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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended December 31, 2013

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

Commission File Number 001-32892

**MUELLER WATER PRODUCTS, INC.**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>20-3547095</b> (I.R.S. Employer Identification No.)
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**1200 Abernathy Road N.E.**  
**Suite 1200**  
**Atlanta, GA 30328**  
(Address of principal executive offices)  
**(770) 206-4200**  
(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 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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

There were 159,187,136 shares of common stock of the registrant outstanding at January 31, 2014.

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PART I

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (UNAUDITED)

	December 31, 2013	September 30, 2013
	(in millions, except share amounts)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 106.8	\$ 123.6
Receivables, net	134.4	164.5
Inventories	214.3	208.5
Deferred income taxes	64.0	26.7
Other current assets	46.5	46.1
Total current assets	<u>566.0</u>	<u>569.4</u>
Property, plant and equipment, net	141.9	141.9
Identifiable intangible assets	545.5	553.1
Other noncurrent assets	16.3	17.5
Total assets	<u>\$ 1,269.7</u>	<u>\$ 1,281.9</u>
<b>Liabilities and stockholders' equity:</b>		
Current portion of long-term debt	\$ 1.2	\$ 1.3
Accounts payable	71.4	101.2
Other current liabilities	66.9	80.6
Total current liabilities	<u>139.5</u>	<u>183.1</u>
Long-term debt	599.5	599.5
Deferred income taxes	176.4	141.5
Other noncurrent liabilities	32.5	29.6
Total liabilities	<u>947.9</u>	<u>953.7</u>
<b>Commitments and contingencies (Note 10)</b>		
Common stock: 600,000,000 shares authorized; 159,004,117 and 158,234,300 shares outstanding at December 31, 2013 and September 30, 2013, respectively	1.6	1.6
Additional paid-in capital	1,581.9	1,584.4
Accumulated deficit	(1,228.1)	(1,229.2)
Accumulated other comprehensive loss	(33.6)	(28.6)
Total stockholders' equity	<u>321.8</u>	<u>328.2</u>
Total liabilities and stockholders' equity	<u>\$ 1,269.7</u>	<u>\$ 1,281.9</u>

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

**MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED)

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in millions, except per share amounts)</b>	
Net sales	\$ 257.4	\$ 245.1
Cost of sales	190.3	188.0
Gross profit	<u>67.1</u>	<u>57.1</u>
Operating expenses:		
Selling, general and administrative	53.0	49.5
Restructuring	0.1	0.7
Total operating expenses	<u>53.1</u>	<u>50.2</u>
Operating income	14.0	6.9
Interest expense, net	<u>12.6</u>	<u>13.5</u>
Income (loss) before income taxes	1.4	(6.6)
Income tax expense (benefit)	<u>0.3</u>	<u>(1.6)</u>
Income (loss) from continuing operations	1.1	(5.0)
Income from discontinued operations	<u>—</u>	<u>12.0</u>
Net income	<u>\$ 1.1</u>	<u>\$ 7.0</u>
Net income per basic share:		
Continuing operations	\$ 0.01	\$ (0.03)
Discontinued operations	<u>—</u>	<u>0.07</u>
Net income	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Net income per diluted share:		
Continuing operations	\$ 0.01	\$ (0.03)
Discontinued operations	<u>—</u>	<u>0.07</u>
Net income	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Weighted average shares outstanding:		
Basic	<u>158.5</u>	<u>157.1</u>
Diluted	<u>161.7</u>	<u>159.2</u>
Dividends declared per share	<u>\$ 0.0175</u>	<u>\$ 0.0175</u>

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

**MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in millions)</b>	
Net income	\$ 1.1	\$ 7.0
Other comprehensive income (loss):		
Minimum pension liability	(4.9)	(3.4)
Income tax effects	1.9	6.8
Foreign currency translation	(2.0)	(0.7)
	(5.0)	2.7
Comprehensive income (loss)	\$ (3.9)	\$ 9.7

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

**MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**THREE MONTHS ENDED DECEMBER 31, 2013**  
**(UNAUDITED)**

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total</u>
	(in millions)				
Balance at September 30, 2013	\$ 1.6	\$ 1,584.4	\$ (1,229.2)	\$ (28.6)	\$ 328.2
Net income	—	—	1.1	—	1.1
Dividends declared	—	(2.8)	—	—	(2.8)
Stock-based compensation	—	2.4	—	—	2.4
Shares retained for employee taxes	—	(3.0)	—	—	(3.0)
Stock issued under stock compensation plans	—	0.9	—	—	0.9
Other comprehensive loss, net of tax	—	—	—	(5.0)	(5.0)
Balance at December 31, 2013	<u>\$ 1.6</u>	<u>\$ 1,581.9</u>	<u>\$ (1,228.1)</u>	<u>\$ (33.6)</u>	<u>\$ 321.8</u>

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

**MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in millions)</b>	
<b>Operating activities:</b>		
Net income	\$ 1.1	\$ 7.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities from continuing operations:		
Income from discontinued operations	—	(12.0)
Income (loss) from continuing operations	1.1	(5.0)
Depreciation	6.8	7.4
Amortization	7.9	7.4
Stock-based compensation	2.4	1.5
Deferred income taxes	0.1	(1.8)
Retirement plans	0.4	1.1
Other, net	0.5	0.8
Changes in assets and liabilities, net of acquisitions:		
Receivables	29.7	30.0
Inventories	(6.1)	(7.1)
Other assets	0.2	(0.4)
Liabilities	(46.8)	(33.3)
Net cash provided by (used in) operating activities from continuing operations	(3.8)	0.6
<b>Investing activities:</b>		
Capital expenditures	(7.5)	(6.2)
Acquisition of technology	—	(0.3)
Proceeds from sales of assets	0.2	—
Net cash used in investing activities from continuing operations	(7.3)	(6.5)
<b>Financing activities:</b>		
Dividends paid	(2.8)	(2.7)
Common stock issued	0.9	0.3
Shares retained for employee taxes	(3.0)	(1.3)
Payment of deferred financing fees	—	(0.7)
Other	0.4	(0.6)
Net cash used in financing activities	(4.5)	(5.0)
<b>Net cash flows from discontinued operations:</b>		
Operating activities	—	(1.7)
Investing activities	—	4.5
Net cash provided by discontinued operations	—	2.8
Effect of currency exchange rate changes on cash	(1.2)	(0.4)
Net change in cash and cash equivalents	(16.8)	(8.5)
Cash and cash equivalents at beginning of period	123.6	83.0
Cash and cash equivalents at end of period	\$ 106.8	\$ 74.5

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

**MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization**

Mueller Water Products, Inc., a Delaware corporation, together with its consolidated subsidiaries, operates in two business segments: Mueller Co. and Anvil. Mueller Co. manufactures valves for water and gas systems, including butterfly, iron gate, tapping, check, plug and ball valves, as well as dry-barrel and wet-barrel fire hydrants, metering systems, and provides leak detection and pipe condition assessment products and services for the water infrastructure industry. Anvil manufactures and sources a broad range of products, including a variety of fittings, couplings, hangers and related products. The “Company,” “we,” “us” or “our” refer to Mueller Water Products, Inc. and its subsidiaries. With regard to the Company’s segments, “we,” “us” or “our” may also refer to the segment being discussed.

Unless the context indicates otherwise, whenever we refer to a particular year, we mean our fiscal year ended or ending September 30 in that particular calendar year.

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which require us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses and the disclosure of contingent assets and liabilities for the reporting periods. Actual results could differ from those estimates. All significant intercompany balances and transactions have been eliminated. In our opinion, all normal and recurring adjustments that we consider necessary for a fair financial statement presentation have been made. Certain reclassifications have been made to previously reported amounts to conform to the current presentation. The condensed consolidated balance sheet data at September 30, 2013 was derived from audited financial statements, but does not include all disclosures required by GAAP.

**Note 2. Discontinued Operations**

On April 1, 2012, we sold our former U.S. Pipe segment to USP Holdings Inc., an affiliate of Wynnchurch Capital, Ltd., 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 2013, we received \$4.5 million in cash for certain purchase price adjustments and reduced our loss on sale of discontinued operations accordingly.

U.S. Pipe’s results of operations have been reclassified as discontinued operations for the three months ended December 31, 2012. The table below represents a summary of the operating results for these discontinued operations, in millions. These operating results do not reflect what they would have been had U.S. Pipe not been classified as discontinued operations.

Operating income	\$ 7.2
Income on sale of discontinued operations	4.8
Income from discontinued operations	<u>\$ 12.0</u>

We retained certain assets, liabilities and activities previously associated with our former U.S. Pipe segment, including ownership of certain real property and retention of pension and workers compensation obligations to employees of U.S. Pipe. Cash flows associated with some of these items are anticipated to continue indefinitely, but they are not clearly and closely related to the future operations of U.S. Pipe under its new owners.

**Note 3. Income Taxes**

After inclusion of the tax effect of the overall loss on the sale of U.S. Pipe, our net reversing deferred tax credits were insufficient to fully support our deferred tax assets, which include net operating loss carryforwards, and we concluded that a valuation allowance was necessary to reduce our U.S. net reversing deferred tax assets to zero. Accordingly, we recorded income tax expense in 2012 to establish valuation allowances related to deferred tax assets.

We reevaluate the need for a valuation allowance against the U.S. deferred tax assets each quarter, considering results to date, projections of taxable income, tax planning strategies and reversing taxable temporary differences. During the quarter ended December 31, 2012, we decreased our U.S. deferred tax valuation allowance by \$4.6 million. Notwithstanding the valuation allowance, our net operating loss carryforwards remain available to offset future taxable earnings.

The components of income tax expense on continuing operations are provided below.

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in millions)</b>	
Expense (benefit) from income (loss) before income taxes	\$ 0.5	\$ (2.4)
Deferred tax asset valuation allowance adjustment	—	0.8
Other discrete items	(0.2)	—
	<u>\$ 0.3</u>	<u>\$ (1.6)</u>

At December 31, 2013 and September 30, 2013, the gross liabilities for unrecognized income tax benefits were \$3.8 million and \$3.7 million, respectively.

We recognize interest related to uncertain income tax positions as interest expense and would recognize any penalties that may be incurred as selling, general and administrative expense. At December 31, 2013 and September 30, 2013, we had \$0.9 million and \$0.9 million, respectively, of accrued interest liabilities related to uncertain tax positions.

Our state income tax returns are generally closed for years prior to 2006, except to the extent of our state net operating loss carryforwards. Our Canadian income tax returns are generally closed for years prior to 2006. We are currently under audit by several states at various levels of completion. We do not have any material unpaid assessments.

#### **Note 4. Borrowing Arrangements**

The components of our long-term debt are presented below.

