1,476)	(4)	474(5)
Net actuarial (gain) loss on pension and postretirement obligations		(159)	(6)	622	(7)	(156)	(8)	2,161(9)
Other, net		24		42		9		83
Total other comprehensive income (loss)		1,300		2,218		1,339		(3,250)
Consolidated comprehensive income		36,509		94,060		61,502		115,026
Comprehensive income (loss) attributable to noncontrolling interest		594		(1,228)		341		(1,427)
Comprehensive income attributable to Mueller Industries, Inc.	\$	37,103	\$	92,832	\$	61,843	\$	113,599

See accompanying notes to condensed consolidated financial statements.

(2) Net of tax of \$275

(3) Net of tax of \$(1,308)

(4) Net of tax of \$865

(5) Net of tax of \$(328)

(6) Net of tax of \$94

(7) Net of tax of \$(308)

(8) Net of tax of \$123

(9) Net of tax of \$(960)





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

(In thousands, except share data)	June 28, 2014	December 28, 2013
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 242,199	\$ 311,800
Accounts receivable, less allowance for doubtful accounts of \$854 in 2014 and \$2,391 in 2013	367,299	271,847
Inventories	291,138	251,716
Current deferred income taxes	9,089	8,106
Other current assets	36,321	31,248
<b>Total current assets</b>	<b>946,046</b>	<b>874,717</b>
Property, plant, and equipment, net	245,441	244,457
Goodwill	108,418	94,357
Other assets	49,953	34,236
<b>Total assets</b>	<b>\$ 1,349,858</b>	<b>\$ 1,247,767</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Current portion of debt	\$ 60,328	\$ 29,083
Accounts payable	101,671	80,897
Accrued wages and other employee costs	34,158	37,109
Other current liabilities	71,996	72,167
<b>Total current liabilities</b>	<b>268,153</b>	<b>219,256</b>
Long-term debt, less current portion	205,750	206,250
Pension liabilities	10,166	10,645
Postretirement benefits other than pensions	16,652	16,781
Environmental reserves	21,661	22,144
Deferred income taxes	33,226	35,975
Other noncurrent liabilities	1,306	849
<b>Total liabilities</b>	<b>556,914</b>	<b>511,900</b>
<b>Equity</b>		
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 80,183,004; outstanding 56,712,056 in 2014 and 56,604,674(10) in 2013	802	401
Additional paid-in capital	269,427	267,142
Retained earnings	959,522	908,274

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Accumulated other comprehensive loss	(8,729)	(10,819)
Treasury common stock, at cost	(460,199)	(461,593)
Total Mueller Industries, Inc. stockholders' equity		
Noncontrolling interest	32,121	32,462
Total equity	792,944	735,867
Commitments and contingencies	—	—
Total liabilities and equity	\$ 1,349,858	\$ 1,247,767

See accompanying notes to condensed consolidated financial statements.

(10) Adjusted retroactively to reflect the two-for-one stock split that occurred on March 14, 2014.

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

(In thousands)	For the Six Months Ended	
	June 28, 2014	June 29, 2013
<b>Cash flows from operating activities</b>		
Consolidated net income	\$ 60,163	\$ 118,276
Reconciliation of consolidated net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	16,840	16,649
Stock-based compensation expense	3,526	3,326
Insurance settlement	—	(106,332)
Insurance proceeds – noncapital related	—	32,395
Gain on disposal of properties	(1,225)	(2,984)
Deferred income taxes	(6,523)	12,468
Income tax benefit from exercise of stock options	(316)	(95)
Changes in assets and liabilities, net of business acquired:		
Receivables	(100,413)	(35,095)
Inventories	(20,619)	4,705
Other assets	(8,886)	(306)
Current liabilities	7,373	6,150
Other liabilities	(893)	(423)
Other, net	92	420
<b>Net cash (used in) provided by operating activities</b>	<b>(50,881)</b>	<b>49,154</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(18,833)	(21,687)
Acquisition of business	(30,137)	—
Insurance proceeds for property and equipment	—	29,910
Net withdrawals from (deposits into) restricted cash balances	1,815	(4,721)
Proceeds from the sales of properties	4,874	3,016
<b>Net cash (used in) provided by investing activities</b>	<b>(42,281)</b>	<b>6,518</b>
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(500)	(500)
Dividends paid to stockholders of Mueller Industries, Inc.	(8,394)	(6,960)
Debt issuance cost	—	(50)
Issuance of debt by joint venture, net	8,903	15,544
Issuance of debt	22,635	—
Net cash received to settle stock-based awards	296	260
Repurchase of common stock	(58)	—