	<b>December 31,</b>	<b>September 30,</b>
	<b>2013</b>	<b>2013</b>
	<b>(in millions)</b>	
ABL Agreement	\$ —	\$ —
8.75% Senior Unsecured Notes	178.0	178.0
7.375% Senior Subordinated Notes	420.0	420.0
Other	2.7	2.8
	<u>600.7</u>	<u>600.8</u>
Less current portion	(1.2)	(1.3)
Long-term debt	<u>\$ 599.5</u>	<u>\$ 599.5</u>

*ABL Agreement*. At December 31, 2013, our asset based lending agreement (“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, 2013, the applicable rate was LIBOR plus 175 basis points.

The ABL Agreement terminates on the earlier of (1) December 18, 2017 and (2) 60 days prior to the final maturity of our 7.375% Senior Subordinated Notes. We pay a commitment fee for any unused borrowing capacity under the ABL Agreement of either 37.5 basis points per annum or 25 basis points per annum, based on daily average availability during the previous calendar quarter. At December 31, 2013, our commitment fee was 37.5 basis points. Our obligations under the ABL Agreement 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. Excess availability based on December 31, 2013 data, as reduced by outstanding letters of credit and accrued fees and expenses of \$30.8 million, was \$138.5 million.



*8.75% Senior Unsecured Notes.* The 8.75% Senior Unsecured Notes (“Senior Unsecured Notes”) mature on September 1, 2020 and bear interest at 8.75% , paid semi-annually. The Senior Unsecured Notes balance at December 31, 2013 is net of \$2.0 million of unamortized discount. Based on quoted market prices, the outstanding Senior Unsecured Notes had a fair value of \$202.1 million at December 31, 2013 .

After August 31, 2015 , we may redeem the Senior Unsecured Notes at specified redemption prices. 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 101.0% . The Senior Unsecured Notes are guaranteed by essentially all of our U.S. subsidiaries, but are subordinate to borrowings under the ABL Agreement.

The indenture securing the Senior Unsecured Notes contains customary covenants and events of default, including covenants that limit our ability to incur debt, pay dividends and make investments. We believe we were compliant with these covenants at December 31, 2013 and expect to remain in compliance through December 31, 2014 .

*7.375% Senior Subordinated Notes.* The 7.375% Senior Subordinated Notes (“Senior Subordinated Notes”) mature on June 1, 2017 and bear interest at 7.375% , paid semi-annually. Based on quoted market prices, the outstanding Senior Subordinated Notes had a fair value of \$431.6 million at December 31, 2013 .

We may redeem any portion of the Senior Subordinated Notes at specified redemption prices, subject to restrictions in the 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 a purchase price of 101% . The Senior Subordinated Notes are guaranteed by essentially all of our U.S. subsidiaries, but are subordinate to the borrowings under the ABL Agreement and the Senior Unsecured Notes.

The indenture securing the Senior Subordinated Notes contains customary covenants and events of default, including covenants that limit our ability to incur debt, pay dividends and make investments. We believe we were compliant with these covenants at December 31, 2013 and expect to remain in compliance through December 31, 2014 .

#### **Note. 5 Retirement Plans**

The components of net periodic benefit cost allocated to continuing operations for defined benefit pension plans are as follows.

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in millions)</b>	
Service cost	\$ 0.4	\$ 0.5
Interest cost	5.0	1.6
Expected return on plan assets	(5.9)	(2.1)
Amortization of actuarial net loss	0.9	0.7
Net periodic benefit cost	<u>\$ 0.4</u>	<u>\$ 0.7</u>

The amortization of actuarial losses, net of tax, is recorded as a component of other comprehensive income (loss).

Our U.S. pension plan was 101% funded at January 1, 2013 under the provisions of the Pension Protection Act. We do not expect to make any contributions to our U.S. pension plan during 2014. For financial reporting purposes, our U.S. pension plan obligations were 99% funded at September 30, 2013 .

We ceased postretirement medical benefits substantially on December 31, 2012 . Related to this cessation of benefits, we recorded a benefit of \$7.4 million , which is included in income from discontinued operations.

## Note 6. Stock-based Compensation Plans

From time to time, we grant various forms of stock-based compensation, including stock options, restricted stock units, and both cash-settled and stock-settled performance-based restricted stock units ("PRSUs") under our Amended and Restated 2006 Mueller Water Products, Inc. Stock Incentive Plan (the "2006 Stock Plan").

PRSUs represent a target number of units that may be paid out at the end of a multi-year award cycle consisting of annual performance periods coinciding with our fiscal years. As determined at the date of grant, PRSUs may settle in cash-value equivalent of, or directly in, shares of our common stock. Settlement will range from zero to two times the number of PRSUs granted, depending on our financial performance against predetermined targets.

The cash-settled PRSUs granted in 2013 will settle in November 2014 as determined at the end of the 2013 and 2014 performance periods. Cash-settled PRSUs are recorded as liability awards. Outstanding cash-settled PRSUs had a fair value of \$9.37 per share at December 31, 2013 and our liability for cash-settled PRSUs was \$2.6 million at December 31, 2013 .

The stock-settled PRSUs granted in 2013 and 2014 will settle in November 2015 and December 2016, respectively, as determined at the end of each of three successive annual performance periods. Stock-settled PRSUs are recorded as equity awards. The stock prices used to value the awards were \$5.22 for the 2013 performance period and \$8.52 for the 2014 performance period.

From time to time, we grant Phantom Plan awards under the Mueller Water Products, Inc. Phantom Plan ("Phantom Plan"). Phantom Plan awards are recorded as liability awards. The outstanding Phantom Plan awards had a fair value of \$9.37 per award at December 31, 2013 and our liability for Phantom Plan awards was \$1.7 million at December 31, 2013 .

We granted stock-based compensation awards under the 2006 Stock Plan, the Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan and the Phantom Plan during the quarter ended December 31, 2013 as follows.

	<b>Number granted</b>	<b>Weighted average grant date fair value per instrument</b>	<b>Total grant date fair value (in millions)</b>
Quarter ended December 31, 2013:			
Restricted stock units	333,816	\$ 8.50	\$ 2.8
Employee stock purchase plan instruments	56,643	1.87	0.1
Phantom Plan awards	304,815	8.52	2.6
Stock-settled performance shares	272,531	8.52	2.3
	<u>967,805</u>		<u>\$ 7.8</u>

We recorded stock-based compensation expense in continuing operations of \$4.1 million and \$2.3 million during the quarters ended December 31, 2013 and 2012 , respectively. At December 31, 2013 , there was approximately \$10.2 million of unrecognized compensation expense related to stock-based awards.

We exclude stock-based compensation instruments from the calculations of diluted earnings per share when inclusion of such instruments would have an antidilutive effect. We excluded 1,127,281 and 2,475,644 of such instruments from the calculations of diluted earnings per share for the quarters ended December 31, 2013 and December 31, 2012 , respectively.

**Note 7. Supplemental Balance Sheet Information**

Selected supplemental balance sheet information is presented below.

	<b>December 31, 2013</b>	<b>September 30, 2013</b>
	<b>(in millions)</b>	
<b>Inventories:</b>		
Purchased components and raw material	\$ 75.2	\$ 75.4
Work in process	40.1	38.6
Finished goods	99.0	94.5
	<u>\$ 214.3</u>	<u>\$ 208.5</u>
<b>Other current assets:</b>		
Maintenance and repair tooling	\$ 22.7	22.5
Income taxes	14.2	14.9
U.S. Pipe-related workers' compensation and other reimbursements	2.5	2.2
Other	7.1	6.5
	<u>\$ 46.5</u>	<u>\$ 46.1</u>
<b>Property, plant and equipment:</b>		
Land	\$ 10.6	\$ 10.6
Buildings	76.2	75.5
Machinery and equipment	310.4	305.7
Construction in progress	20.2	19.6
	<u>417.4</u>	<u>411.4</u>
Accumulated depreciation	(275.5)	(269.5)
	<u>\$ 141.9</u>	<u>\$ 141.9</u>
<b>Other current liabilities:</b>		
Compensation and benefits	\$ 25.6	\$ 37.3
Customer rebates	17.7	15.5
Interest	8.2	12.0
Taxes other than income taxes	4.3	5.0
Warranty	2.6	2.8
Income taxes	1.3	1.3
Environmental	0.2	0.2
Other	7.0	6.5
	<u>\$ 66.9</u>	<u>\$ 80.6</u>

**Note 8. Segment Information**

Summarized financial information for our segments is presented below for the quarters ended December 31.

	<u>Mueller Co.</u>	<u>Anvil</u>	<u>Corporate</u>	<u>Total</u>
	(in millions)			
Net sales, excluding intercompany:				
2013	\$ 165.0	\$ 92.4	\$ —	\$ 257.4
2012	151.1	94.0	—	245.1
Intercompany sales:				
2013	\$ 1.6	\$ —	\$ —	\$ 1.6
2012	1.4	—	—	1.4
Operating income (loss):				
2013	\$ 15.9	\$ 7.3	\$ (9.2)	\$ 14.0
2012	8.1	5.9	(7.1)	6.9
Depreciation and amortization:				
2013	\$ 11.1	\$ 3.5	\$ 0.1	\$ 14.7
2012	11.2	3.5	0.1	14.8
Restructuring:				
2013	\$ 0.1	\$ —	\$ —	\$ 0.1
2012	0.7	—	—	0.7
Capital expenditures:				
2013	\$ 4.4	\$ 3.1	\$ —	\$ 7.5
2012	3.4	2.8	—	6.2

**Note 9. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss is presented below.

	<u>Foreign currency translation</u>	<u>Minimum pension liability, net of tax</u>	<u>Total</u>
	(in millions)		
Balance at September 30, 2013	\$ 6.8	\$ (35.4)	\$ (28.6)
Current period other comprehensive income (loss)	(2.0)	(3.0)	(5.0)
Balance at December 31, 2013	<u>\$ 4.8</u>	<u>\$ (38.4)</u>	<u>\$ (33.6)</u>

**Note 10. Commitments and Contingencies**

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

*Environmental.* We are subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the operations at many of our properties and with respect to remediating environmental conditions that may exist at our own or other properties. We strive to comply with federal, state and local environmental laws and regulations. We accrue for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable.

In the acquisition agreement pursuant to which a predecessor to Tyco sold our Mueller Co. and Anvil businesses to the prior owners of these businesses in August 1999, Tyco agreed to indemnify us and our affiliates, among other things, for all “Excluded Liabilities.” Excluded Liabilities include, among other things, substantially all liabilities relating to the time prior to August 1999, including environmental liabilities. The indemnity survives indefinitely. Tyco's indemnity does not cover liabilities to the extent caused by us or the operation of our businesses after August 1999, nor does it cover liabilities arising with respect to businesses or sites acquired after August 1999. Since 2007, Tyco has engaged in multiple corporate restructurings, split-offs and divestitures. While none of these transactions directly affects the indemnification obligations of the Tyco indemnitors under the 1999 acquisition agreement, the result of such transactions is that the assets of, and control over, such Tyco indemnitors has changed. Should any of these Tyco indemnitors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

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

On July 13, 2010, Rohcan Investments Limited, the former owner of property leased by Mueller Canada Ltd. and located in Milton, Ontario, filed suit against Mueller Canada Ltd. and its directors seeking C\$10.0 million in damages arising from the defendants' alleged environmental contamination of the property and breach of lease. Mueller Canada Ltd. leased the property from 1988 through 2008. We are pursuing indemnification from a former owner for certain potential liabilities that are alleged in this lawsuit, and we have accrued for other liabilities not covered by indemnification. On December 7, 2011, the Court denied the plaintiff's motion for summary judgment.

*Walter Energy-related Income Taxes.* Each member of a consolidated group for federal income tax purposes is severally liable for the federal income tax liability of each other member of the consolidated group for any year in which it is a member of the group at any time during such year. Each member of the Walter Energy consolidated group, which included us through December 14, 2006, is also jointly and severally liable for pension and benefit funding and termination liabilities of other group members, as well as certain benefit plan taxes. Accordingly, we could be liable under such provisions in the event any such liability is incurred, and not discharged, by any other member of the Walter Energy consolidated group for any period during which we were included in the Walter Energy consolidated group.

A dispute exists with regard to federal income taxes for 1980 through 1994 allegedly owed by the Walter Energy consolidated group. According to Walter Energy's last available public filing on the matter, Walter Energy's management estimated that the amount of tax claimed by the IRS was approximately \$34.0 million for issues currently in dispute in bankruptcy court for matters unrelated to us. This amount is subject to interest and penalties. Of the \$34.0 million in claimed tax, \$21.0 million represents issues in which the IRS is not challenging the deductibility of the particular expense but only whether such expense is deductible in a particular year. Walter Energy's management believes that Walter Energy's financial exposure should be limited to interest and possible penalties and the amount of any tax claimed will be offset by favorable adjustments in other years.

In addition, the IRS previously issued a Notice of Proposed Deficiency assessing additional tax of \$82.2 million for the fiscal years ended May 31, 2000 through December 31, 2005. Walter Energy filed a formal protest with the IRS, but had not reached a final resolution with the Appeals Division at December 31, 2013. The unresolved issues relate primarily to Walter Energy's method of recognizing revenue on the sale of homes and related interest on the installment notes receivable. The items at issue relate primarily to the timing of revenue recognition and consequently, should the IRS prevail on its positions, Walter Energy's financial exposure should be limited to interest and penalties. As a matter of law, we are jointly and severally liable for any final tax determination for any year in which any of our subsidiaries were members of the Walter Energy consolidated group, which means that we would be liable in the event Walter Energy is unable to pay any amounts owed. Walter Energy has disclosed that it believes its filing positions have substantial merit and that it intends to defend vigorously any claims asserted.

Walter Energy effectively controlled all of our tax decisions for periods during which we were a member of the Walter Energy consolidated group for federal income tax purposes and certain combined, consolidated or unitary state and local income tax groups. Under the terms of the income tax allocation agreement between us and Walter Energy dated May 26, 2006, we generally compute our tax liability on a stand-alone basis, but Walter Energy has sole authority to respond to and conduct all tax proceedings (including tax audits) relating to our federal income and combined state returns, to file all such returns on our behalf and to determine the amount of our liability to (or entitlement to payment from) Walter Energy for such previous periods. This arrangement may result in conflicts between Walter Energy and us.

Our separation from Walter Energy on December 14, 2006 was intended to qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code. In addition, the tax allocation agreement provides that if the spin-off is determined not to be tax-free pursuant to Section 355, we generally will be responsible for any taxes incurred by Walter Energy or its shareholders if such taxes result from certain of our actions or omissions and for a percentage of any such taxes that are not a result of our actions or omissions or Walter Energy's actions or omissions or taxes based upon our market value relative to Walter Energy's market value. Additionally, to the extent that Walter Energy was unable to pay taxes, if any, attributable to the spin-off and for which it is responsible under the tax allocation agreement, we could be liable for those taxes as a result of being a member of the Walter Energy consolidated group for the year in which the spin-off occurred.

In accordance with the income tax allocation agreement, Walter Energy used certain tax assets of one of our predecessors in its calendar 2006 tax return for which payment to us is required. The income tax allocation agreement only requires Walter Energy to make the payment upon realization of the tax benefit by receiving a refund or otherwise offsetting taxes due. Walter Energy currently owes us \$11.6 million, which includes recent tax audit and amended tax return adjustments, that is payable pending completion of an IRS audit of Walter Energy's 2006 tax year and the related refund of tax from that year. This receivable is included in other current assets at December 31, 2013.

*Indemnifications.* We are a party to contracts in which it is common for us to agree to indemnify third parties for certain liabilities that arise out of or relate to the subject matter of the contract. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by gross negligence or willful misconduct. We cannot estimate the potential amount of future payments under these indemnities until events arise that would trigger a liability under the indemnities.

Additionally, in connection with the sale of assets and the divestiture of businesses, such as the divestiture of our U.S. Pipe segment, we may agree to indemnify buyers and related parties for certain losses or liabilities incurred by these parties with respect to: (i) the representations and warranties made by us to these parties in connection with the sale and (ii) liabilities related to the pre-closing operations of the assets or business sold. Indemnities related to pre-closing operations generally include certain environmental and tax liabilities and other liabilities not assumed by these parties in the transaction.

Indemnities related to the pre-closing operations of sold assets or businesses normally do not represent additional liabilities to us, but simply serve to protect these parties from potential liability associated with our obligations existing at the time of the sale. As with any liability, we have accrued for those pre-closing obligations that are considered probable and reasonably estimable. Should circumstances change, increasing the likelihood of payments related to a specific indemnity, we will accrue a liability when future payment is probable and the amount is reasonably estimable.

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

#### **Note 11. Subsequent Events**

On January 29, 2014, our board of directors declared a dividend of \$0.0175 per share on our common stock, payable on or about February 20, 2014 to stockholders of record at the close of business on February 10, 2014.

**Note 12. Consolidating Guarantor and Non-Guarantor Financial Information**

The following information is included as a result of the guarantee by certain of our wholly-owned U.S. subsidiaries (“Guarantor Companies”) of the Senior Unsecured Notes and the Senior Subordinated Notes. None of our other subsidiaries guarantee the Senior Unsecured Notes and the Senior Subordinated Notes. Each of the guarantees is joint and several and full and unconditional. Guarantor Companies are listed below.

<b>Name</b>	<b>State of incorporation or organization</b>
Anvil International, LLC	Delaware
Echologics, LLC	Delaware
Henry Pratt Company, LLC	Delaware
Henry Pratt International, LLC	Delaware
Hydro Gate, LLC	Delaware
J.B. Smith Mfg. Co., LLC	Delaware
James Jones Company, LLC	Delaware
Milliken Valve, LLC	Delaware
Mueller Co. LLC	Delaware
Mueller Group, LLC	Delaware
Mueller Group Co-Issuer, Inc.	Delaware
Mueller International, L.L.C.	Delaware
Mueller Property Holdings, LLC	Delaware
Mueller Co. International Holdings, LLC	Delaware
Mueller Service California, Inc.	Delaware
Mueller Service Co., LLC	Delaware
Mueller Systems, LLC	Delaware
OSP, LLC	Delaware
U.S. Pipe Valve & Hydrant, LLC	Delaware

**Mueller Water Products, Inc. and Subsidiaries**  
**Condensed Consolidating Balance Sheet**  
**December 31, 2013**

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
	(in millions)				
<b>Assets:</b>					
Cash and cash equivalents	\$ 68.9	\$ (2.9)	\$ 40.8	\$ —	\$ 106.8
Receivables, net	0.1	127.1	7.2	—	134.4
Inventories	—	202.6	11.7	—	214.3
Deferred income taxes	63.6	—	0.4	—	64.0
Other current assets	18.0	26.2	2.3	—	46.5
<b>Total current assets</b>	<b>150.6</b>	<b>353.0</b>	<b>62.4</b>	<b>—</b>	<b>566.0</b>
Property, plant and equipment	1.4	132.5	8.0	—	141.9
Identifiable intangible assets	—	543.7	1.8	—	545.5
Other noncurrent assets	14.8	0.2	1.3	—	16.3
Investment in subsidiaries	177.5	38.1	—	(215.6)	—
Intercompany accounts	882.7	—	—	(882.7)	—
<b>Total assets</b>	<b>\$ 1,227.0</b>	<b>\$ 1,067.5</b>	<b>\$ 73.5</b>	<b>\$ (1,098.3)</b>	<b>\$ 1,269.7</b>
<b>Liabilities and stockholders' equity:</b>					
Current portion of long-term debt	\$ —	\$ 1.2	\$ —	\$ —	\$ 1.2
Accounts payable	4.9	62.6	3.9	—	71.4
Other current liabilities	23.8	40.1	3.0	—	66.9
<b>Total current liabilities</b>	<b>28.7</b>	<b>103.9</b>	<b>6.9</b>	<b>—</b>	<b>139.5</b>
Long-term debt	598.1	1.4	—	—	599.5
Deferred income taxes	175.8	—	0.6	—	176.4
Other noncurrent liabilities	24.3	7.5	0.7	—	32.5
Intercompany accounts	78.3	777.2	27.2	(882.7)	—
<b>Total liabilities</b>	<b>905.2</b>	<b>890.0</b>	<b>35.4</b>	<b>(882.7)</b>	<b>947.9</b>
Stockholders' equity	321.8	177.5	38.1	(215.6)	321.8
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,227.0</b>	<b>\$ 1,067.5</b>	<b>\$ 73.5</b>	<b>\$ (1,098.3)</b>	<b>\$ 1,269.7</b>



**Mueller Water Products, Inc. and Subsidiaries**  
**Condensed Consolidating Balance Sheet**  
**September 30, 2013**

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
	(in millions)				
<b>Assets:</b>					
Cash and cash equivalents	\$ 86.6	\$ (2.3)	\$ 39.3	\$ —	\$ 123.6
Receivables, net	0.1	150.4	14.0	—	164.5
Inventories	—	195.3	13.2	—	208.5
Deferred income taxes	26.3	—	0.4	—	26.7
Other current assets	18.2	25.7	2.2	—	46.1
<b>Total current assets</b>	<b>131.2</b>	<b>369.1</b>	<b>69.1</b>	<b>—</b>	<b>569.4</b>
Property, plant and equipment	1.5	132.0	8.4	—	141.9
Identifiable intangible assets	—	551.3	1.8	—	553.1
Other noncurrent assets	16.0	0.2	1.3	—	17.5
Investment in subsidiaries	155.2	39.2	—	(194.4)	—
Intercompany accounts	882.7	—	—	(882.7)	—
<b>Total assets</b>	<b>\$ 1,186.6</b>	<b>\$ 1,091.8</b>	<b>\$ 80.6</b>	<b>\$ (1,077.1)</b>	<b>\$ 1,281.9</b>
<b>Liabilities and stockholders' equity:</b>					
Current portion of long-term debt	\$ —	\$ 1.3	\$ —	\$ —	\$ 1.3
Accounts payable	4.6	90.0	6.6	—	101.2
Other current liabilities	29.7	46.6	4.3	—	80.6
<b>Total current liabilities</b>	<b>34.3</b>	<b>137.9</b>	<b>10.9</b>	<b>—</b>	<b>183.1</b>
Long-term debt	598.0	1.5	—	—	599.5
Deferred income taxes	140.9	—	0.6	—	141.5
Other noncurrent liabilities	21.3	7.5	0.8	—	29.6
Intercompany accounts	63.9	789.7	29.1	(882.7)	—
<b>Total liabilities</b>	<b>858.4</b>	<b>936.6</b>	<b>41.4</b>	<b>(882.7)</b>	<b>953.7</b>
Stockholders' equity	328.2	155.2	39.2	(194.4)	328.2
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,186.6</b>	<b>\$ 1,091.8</b>	<b>\$ 80.6</b>	<b>\$ (1,077.1)</b>	<b>\$ 1,281.9</b>