Income tax benefit from exercise of stock options	316	95
Net cash provided by financing activities	23,198	8,389
Effect of exchange rate changes on cash	363	(1,328)
(Decrease) increase in cash and cash equivalents	(69,601)	62,733
Cash and cash equivalents at the beginning of the period	311,800	198,934
Cash and cash equivalents at the end of the period	\$ 242,199	\$ 261,667

See accompanying notes to condensed consolidated financial statements.

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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 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. Approximately 20 thousand stock options were excluded from the computation of diluted earnings per share for the quarter ended June 28, 2014 because they were antidilutive.

On February 21, 2014, the Company's Board of Directors announced a two-for-one stock split of its common stock effected in the form of a stock dividend of one share for each outstanding share. The record date for the stock split was March 14, 2014, and the additional shares were distributed on March 28, 2014. Accordingly, all references to share and per share amounts presented in the Condensed Consolidated Financial Statements and this Quarterly Report on Form 10-Q have been adjusted retroactively to reflect the stock split.

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.

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 appealed the final determination to the U.S. Court of International Trade (CIT). The Company and the United States have reached an agreement to settle the appeal. As a result, the DOC published on March 22, 2013 the amended final results of the review and assigned Mueller Comercial an antidumping duty rate of 40.5 percent. U.S. Customs and Border Protection has assessed antidumping duties on subject imports during the

period of review. As of June 28, 2014, Mueller Comercial has complied with all requests for payment of duties related to this review period.

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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 in the review. On June 21, 2011, the DOC published the final results of the review and assigned Mueller Comercial an antidumping duty rate of 19.8 percent. On August 22, 2011, the Company appealed the final results to the CIT. On December 21, 2012, the CIT issued a decision upholding the Department's final results in part. The CIT issued its final judgment on May 2, 2013.

On May 6, 2013, the Company appealed the CIT decision to the U.S. Court of Appeals for the Federal Circuit (Federal Circuit). On May 29, 2014, the Federal Circuit issued its decision vacating the CIT's decision and remanding the case back to DOC to reconsider the Company's rate. 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 \$1.1 million for this matter.

Subsequent to October 31, 2009, Mueller Comercial did not ship subject merchandise to the United States. Therefore, there is zero antidumping duty liability for periods of review after October 31, 2009.

U.K. Actions Relating to the European Commission's 2004 Copper Tube Decision and 2006 Copper Fittings Decision

In the Competition Appeal Tribunal (the CAT) in the United Kingdom, IMI plc and IMI Kynoch Limited (IMI) and Boliden AB (Boliden) were served with claims by 21 claimants, all companies within the Travis Perkins Group (TP and the TP Claimants) regarding copper tube. The TP Claimants sought follow-on damages arising out of conduct described in the European Commission's September 3, 2004, decision regarding copper tube. The claims purported to arise from the findings of the European Commission as set forth in that decision (Copper Tube Decision). IMI and Boliden commenced legal proceedings against Mueller Industries, Inc., WTC Holding Company, Inc., DENO Holding Company, Inc., Mueller Europe, Limited, and DENO Acquisition EURL (the five Mueller entities), and in those proceedings claimed a contribution for any follow-on damages.

In the High Court in the United Kingdom, IMI has also been served with claims by 21 TP Claimants regarding copper fittings. The TP Claimants are seeking follow-on damages arising out of conduct described in the European Commission's September 20, 2006, decision regarding copper fittings. The claims similarly purport to arise from the findings of the European Commission as set forth in that decision. IMI has commenced legal proceedings against Mueller Industries, Inc., Mueller Europe Limited, and WTC Holding Company, Inc. (the three Mueller entities), and in those proceedings are claiming a contribution for any follow-on damages.