**Mueller Water Products, Inc. and Subsidiaries**  
**Condensed Consolidating Statement of Operations**  
**Three months ended December 31, 2013**

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
			(in millions)		
Net sales	\$ —	\$ 235.8	\$ 21.6	\$ —	\$ 257.4
Cost of sales	—	172.7	17.6	—	190.3
Gross profit	—	63.1	4.0	—	67.1
Operating expenses:					
Selling, general and administrative	9.1	40.7	3.2	—	53.0
Restructuring	—	0.1	—	—	0.1
Total operating expenses	9.1	40.8	3.2	—	53.1
Operating income (loss)	(9.1)	22.3	0.8	—	14.0
Interest expense, net	12.6	0.1	(0.1)	—	12.6
Income (loss) before income taxes	(21.7)	22.2	0.9	—	1.4
Income tax expense (benefit)	(7.9)	8.0	0.2	—	0.3
Equity in income of subsidiaries	14.9	0.7	—	(15.6)	—
Net income	\$ 1.1	\$ 14.9	\$ 0.7	\$ (15.6)	\$ 1.1

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

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
			(in millions)		
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 (income), net	13.4	0.1	—	—	13.5
Income (loss) 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	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 Comprehensive Income (Loss)**  
**Three months ended December 31, 2013**

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
	(in millions)				
Net income	\$ 1.1	\$ 14.9	\$ 0.7	\$ (15.6)	\$ 1.1
Other comprehensive income (loss):					
Minimum pension liability, net of tax	(3.0)	—	—	—	(3.0)
Equity in other comprehensive loss of subsidiaries	(2.0)	(2.0)	—	4.0	—
Foreign currency translation	—	—	(2.0)	—	(2.0)
	(5.0)	(2.0)	(2.0)	4.0	(5.0)
Comprehensive income (loss)	<u>\$ (3.9)</u>	<u>\$ 12.9</u>	<u>\$ (1.3)</u>	<u>\$ (11.6)</u>	<u>\$ (3.9)</u>

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

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
	(in millions)				
Net income (loss)	\$ 7.0	\$ 10.5	\$ (0.2)	\$ (10.3)	\$ 7.0
Other comprehensive income (loss):					
Minimum pension liability, net of tax	3.4	—	—	—	3.4
Equity in other comprehensive income of subsidiaries	(0.7)	(0.7)	—	1.4	—
Foreign currency translation	—	—	(0.7)	—	(0.7)
	2.7	(0.7)	(0.7)	1.4	2.7
Comprehensive income (loss)	<u>\$ 9.7</u>	<u>\$ 9.8</u>	<u>\$ (0.9)</u>	<u>\$ (8.9)</u>	<u>\$ 9.7</u>

**Mueller Water Products, Inc. and Subsidiaries**  
**Condensed Consolidating Statement of Cash Flows**  
**Three months ended December 31, 2013**

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
			(in millions)		
<b>Operating activities:</b>					
Net cash provided by (used in) operating activities	\$ (12.8)	\$ 6.1	\$ 2.9	\$ —	\$ (3.8)
<b>Investing activities:</b>					
Capital expenditures	—	(7.3)	(0.2)	—	(7.5)
Proceeds from sales of assets	—	0.2	—	—	0.2
Net cash used in investing activities from continuing operations	—	(7.1)	(0.2)	—	(7.3)
<b>Financing activities:</b>					
Dividends paid	(2.8)	—	—	—	(2.8)
Common stock issued	0.9	—	—	—	0.9
Shares retained for employee taxes	(3.0)	—	—	—	(3.0)
Other	—	0.4	—	—	0.4
Net cash provided by (used in) financing activities from continuing operations	(4.9)	0.4	—	—	(4.5)
Effect of currency exchange rate changes on cash	—	—	(1.2)	—	(1.2)
Net change in cash and cash equivalents	(17.7)	(0.6)	1.5	—	(16.8)
Cash and cash equivalents at beginning of period	86.6	(2.3)	39.3	—	123.6
Cash and cash equivalents at end of period	<u>\$ 68.9</u>	<u>\$ (2.9)</u>	<u>\$ 40.8</u>	<u>\$ —</u>	<u>\$ 106.8</u>

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

	<u>Issuer</u>	<u>Guarantor companies</u>	<u>Non- guarantor companies</u>	<u>Eliminations</u>	<u>Total</u>
	(in millions)				
<b>Operating activities:</b>					
Net cash provided by (used in) operating activities from continuing operations	\$ (5.9)	\$ 6.0	\$ 0.5	\$ —	\$ 0.6
<b>Investing activities:</b>					
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)
<b>Financing activities:</b>					
Dividends paid	(2.7)	—	—	—	(2.7)
Common stock issued	0.3	—	—	—	0.3
Shares retained for employee taxes	(1.3)	—	—	—	(1.3)
Payment of deferred financing fees	(0.7)	—	—	—	(0.7)
Other	(0.7)	0.1	—	—	(0.6)
Net cash provided by (used in) financing activities from continuing operations	(5.1)	0.1	—	—	(5.0)
<b>Net cash flows from discontinued operations:</b>					
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

## **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 of 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, the condition of our end markets and the performance of each of Mueller Co. and Anvil over future periods. 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, 2013 ("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.

Unless the context indicates otherwise, whenever we refer to a particular year, we mean our 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.

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 fiscal 2013.

#### ***Business***

We expect Mueller Co.'s 2014 net sales growth rate will be comparable to the 2013 growth rate, based on our current outlook for growth in residential construction and in municipal spending. We expect Mueller Co.'s operating income to improve for the second quarter of 2014 compared to the second quarter of the prior year, although at a slower growth rate than Mueller Co. experienced in the first quarter of 2014 compared to the first quarter of the prior year. In the second quarter, Mueller Co. is changing its approach to the production of certain sizes of iron gate valves. This change is expected to result in a write-down of the related production equipment. We expect Mueller Co. will record an associated \$1.5 million non-cash charge during the second quarter and that the project will deliver annual cost savings of \$3.0 million to \$3.5 million.

At Anvil, while we expect the energy and non-residential construction markets to improve during 2014, we will most likely benefit from these improvements in the second half of 2014. Consequently, we believe Anvil's second quarter net sales and operating income will be essentially flat year-over-year.

On a consolidated basis, we expect that results for the remainder of 2014 will improve year-over-year primarily due to expected growth in our key end markets and the benefits of expected stronger operating leverage.

## Results of Operations

Three months ended December 31, 2013 Compared to Three months ended December 31, 2012

	Three months ended December 31, 2013			
	Mueller Co.	Anvil	Corporate	Total
	(in millions)			
Net sales	\$ 165.0	\$ 92.4	\$ —	\$ 257.4
Gross profit	\$ 41.7	\$ 25.4	\$ —	\$ 67.1
Operating expenses:				
Selling, general and administrative	25.7	18.1	9.2	53.0
Restructuring	0.1	—	—	0.1
	25.8	18.1	9.2	53.1
Operating income (loss)	\$ 15.9	\$ 7.3	\$ (9.2)	14.0
Interest expense, net				12.6
Income before income taxes				1.4
Income tax expense				0.3
Net income				\$ 1.1

	Three months ended December 31, 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
	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				12.0
Net income				\$ 7.0

### Consolidated Analysis

Net sales for the quarter ended December 31, 2013 increased to \$257.4 million from \$245.1 million in the prior year period. Net sales increased primarily due to \$9.6 million of higher shipment volumes and \$5.1 million of higher pricing at Mueller Co., which were partially offset by lower shipment volumes at Anvil.

Gross profit for the quarter ended December 31, 2013 increased to \$67.1 million from \$57.1 million in the prior year period. Gross margin increased 280 basis points to 26.1% in the quarter ended December 31, 2013 from 23.3% in the prior year period. Gross profit and gross margin benefited primarily from increased shipment volumes and higher sales pricing.

Selling, general and administrative expenses ("SG&A") for the quarter ended December 31, 2013 increased to \$53.0 million from \$49.5 million in the prior year period. SG&A increased primarily due to higher expenses associated with higher shipment volumes and higher stock-based compensation expense. SG&A as a percentage of net sales was 20.6% in the quarter ended December 31, 2013 and 20.2% in the prior year period.

Interest expense, net decreased in the quarter ended December 31, 2013 compared to the prior year period due to a lower level of total debt outstanding. The components of interest expense, net are detailed below.

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in millions)</b>	
7.375% Senior Subordinated Notes	\$ 7.7	\$ 7.7
8.75% Senior Unsecured Notes	4.0	4.5
Deferred financing fees amortization	0.5	0.6
ABL Agreement	0.3	0.5
Other interest expense	0.2	0.2
	<u>12.7</u>	<u>13.5</u>
Interest income	(0.1)	—
	<u>\$ 12.6</u>	<u>\$ 13.5</u>

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

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in millions)</b>	
Expense (benefit) from income (loss) before income taxes	\$ 0.5	\$ (2.4)
Deferred tax asset valuation allowance adjustment	—	0.8
Other discrete items	(0.2)	—
	<u>\$ 0.3</u>	<u>\$ (1.6)</u>

### ***Segment Analysis***

#### *Mueller Co.*

Net sales for the quarter ended December 31, 2013 increased to \$165.0 million from \$151.1 million in the prior year period. Net sales increased primarily due to \$9.6 million of higher shipment volumes and \$5.1 million of higher pricing.

Gross profit for the quarter ended December 31, 2013 increased to \$41.7 million from \$32.9 million in the prior year period primarily due to higher sales pricing and higher shipment volumes. Gross margin increased to 25.3% for the quarter ended December 31, 2013 compared to 21.8% in the prior year period primarily due to higher sales pricing and higher shipment volumes.

SG&A in the quarter ended December 31, 2013 increased to \$25.7 million from \$24.1 million in the prior year period primarily due to expenses associated with higher shipment volumes. SG&A were 15.6% and 15.9% of net sales for the quarter ended December 31, 2013 and 2012, respectively.

#### *Anvil*

Net sales in the quarter ended December 31, 2013 decreased to \$92.4 million from \$94.0 million in the prior year period. Net sales decreased primarily due to lower shipment volumes.

Gross profit in the quarter ended December 31, 2013 increased to \$25.4 million from \$24.2 million in the prior year period. The decrease in net sales was substantially offset by lower costs of goods sold. Gross margin increased to 27.5% in the quarter ended December 31, 2013 compared to 25.7% in the prior year period.

SG&A decreased to \$18.1 million in the quarter ended December 31, 2013 from \$18.3 million in the prior year period. SG&A was 19.6% of net sales for the quarter ended December 31, 2013 and 19.5% in the prior year period.

#### *Corporate*

SG&A increased to \$9.2 million in December 31, 2013 from \$7.1 million in the prior year period primarily due to higher stock-based compensation expense.



## Liquidity and Capital Resources

We had cash and cash equivalents of \$106.8 million at December 31, 2013 and \$138.5 million of additional borrowing capacity under our ABL Agreement based on December 31, 2013 data. Undistributed earnings from our subsidiaries in Canada and China are considered to be permanently invested outside of the United States. At December 31, 2013, cash and cash equivalents included \$35.7 million and \$4.8 million in Canada and China, respectively.

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.

Cash flows from operating activities are categorized below.

	Three months ended	
	December 31,	
	2013	2012
	(in millions)	
Collections from customers	\$ 287.2	\$ 274.4
Disbursements, other than interest and income taxes	(275.3)	(257.7)
Interest payments, net	(15.7)	(16.0)
Income tax payments, net	—	(0.1)
Cash provided by (used in) operating activities	\$ (3.8)	\$ 0.6

Collections from customers were higher during the quarter ended December 31, 2013 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 quarter ended December 31, 2013 reflect higher purchasing activity associated with higher net sales and general timing differences of disbursements related to the purchase of material, labor, overhead and other costs.

Capital expenditures were \$7.5 million in the quarter ended December 31, 2013 compared to \$6.2 million in the prior year period. We estimate 2014 capital expenditures to be \$34 million to \$36 million.

Our U.S. pension plan was 101% funded at January 1, 2013 (the most recent date this analysis has been performed) under the provisions of the Pension Protection Act. We do not expect to make any contributions to our U.S. pension plan during 2014. The proportion of the assets held by our U.S. pension plan invested in fixed income securities, instead of equity securities, has increased over historical levels. Because of this shift in the strategic asset allocation, the estimated rate of return on these assets has decreased, which could ultimately cause our pension expense and our required contributions to this plan to increase.

We anticipate that our existing cash, cash equivalents and borrowing capacity combined with our expected operating cash flows will be sufficient to meet our anticipated operating expenses, capital expenditures and debt service obligations as they become due through December 31, 2014. 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**

At December 31, 2013, 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 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, 2013, the applicable LIBOR-based margin was 175 basis points.

The ABL Agreement terminates on the earlier of (1) December 18, 2017 and (2) 60 days prior to the final maturity of our 7.375% Senior Subordinated Notes. We pay a commitment fee for any unused borrowing capacity under the ABL Agreement of either 37.5 basis points per annum or 25 basis points per annum, based on daily average availability during the previous

calendar quarter. At December 31, 2013, our commitment fee was 37.5 basis points. As measured using December 31, 2013 data, excess availability as reduced by outstanding letters of credit and accrued fees and expenses of \$30.8 million was \$138.5 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.

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. 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 had \$180.0 million face value of 8.75% Senior Unsecured Notes outstanding at December 31, 2013, which was reported net of \$2.0 million unamortized discount. Interest on the Senior Unsecured Notes is paid semi-annually and the principal is due September 1, 2020. After August 2015, the Senior Unsecured Notes may be redeemed at specified redemption prices. 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%. The Senior Unsecured Notes are guaranteed by essentially all of our U.S. subsidiaries, but are subordinate to borrowings under the ABL Agreement.

#### **7.375% Senior Subordinated Notes**

We had \$420.0 million face value of 7.375% Senior Subordinated Notes outstanding at December 31, 2013. Interest on the Senior Subordinated Notes is payable semi-annually and the principal is due June 1, 2017. We may redeem any portion of the Senior Subordinated Notes at specified redemption prices, subject to restrictions in the 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%. The Senior Subordinated Notes are guaranteed by 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, 2013	September 30, 2013	December 31, 2013	September 30, 2013
Corporate credit rating	B2	B2	BB-	BB-
ABL Agreement	Not rated	Not rated	Not rated	Not rated
8.75% Senior Unsecured Notes	B1	B1	BB-	BB-
7.375% Senior Subordinated Notes	Caa1	Caa1	B	B
Outlook	Stable	Stable	Stable	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 would 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 or any derivative contracts or synthetic leases. Therefore, we are not exposed to any financing, liquidity, market or credit risk that could have arisen had we 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, 2013, we had \$30.6 million of letters of credit and \$47.3 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.

### **Item 4. CONTROLS AND PROCEDURES**

During the quarter ended December 31, 2013, 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, 2013, we repurchased shares of our common stock as follows.

Period	Total number of shares purchased <sup>(1)</sup>	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, 2013	—	\$ —	—	—
November 1-30, 2013	312,774	8.61	—	—
December 1-31, 2013	46,082	8.34	—	—
Total	<u>358,856</u>		<u>—</u>	<u>—</u>

<sup>(1)</sup> These are 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
10.4*	Mueller Water Products, Inc. Form of Notice of Stock Option Grant.
10.5*	Mueller Water Products, Inc. Form of Restricted Stock Unit Award Agreement.
10.23*	Mueller Water Products, Inc. Form of Performance Restricted Stock Unit Award Agreement.
10.23.1*	Exhibit A (2013-15 Award Cycle)
10.23.2*	Exhibit A (2014-16 Award Cycle)
10.24.1*	Exhibit A (2013-14 Award Cycle)
14.1*	Code of Business Conduct and Ethics for Mueller Water Products, Inc.
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, 2013, 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.

Date: February 7, 2014

MUELLER WATER PRODUCTS, INC.

By: /s/ Evan L. Hart

Evan L. Hart

*Chief Financial Officer*

MUELLER WATER PRODUCTS, INC.

AMENDED AND RESTATED 2006 STOCK INCENTIVE PLAN

PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

This performance restricted stock unit award agreement (this "Agreement"), effective as of the date of the award set forth below (the "Date of Award"), evidences an agreement to grant performance restricted stock units ("Performance RSUs") by Mueller Water Products, Inc. (the "Company") to the participant named below (the "Participant"), pursuant to the provisions of the Mueller Water Products, Inc. Amended and Restated 2006 Stock Incentive Plan (the "Plan") subject to satisfaction of the performance criteria described in Exhibit A. The Participant has been selected to be eligible to earn a grant of Performance RSUs pursuant to the Plan, as specified below.

If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will supersede and replace the conflicting terms of this Agreement. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein.

**Participant:**

**Date of Award:**

**Award Cycle:** October 1, 2013 - September 30, 2016.

**Target Number of Performance RSUs for Award Cycle:** See Exhibit A.

**Maximum Number of Performance RSUs for Award Cycle:** See Exhibit A.

The parties hereto agree as follows:

1. **Performance Period and Criteria**. Each fiscal year in the Award Cycle is a separate performance period (each, a "Performance Period").

The performance criteria for the first Performance Period are described in Exhibit A. The Committee will develop the performance criteria for the second and third Performance Periods in the Award Cycle annually within the time period for developing performance goals under the regulations under Code Section 162(m). An amended Exhibit A describing the performance criteria for a particular Performance Period will be provided to the Participant prior to the end of the first quarter of that Performance Period and will automatically become a part of this Agreement. As soon as practical after each Performance Period ends, the Committee will determine whether the performance criteria have been satisfied and the number of Performance RSUs, if any, earned by the Participant for such period.

The actual number of Performance RSUs earned for a Performance Period will depend on the achievement of the performance criteria for that Performance Period, as described in Exhibit A.

2. **Employment with the Company**. Except as may otherwise be provided in Section 3, the Performance RSUs granted hereunder are granted on the condition that (a) the Participant accept this Agreement no later than ninety (90) days following the Date of Grant, after which time this Agreement shall be void and of no further effect and (b) the Participant remains in Continuous Service from the Date of Award through (and including) the vesting date, as set forth in Section 3 (referred to herein as the "Period of Restriction").

This Agreement does not confer any right to the Participant (or any other participant) to be granted Performance RSUs or other Awards in the future under the Plan other than as specifically described in this Agreement.

3. **Vesting**.

- a. **Normal**. Except as described in Sections 3(b) and (c), the Participant's interest in the earned Performance RSUs, if any, granted under this Agreement shall become transferable and nonforfeitable ("Vested") on the last day of the Award Cycle provided the Participant continues to be employed in Continuous Service through the last day of the Award Cycle. If the Participant ceases to be employed by the Company or any Subsidiary for any reason (except as may be provided in Sections 3(b) or (c)) before the last day of the Award Cycle, all Performance RSUs that are not then Vested shall be forfeited, without any payment whatsoever to the Participant.