As to the claims arising from the Copper Tube Decision brought in the CAT, following the CAT's grant of approval, the case was transferred to the High Court. Mueller's defense in response to the contribution claims brought by IMI and Boliden was served on March 15, 2013. During the second quarter of 2014, a settlement was reached in respect of the claims against Mueller and the High Court has been asked to dismiss the claims against Mueller. The total payment made by Mueller pursuant to the settlement did not have a material impact on the Company's financial position, results of operations, or cash flows.

As to the claims arising from the Copper Fittings Decision, Mueller's defense in response to the contribution claims brought by IMI was served on May 30, 2014. A case management conference is anticipated to take place in late July 2014. At this time, the Company does not believe that the outstanding claims against Mueller relating to copper fittings will have a material impact on its financial position, results of operations, or cash flows.

Other

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 revolving credit facility. The maximum payments that the Company could be required to make under its guarantees at June 28, 2014 were \$10.3 million.



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## Note 3 – Insurance Claims

In September 2011, a portion of the Company's Wynne, Arkansas manufacturing operation was damaged by fire. Certain inventories, production equipment, and building structures were extensively damaged. During the second quarter of 2013, the Company settled the claim with its insurer for total proceeds of \$127.3 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 (which were recorded as other current liabilities in prior periods) were recognized, resulting in a pre-tax gain of \$106.3 million in the second quarter of 2013, or \$1.17 per diluted share after tax.

## Note 4 – Inventories

(In thousands)	June 28, 2014	December 28, 2013
Raw materials and supplies	\$ 53,948	\$ 54,613
Work-in-process	60,893	43,796
Finished goods	181,407	159,422
Valuation reserves	(5,110)	(6,115)
Inventories	\$ 291,138	\$ 251,716

## 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 Jiangsu Mueller-Xingrong Copper Industries Limited (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.

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 primarily in Europe. 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 also includes 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. For the six months ended June 28, 2014, cost of goods sold included a decrease in accruals related to import duties of \$3.1 million.

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 primarily for the refrigeration, air-conditioning, and gas appliance 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 original equipment manufacturers.

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(In thousands)	For the Quarter Ended June 28, 2014			
	Plumbing & Refrigeration Segment	OEM Segment	Corporate and Eliminations	Total
Net sales	\$ 397,190	\$ 255,409	\$ (2,908)	\$ 649,691
Cost of goods sold	336,256	224,392	(2,873)	557,775
Depreciation and amortization	5,096	2,892	604	8,592
Selling, general, and administrative expense	23,508	4,909	6,703	35,120
Operating income	32,330	23,216	(7,342)	48,204
Interest expense				(1,457)
Other income, net				127
Income before income taxes				\$ 46,874

(In thousands)	For the Quarter Ended June 29, 2013			
	Plumbing & Refrigeration Segment	OEM Segment	Corporate and Eliminations	Total
Net sales	\$ 328,673	\$ 257,044	\$ (3,435)	\$ 582,282
Cost of goods sold	277,933	226,596	(3,404)	501,125
Depreciation and amortization	4,443	3,342	543	8,328
Selling, general, and administrative expense	20,382	6,167	8,265	34,814
Insurance settlement	(103,895)	—	(2,437)	(106,332)
Operating income	129,810	20,939	(6,402)	144,347
Interest expense				(1,101)
Other income, net				319
Income before income taxes				\$ 143,565

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For the Six Months Ended June 28, 2014

(In thousands)	Plumbing & Refrigeration Segment	OEM Segment	Corporate and Eliminations	Total
Net sales	\$ 735,217	\$ 495,439	\$ (6,591)	\$ 1,224,065
Cost of goods sold	625,281	434,795	(6,524)	1,053,552
Depreciation and amortization	9,516	5,975	1,208	16,699
Selling, general, and administrative expense	44,205	10,167	12,931	67,303
Operating income	56,215	44,502	(14,206)	86,511
Interest expense				&#160