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- b. **Death, Disability and Retirement**. If a Participant terminates Continuous Service as a result of death, Disability or Retirement, all Performance RSUs earned for Performance Periods completed prior to such termination shall Vest following such termination of Continuous Service. Performance RSUs earned for the Performance Period in which the termination occurs shall be Vested on a pro rata basis based on the Participant's service during the Performance Period and the actual achievement of performance criteria for such Performance Period. No Performance RSUs shall be earned for any Performance Period that begins after the Participant terminates Continuous Service.
- c. **Change of Control**. Notwithstanding anything to the contrary in this Agreement, in the event of a Change of Control of the Company during the Period of Restriction and prior to the Participant's termination of Continuous Service, the Period of Restriction imposed on any Performance RSUs earned for Performance Periods completed prior to the Change of Control shall immediately lapse, and all such Performance RSUs shall become nonforfeitable, subject to applicable federal and state securities laws. Performance RSUs for the Performance Period in which the Change of Control occurs and any subsequent Performance Period in such Award Cycle shall automatically be earned at target and the Period of Restriction shall immediately lapse and all such Performance RSUs shall become nonforfeitable, subject to applicable federal and state securities laws. Notwithstanding the foregoing, a transaction or series of transactions in which the Company separates one or more of its existing businesses, whether by sale, spin-off or otherwise, and whether or not any such transaction or series of transactions requires a vote of the stockholders, shall not be considered a "Change of Control."
4. **Timing of Payout**.
- a. **Normal**. Except as described in Sections 4 (b) shares of Common Stock attributable to Vested Performance RSUs shall be delivered to the Participant or his or her beneficiary in the event of the participant's death within ninety (90) days after the last day of the Award Cycle.
- b. **Death, Disability or Retirement**. In the event that a Participant terminates Continuous Service as a result of death, Disability or Retirement, shares of Common Stock attributable to Vested Performance RSUs shall be delivered to the Participant or his or her beneficiary in the event of the Participant's death within ninety (90) days after the last day of the Performance Period in which the Participant so terminates Continuous Service; provided such termination constitutes a "separation from service" within the meaning of Section 409A of the Code.
- c. **Change of Control**. In the event of a Change of Control, shares of Common Stock attributable to Vested Performance RSUs shall be delivered at the same time as described in Section 4(a) or Section 4(b) as if the Change of Control had not occurred ( *i.e.*, shares shall be delivered within ninety (90) days following the end of the Award Cycle or earlier if the Participant terminates employment by reason of death, Disability or Retirement) or upon other termination of Continuous Service; provided that such Retirement or other termination of Continuous Service constitutes a "separation from service" within the meaning of Section 409A of the Code.
- d. **Specific Payment Date**. The Committee shall determine on what date within the ninety (90) day payment period described above actual payment shall be made.
5. **Form of Payout**. Vested Performance RSUs will be paid out solely in the form of shares of common stock of the Company or such other security as common stock shall be converted into in the future. The Participant shall be paid one share of Company Stock (or such other number of securities into which the Common Stock is converted upon a Change of Control as the Committee shall determine in good faith) for each Vested Performance Share.
6. **Voting Rights and Dividends**. Until such time as the Performance RSUs are paid out in shares of the Company's common stock, the Participant shall not have voting rights. Further, no dividends shall be paid on any of the Performance RSUs.
7. **Termination of Continuous Service**. In the event of the Participant's termination of Continuous Service for any reason other than the Participant's death, Disability or Retirement during the Period of Restriction (and except as otherwise provided in Section 3(c) with respect to Performance RSUs that become nonforfeitable upon a Change in Control), all Performance RSUs held by the Participant at the time of his or her termination of Continuous Service and still subject to the Period of Restriction shall be forfeited by the Participant to the Company.
8. **Restrictions on Transfer**. Unless and until actual shares of Company stock are received upon payout, Performance RSUs granted pursuant to this Agreement may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated (a "Transfer"), other than by will or by the laws of descent and distribution, except as provided in the Plan. If any Transfer, whether voluntary or involuntary, of Performance RSUs is made, or if any attachment, execution, garnishment or lien shall be issued against or placed upon the Performance RSUs, the Participant's right to such Performance RSUs shall be immediately forfeited by the Participant to the Company, and this Agreement shall lapse.
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9. **Recapitalization**. In the event of any change in the capitalization of the Company such as a stock split or corporate transaction such as any merger, consolidation, separation or otherwise, the number and class of Performance RSUs subject to this Agreement shall be equitably adjusted by the Committee, as set forth in the Plan, to prevent dilution or enlargement of rights.
10. **Beneficiary Designation**. The Participant may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Agreement is paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the Participant, shall be in a form prescribed by the Company, and shall be effective only when filed by the Participant in writing with the Secretary of the Company during his or her lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to his or her estate.
11. **Continuation of Employment**. This Agreement shall not confer upon the Participant any right to continue employment with the Company or its Subsidiaries, nor shall this Agreement interfere in any way with the Company's or its Subsidiaries' right to terminate the Participant's employment at any time. For purposes of this Agreement, "Termination of Employment" shall mean termination or cessation of the Participant's employment with the Company and its Subsidiaries for any reason (or no reason), whether the termination of employment is instituted by the Participant or the Company or a Subsidiary, and whether the termination of employment is with or without cause.
12. **Noncompetition**. Upon termination other than involuntary termination not for cause, the Participant agrees that, for one year following such termination, he or she will not engage in executive or management services for a company that, within the 12 months prior to the termination, sold products that compete with the products of the Company or its subsidiaries (a "Competitor," and such products being a "Competitor's Products") within 25 miles of any location in the United States where the Company or its subsidiaries had sales of products (the "Restricted Area") at the time of such termination.

The Participant acknowledges and agrees that:

- a. The Participant is familiar with the businesses of the Company and its Subsidiaries and the commercial and competitive nature of the industry and recognizes that the value of the Company's business would be injured if the Participant performed Competitive Services for a Competing Business;
  - b. This covenant not to compete is essential to the continued good will and profitability of the Company;
  - c. In the course of employment with the Company or its Subsidiaries, the Participant will become familiar with the trade secrets and other Confidential Information (as defined below) of the Company and its Subsidiaries, affiliates, and other related entities, and that the Participant's services will be of special, unique, and extraordinary value to the Company; and
  - d. The Participant's skills and abilities should enable him or her to seek and obtain similar employment in a business other than a Competing Business, and the Participant possesses other skills that will serve as the basis for employment opportunities that are not prohibited by this covenant not to compete. Following the Participant's Termination of Employment with the Company, he or she expects to be able to earn a livelihood without violating the terms of this Agreement.
13. **Nonsolicitation of Employees**. During the term of the Participant's employment with the Company or its Subsidiaries and for a period of twelve (12) months following the Participant's Termination of Employment, the Participant shall not, either on his or her own account or for any person, entity, business or enterprise within the Restricted Area: (a) solicit any employee of the Company or its Subsidiaries with whom the Participant had contact during the two (2) years prior to his or her Termination of Employment to leave his or her employment with the Company or its Subsidiaries; or (b) induce or attempt to induce any such employee to breach any employment agreement with the Company.
  14. **Nonsolicitation of Customers**. During the term of the Participant's employment with the Company or its Subsidiaries and for a period of one year following the Participant's Termination of Employment, the Participant shall not directly or indirectly solicit or attempt to solicit any current customer of the Company or any of its Subsidiaries with which the Participant had Material Contact (as defined below) during the two (2) years prior to his or her Termination of Employment: (a) to cease doing business in whole or in part with or through the Company or any of its Subsidiaries; or (b) to do business with any other person, entity, business or enterprise which performs services competitive to those provided by the Company or any of its Subsidiaries. This restriction on post-employment conduct shall apply only to solicitation for the purpose of selling or offering products or services that are similar to or which compete with those products or services offered by the Company or its Subsidiaries during the period of the Participant's employment. For purposes of this Section, "Material Contact" shall be defined as any communication intended or expected to develop or further a business relationship and customers about which the employee learned confidential information as a result of his or her employment.
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15. **Developments; Non-Disparagement**. The Participant agrees that neither during his or her employment nor following his or her Termination of Employment and continuing for so long as the Company or any affiliate, successor or assigns thereof carries on the name or like business within the Restricted Area, the Participant shall not, directly or indirectly, for himself or herself or on behalf of, or in conjunction with, any other person, persons, company, partnership, corporation, business entity or otherwise make any statements that are inflammatory, detrimental, slanderous, or materially negative in any way to the interests of the Company or its Subsidiaries or other affiliated entities.
16. **Confidentiality and Nondisclosure**.
- a. The Participant agrees that he or she will not, other than in performance of his or her duties for the Company or its Subsidiaries, disclose or divulge to Third Parties (as defined below) or use or exploit for his or her own benefit or for the benefit of Third Parties any Confidential Information, including trade secrets. For the purposes of this Agreement, "Confidential Information" shall mean confidential and proprietary information, trade secrets, knowledge or data relating to the Company and its Subsidiaries and their businesses, including but not limited to information disclosed to the Participant, or known by the Participant as a consequence of or through employment with the Company or its Subsidiaries, where such information is not generally known in the trade or industry, and where such information refers or relates in any manner whatsoever to the business activities, processes, services, or products of the Company or its Subsidiaries; business and development plans (whether contemplated, initiated, or completed); mergers and acquisitions; pricing information; business contacts; sources of supply; customer information (including customer lists, customer preferences, and sales history); methods of operation; results of analysis; customer lists (including advertising contacts); business forecasts; financial data; costs; revenues; information maintained in electronic form (such as e-mails, computer files, or information on a cell phone, Blackberry, or other personal data device); and similar information. Confidential Information shall not include any data or information in the public domain, other than as a result of a breach of this Agreement. The provisions of this paragraph shall apply to the Participant at any time during his or her employment with the Company or its Subsidiaries and for a period of two (2) years following his or her Termination of Employment or, if the Confidential Information is a trade secret, such longer period of time as may be permitted by controlling trade secret laws.
  - b. The Participant acknowledges and agrees that the Confidential Information is necessary for the Company's ability to compete with its competitors. The Participant further acknowledges and agrees that the prohibitions against disclosure and use of Confidential Information recited herein are in addition to, and not in lieu of, any rights or remedies that the Company or a Subsidiary may have available pursuant to the laws of the State of Delaware to prevent the disclosure of trade secrets or proprietary information, including but not limited to the Delaware Uniform Trade Secrets Act, 6 Del. Code Ann. §2001, et seq. The Participant agrees that this non-disclosure obligation may extend longer than two (2) years following his or her Termination of Employment as to any materials or information that constitutes a trade secret under the Delaware Uniform Trade Secrets Act.
  - c. For purposes of this Agreement, "Third Party" or "Third Parties" shall mean persons, sole proprietorships, firms, partnerships, limited liability partnerships, associations, corporations, limited liability companies, and all other business organizations and entities, excluding the Participant and the Company.
  - d. The Participant agrees to take all reasonable precautions to safeguard and prevent disclosure of Confidential Information to unauthorized persons or entities.
17. **Intellectual Property**. The Participant agrees that he or she has no right to use for the benefit of the Participant or anyone other than the Company or its Subsidiaries, any of the copyrights, trademarks, service marks, patents, and inventions of the Company or its Subsidiaries.
18. **Injunctive Relief**. The Participant and the Company recognize that breach of the provisions of this Agreement restricting the Participant's activities would give rise to immediate and irreparable injury to the Company that is inadequately compensable in damages. In the event of a breach or threatened breach of the restrictions contained in this Agreement regarding noncompetition, nonsolicitation of employees, nonsolicitation of customers, Developments, non-disparagement, confidentiality and nondisclosure of Confidential Information, and intellectual property (collectively, the "Covenants"), the Participant agrees and consents that the Company shall be entitled to injunctive relief, both preliminary and permanent, without bond, in addition to reimbursement from the Participant for all reasonable attorneys' fees and expenses incurred by the Company in enforcing these provisions, should the Company prevail. The Participant also agrees not raise the defense that the Company has an adequate remedy at law. In addition, the Company shall be entitled to any other legal or equitable remedies as may be available under law. The remedies provided in this Agreement shall be deemed cumulative and the exercise of one shall not preclude the exercise of any other remedy at law or in equity for the same event or any other event.
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19. **Dispute Resolution; Agreement to Arbitrate.**

- a. The Participant and the Company agree that final and binding arbitration shall be the exclusive remedy for any controversy, dispute, or claim arising out of or relating to this Agreement.
- b. This Section covers all claims and actions of whatever nature, both at law and in equity, including, but not limited to, any claim for breach of contract (including this Agreement), and includes claims against the Participant and claims against the Company and its Subsidiaries and/or any parents, affiliates, owners, officers, directors, employees, agents, general partners or limited partners of the Company, to the extent such claims involve, in any way, this Agreement. This Section covers all judicial claims that could be brought by either party to this Agreement, but does not cover the filing of charges with government agencies that prohibit waiver of the right to file a charge.
- c. The arbitration proceeding will be administered by a single arbitrator (the "Arbitrator") in accordance with the Commercial Arbitration Rules of the American Arbitration Association, taking into account the need for speed and confidentiality. The Arbitrator shall be an attorney or judge with experience in contract litigation and selected pursuant to the applicable rules of the American Arbitration Association.
- d. The place and situs of arbitration shall be Wilmington, Delaware (or such other location as may be mutually agreed to by the parties). The Arbitrator may adopt the Commercial Arbitration Rules of the American Arbitration Association, but shall be entitled to deviate from such rules in the Arbitrator's sole discretion in the interest of a speedy resolution of any dispute or as the Arbitrator shall deem just. The parties agree to facilitate the arbitration by (a) making available to each other and to the Arbitrator for inspection and review all documents, books and records as the Arbitrator shall determine to be relevant to the dispute, (b) making individuals under their control available to other parties and the Arbitrator and (c) observing strictly the time periods established by the Arbitrator for the submission of evidence and pleadings. The Arbitrator shall have the power to render declaratory judgments, as well as to award monetary claims, provided that the Arbitrator shall not have the power to act (i) outside the prescribed scope of this Agreement, or (ii) without providing an opportunity to each party to be represented before the Arbitrator.
- e. The Arbitrator's award shall be in writing. The arbitrator shall allocate the costs and expenses of the proceedings between the parties and shall award interest as the Arbitrator deems appropriate. The arbitration judgment shall be final and binding on the parties. Judgment on the Arbitrator's award may be entered in any court having jurisdiction.

The Participant and the Company agree and understand that by executing this Agreement and agreeing to this Arbitration provision, they are giving up their rights to trial by jury for any dispute related to this Agreement.

\_\_\_\_\_ (the Participant's initials)

\_\_\_\_\_ (the Company Representative's initials)

20. **Clawback.**

- a. In the event of a breach of this Agreement by the Participant or a material breach of Company policy or laws or regulations that could result in a termination for cause (whether or not the Participant is terminated), then the Performance shares granted hereby shall be void and of no effect, unless the Committee determines otherwise.
- b. In the event of financial impropriety by the Participant that results in a restatement of the financial statements of the Company for any applicable period (the "Applicable Period"), as determined by the Audit Committee or the Company's independent registered public accounting firm; then, if the award granted hereby is made during the Applicable Period or within 90 days after the end of such Applicable Period, the number of Performance RSUs granted hereunder shall be reduced by a fraction:
  - (i) The numerator of which is the amount of operating income decline for the Applicable Period caused by such restatement or breach, and
  - (ii) The denominator of which is the amount of operating income previously determined for the Applicable Period,or if the breach does not result in a decrease in the amount of operating income, the fraction shall be 50%.

If Performance RSUs have already vested under this Agreement, then the reduction contemplated by this Section 20(b) shall be applied first to the remaining Performance RSUs that have not vested, pro rata, and second to the vested shares and the Participant shall repay the Company by forfeiting to the Company a number of excess shares received that would

have exceeded the amount granted hereby, to be taken from the most recent vesting of Performance RSUs or, if such shares have been sold, the proceeds received from the sale of such shares that would otherwise have been forfeited.

As an example of the foregoing, assume the Participant is granted an award of 300 Performance RSUs on December 1, 2012, which may be earned in equal tranches during Performance Periods ending on September 30, 2013, September 30, 2014 and September 30, 2015.

If the Company discovers a breach or financial impropriety by the Participant on June 30, 2014, which leads to a 50% decrease in operating income for the 2013 fiscal year and which could not result in termination for cause, then the award granted would be reduced to 150 Performance RSUs, and the reduction would be applied equally to all three Performance Periods, which would mean that the 100 Performance RSUs allocated to each Performance Period would be reduced to 50 Performance RSUs.

If the Company discovers a breach or financial impropriety by the Participant on June 30, 2016, which leads to a 50% decrease in operating income for the 2013 fiscal year and which could not result in termination for cause, then the Participant would forfeit 150 shares to the Company, or if such shares had been sold, the Participant would pay to the Company the proceeds received from the sale of those 150 shares.

- c. In addition to the foregoing, if the Participant has realized any profits from the sale of other Company's securities during the 12-month period prior to the discovery of breach or financial impropriety referred to above, the Participant shall reimburse the Company for those profits to the extent required by the Company's Clawback Policy.
- d. The Company shall have the right to offset future compensation - including at its sole discretion stock compensation - to recover any amounts that may be recovered by the Company hereunder.

## 21. Miscellaneous.

- a. This Agreement and the rights of the Participant hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. The Committee shall have the right to impose such restrictions on any shares acquired pursuant to this Agreement, as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such shares are then listed and/or traded, under any blue sky or state securities laws applicable to such shares. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Participant.
- b. The Committee may terminate, amend or modify the Plan and this Agreement under the terms of and as set forth in the Plan.
- c. The Participant may elect, subject to any procedural rules adopted by the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold and sell shares having an aggregate Fair Market Value on the date the tax is to be determined, equal to the amount required to be withheld, subject to the restrictions imposed by applicable securities laws and Company policies regarding trading in its shares.

The Company shall have the power and the right to deduct or withhold from the Participant's compensation, or require him or her to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation), domestic or foreign, required by law to be withheld with respect to any payout to him or her under this Agreement.

- d. The Participant agrees to take all steps necessary to comply with all applicable provisions of federal and state securities laws in exercising his or her rights under this Agreement.
  - e. This Agreement shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.
  - f. This Agreement and the Plan constitute the entire understanding between the Participant and the Company regarding the Performance RSUs granted hereunder. This Agreement and the Plan supersede any prior agreements, commitments or negotiations concerning the Performance RSUs granted hereunder.
  - g. All rights and obligations of the Company under the Plan and this Agreement, shall inure to the benefit of and be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.
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- h. To the extent not preempted by the laws of the United States, the laws of the State of Delaware shall be the controlling law in all matters relating to this Agreement without giving effect to principles of conflicts of laws.
- i. The Participant acknowledges and agrees that the Covenants and other provisions contained herein are reasonable and valid and do not impose limitations greater than those that are necessary to protect the business interests and Confidential Information of the Company. The Company and the Participant agree that the invalidity or unenforceability of any one or more of the Covenants, other provisions, or parts thereof of this Agreement shall not affect the validity or enforceability of the other Covenants, provisions, or parts thereof, all of which are inserted conditionally on their being valid in law, and in the event one or more Covenants, provisions, or parts thereof contained herein shall be invalid, this Agreement shall be construed as if such invalid Covenants, provisions, or parts thereof had not been inserted. The Participant and the Company agree that the Covenants and other provisions contained in this Agreement are severable and divisible, that none of such Covenants or provisions depend on any other Covenant or provision for their enforceability, that each such Covenant and provision constitutes an enforceable obligation between the Company and the Participant, that each such Covenant and provision shall be construed as an agreement independent of any other Covenant or provision of this Agreement, and that the existence of any claim or cause of action by one party to this Agreement against another party to this Agreement, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by any party to this Agreement of any such Covenant or provision.
- j. If any of the provisions contained in this Agreement relating to the Covenants or other provisions contained herein, or any part thereof, are determined to be unenforceable because of the length of any period of time, the size of any area, the scope of activities or similar term contained therein, then such period of time, area, scope of activities or similar term shall be considered to be adjusted to a period of time, area, scope of activities or similar term which would cure such invalidity, and such Covenant or provision in its reduced form shall then be enforced to the maximum extent permitted by applicable law.
- k. This Agreement is intended to satisfy the requirements of Section 409A of the Code and shall be construed accordingly. To the extent that any amount or benefit that constitutes nonqualified deferred compensation under Section 409A of the Code, and that is not exempt under Section 409A, is otherwise payable or distributable to him or her on account of separation from service (within the meaning of Section 409A of the Code) while he or she is a specified employee (within the meaning of Section 409A of the Code), such amount or benefit shall be paid or distributed on the later of time for payment described in Section 4 of this Agreement and that date which is six (6) months after the date of such separation from service.
- l. The parties agree that the mutual promises and covenants contained in this Agreement constitute good and valuable consideration.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective as of the Date of Grant.

Mueller Water Products, Inc.

By:

Gregory E. Hyland  
Chairman, President, and  
Chief Executive Officer

ATTEST:

Participant

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EXHIBIT A

Maximum Number of Performance RSUs and Allocation to Performance Periods

The Participant shall be eligible to earn up to the following number of Performance RSUs identified opposite each Performance Period below:

Performance Period	Maximum Number of Performance RSUs That May be Earned	Target Number of Performance RSUs That May be Earned	Threshold Number of Performance RSUs That May be Earned
October 1, 2013 - September 30, 2014			
October 1, 2014 - September 30, 2015			
October 1, 2015 - September 30, 2016			

Award Cycle	Maximum Number of Performance RSUs That May be Earned	Target Number of Performance RSUs That May be Earned	Threshold Number of Performance RSUs That May be Earned
October 1, 2013 - September 30, 2016			

Performance Criteria

General

The Performance RSUs shall be earned as set forth below with respect to the applicable Performance Period; provided that the Company's RONA for the applicable Performance Period equals or exceeds the Target RONA (as set forth below) for such Performance Period. "RONA" means the quotient obtained by dividing "Adjusted Operating Income" (after taxes but excluding amortization) by the monthly average of "Working Capital" and fixed assets, as derived from the Company's financial statements, with such adjustments as the Committee establishes in writing at the time it establishes the Target RONA, Threshold RONA and Maximum RONA for such Performance Period. "Adjusted Operating Income" for this purpose means income from operations adjusted to remove primarily restructuring charges. "Working Capital" for this purpose means the average of adjusted current assets less adjusted current liabilities, which measures exclude cash and cash equivalents, debt and items reported as held for sale.

"Target RONA", "Threshold RONA" and "Maximum RONA", in each case means the specific fiscal year-over-year improvement in RONA, expressed as a percentage, established by the Committee for the applicable Performance Period. Notwithstanding the foregoing, if the Company's RONA for the Performance Period exceeds Threshold RONA, but does not meet the percentage for Target RONA or Maximum RONA, then the Performance RSUs award for such Performance Period shall be interpolated on a straight-line basis between Threshold RONA and Maximum RONA. For the avoidance of doubt, if RONA for the Performance Period is below Threshold RONA, no Performance RSUs shall be granted for such Performance Period.

The Committee will develop the performance criteria for subsequent Performance Periods in the Award Cycle annually within the time period for developing performance goals under the regulations under Code Section 162(m). An amended Exhibit A describing the performance criteria for a particular Performance Period will be provided to each Participant prior to the end of the first quarter of that Performance Period and will automatically become a part of this Agreement.

Performance Goals for Performance Period October 1, 2013 to September 30, 2014

Performance Level	Fiscal 2014 RONA Goal	Percentage of Target Performance RSUs Earned	Maximum Number of Performance RSUs Earned
Maximum	___%	200%	
Target	___%	100%	
Threshold	___%	50%	
Below Threshold	NA	0%	

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Performance Goals for Performance Period October 1, 2014 to September 30, 2015

Performance Level	Fiscal 2015 RONA Goal	Percentage of Target Performance RSUs Earned	Maximum Number of Performance RSUs Earned
Maximum	___%	200%	
Target	___%	100%	
Threshold	___%	50%	
Below Threshold	NA	0%	

Performance Goals for Performance Period October 1, 2015 to September 30, 2016

Performance Level	Fiscal 2016 RONA Goal	Percentage of Target Performance RSUs Earned	Maximum Number of Performance RSUs Earned
Maximum	___%	200%	
Target	___%	100%	
Threshold	___%	50%	
Below Threshold	NA	0%	

**Amended and Restated 2006 Stock Incentive Plan  
Restricted Stock Unit Award Agreement  
Effective December 3, 2013**

**THIS AGREEMENT**, effective as of the Date of Grant set forth below (the "Date of Grant"), represents a grant of restricted stock units ("RSUs") by Mueller Water Products, Inc., a Delaware corporation (the "Company"), to the Participant named below, pursuant to the provisions of the Mueller Water Products, Inc. Amended and Restated 2006 Stock Incentive Plan (the "Plan"). The Participant has been selected to receive a grant of RSUs pursuant to the Plan, as specified below.

The Plan provides a description of terms and conditions governing the grant of RSUs. If there is any inconsistency between the terms of this Restricted Stock Unit Award Agreement (this "Agreement") and the terms of the Plan, the Plan's terms shall completely supersede and replace the conflicting terms of this Agreement. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein.

**Participant:**

**Date of Grant:**

**Number of RSUs Granted:**

**Purchase Price: None**

The parties hereto agree as follows:

1. **Employment with the Company**. Except as may otherwise be provided in Section 2, the RSUs granted hereunder are granted on the condition that (1) the Participant accept this equity award no later than ninety (90) days following the Date of Grant, after which time this Agreement shall be void and of no further effect, and (2) the Participant remains in Continuous Service from the Date of Grant by the Company through (and including) the vesting date, as set forth in Section 2 (referred to herein as the "Period of Restriction").

This grant of RSUs shall not confer any right to the Participant (or any other participant) to be granted RSUs or other Awards in the future under the Plan.

2. **Vesting**.

- (a) **Vesting Without Termination Of Continuous Service**. One-third of the RSUs shall vest on each of the first three anniversaries of the Date of Grant (each a "vesting date"), subject to the Participant's Continuous Service on each such date.
  - (b) **No Fractional RSUs**. If, on any vesting date, the vesting schedule would result in the vesting of a fraction of an RSU, such fraction shall be rounded to the nearest whole RSU in a manner acceptable to management or any independent third party administering any terms of the Plan for the Company.
  - (c) **Termination of Continuous Service**. In the event of the Participant's termination of Continuous Service for any reason during the Period of Restriction (other than by reason of the Participant's death, Disability or Retirement, or after a Change of Control), all RSUs held by the Participant at the time of his or her termination of Continuous Service and still subject to the Period of Restriction shall be forfeited to the Company.
  - (d) **Death or Disability**. All RSUs that have not previously vested shall vest upon the Participant's termination of Continuous Service as a result of death or Disability.
  - (e) **Retirement**. In the event that a Participant is Retirement eligible on the Date of Grant or becomes Retirement eligible during the Period of Restriction, the Participant will vest in RSUs that have not previously vested upon his Retirement provided that the Participant has remained in Continuous Service from the Grant Date through at least the one year anniversary of the Grant Date (for Participants who are not non-employee directors) or at least to the date of the next regularly scheduled annual stockholders meeting (for Participants who are non-employee directors). If the Participant terminates Continuous Service before the first anniversary of the Grant Date or the
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next regularly scheduled annual stockholders meeting, as applicable, all unvested RSUs subject to the grant will be forfeited to the Company.

- (f) **Change of Control.** Notwithstanding anything to the contrary in this Agreement, in the event of a Change of Control of the Company during the Period of Restriction and prior to the Participant's termination of Continuous Service, the Period of Restriction imposed on the RSUs shall immediately lapse, with all such RSUs becoming vested, subject to applicable federal and state securities laws. Notwithstanding the foregoing, a transaction or series of transactions in which the Company separates one or more of its existing businesses, whether by sale, spin-off or otherwise, and whether or not any such transaction or series of transactions requires a vote of the stockholders, shall not be considered a "Change of Control."

### 3. **Timing of Payout .**

- (a) **No Termination of Continuous Service.** The number of RSUs vesting on each vesting date shall be paid out on the thirtieth (30<sup>th</sup>) day following such vesting date.
- (b) **Death, Disability or Change of Control.** In the event the Participant terminates Continuous Service by reason of death or Disability, or after a Change of Control, prior to any vesting date, payout of all RSUs shall be made on the thirtieth (30<sup>th</sup>) day following the date of such termination of Continuous Service; provided, however, that such termination of Continuous Service also constitutes a "separation from service" within the meaning of Section 409A of the Code.
- (c) **Retirement.** In the event the Participant terminates Continuous Service by reason of Retirement and the Participant was in Continuous Service from the Grant Date through at least the first anniversary of the Grant Date, the number of RSUs that would otherwise vest on each vesting date shall be paid out to the Participant on the thirtieth (30<sup>th</sup>) day following each such vesting date as if the Participant had remained in Continuous Service. By way of example, (i) if a Participant who received a grant of RSUs (scheduled to vest one-third on each of the first three anniversaries of the grant date) on December 3, 2013 terminates Continuous Service by reason of Retirement on December 4, 2014, then the remaining outstanding RSUs will vest and be paid according to the original vesting schedule on December 3, 2015 and December 3, 2016 and (ii) if this same Participant terminates Continuous Service on December 2, 2014, then none of the RSUs subject to the grant will vest and all will be forfeited to the Company.

4. **Form of Payout .** Vested RSUs will be paid out solely in the form of shares of Common Stock of the Company or such other security as Common Stock shall be converted into in the future.
5. **Voting Rights and Dividends .** Until such time as the RSUs are paid out in shares of Company Stock, the Participant shall not have voting rights. Further, no dividends shall be paid on any RSUs.
6. **Restrictions on Transfer .** Unless and until actual shares of stock of the Company are received upon payout, RSUs granted pursuant to this Agreement may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated (a "Transfer"), other than by will or by the laws of descent and distribution, except as provided in the Plan. If any Transfer, whether voluntary or involuntary, of RSUs is made, or if any attachment, execution, garnishment, or lien shall be issued against or placed upon the RSUs, the Participant's right to such RSUs shall be immediately forfeited by the Participant to the Company, and this Agreement shall lapse.
7. **Recapitalization .** In the event of any change in the capitalization of the Company such as a stock split or corporate transaction such as any merger, consolidation, separation, or otherwise, the number and class of RSUs subject to this Agreement shall be equitably adjusted by the Committee, as set forth in the Plan, to prevent dilution or enlargement of rights.
8. **Beneficiary Designation .** The Participant may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Agreement is paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the Participant, shall be in a form prescribed by the Company, and shall be effective only when filed by the Participant in writing with the Secretary of the Company during his or her lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to his or her estate.
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9. **Continuation of Employment** . This Agreement shall not confer upon the Participant any right to continue employment with the Company or its Subsidiaries, nor shall this Agreement interfere in any way with the Company's or its Subsidiaries' right to terminate the Participant's employment at any time. For purposes of this Agreement, "Termination of Employment" shall mean termination or cessation of the Participant's employment with the Company and its Subsidiaries for any reason (or no reason), whether the termination of employment is instituted by the Participant or the Company or a Subsidiary, and whether the termination of employment is with or without cause.
10. **Noncompetition** . Upon termination other than involuntary termination not for cause, the Participant agrees that, for one year following such termination, he or she will not engage in executive or management services for a company that, within the 12 months prior to the termination, sold products that compete with the products of the Company or its subsidiaries (a "Competitor," and such products being a "Competitor's Products") within 25 miles of any location in the United States where the Company or its subsidiaries had sales of products (the "Restricted Area") at the time of such termination.

The Participant acknowledges and agrees that:

- (a) The Participant is familiar with the businesses of the Company and its Subsidiaries and the commercial and competitive nature of the industry and recognizes that the value of the Company's business would be injured if the Participant performed Competitive Services for a Competing Business;
  - (b) This covenant not to compete is essential to the continued good will and profitability of the Company;
  - (c) In the course of employment with the Company or its Subsidiaries, the Participant will become familiar with the trade secrets and other Confidential Information (as defined below) of the Company and its Subsidiaries, affiliates, and other related entities, and that the Participant's services will be of special, unique, and extraordinary value to the Company; and
  - (d) The Participant's skills and abilities should enable him or her to seek and obtain similar employment in a business other than a Competing Business, and the Participant possesses other skills that will serve as the basis for employment opportunities that are not prohibited by this covenant not to compete. Following the Participant's Termination of Employment with the Company, he or she expects to be able to earn a livelihood without violating the terms of this Agreement.
11. **Nonsolicitation of Employees** . During the term of the Participant's employment with the Company or its Subsidiaries and for a period of twelve (12) months following the Participant's Termination of Employment, the Participant shall not, either on his or her own account or for any person, entity, business or enterprise within the Restricted Area: (a) solicit any employee of the Company or its Subsidiaries with whom the Participant had contact during the two (2) years prior to his or her Termination of Employment to leave his or her employment with the Company or its Subsidiaries; or (b) induce or attempt to induce any such employee to breach any employment agreement with the Company.
12. **Nonsolicitation of Customers** . During the term of the Participant's employment with the Company or its Subsidiaries and for a period of one year following the Participant's Termination of Employment, the Participant shall not directly or indirectly solicit or attempt to solicit any current customer of the Company or any of its Subsidiaries with which the Participant had Material Contact (as defined below) during the two (2) years prior to his or her Termination of Employment: (a) to cease doing business in whole or in part with or through the Company or any of its Subsidiaries; or (b) to do business with any other person, entity, business or enterprise which performs services competitive to those provided by the Company or any of its Subsidiaries. This restriction on post-employment conduct shall apply only to solicitation for the purpose of selling or offering products or services that are similar to or which compete with those products or services offered by the Company or its Subsidiaries during the period of the Participant's employment. For purposes of this Section, "Material Contact" shall be defined as any communication intended or expected to develop or further a business relationship and customers about which the employee learned confidential information as a result of his or her employment.
13. **Developments** . The Participant agrees that all inventions, improvements, trade secrets, reports, manuals, computer programs, systems, tapes and other ideas and materials developed or invented by him or her during the period of his or her employment with the Company or its Subsidiaries, either solely or in collaboration with others, which relate to the actual or anticipated business or research of the Company or its Subsidiaries, which result from or are suggested by any work the Participant may do for the Company or its Subsidiaries, or which result from use of the Company's or its Subsidiaries' premises or the Company's or its Subsidiaries' or their customers' property (collectively, the "Developments") shall be the sole and exclusive property of the Company and its Subsidiaries. The Participant hereby assigns to the Company his or her entire right and interest in any Developments and will hereafter execute any documents in connection therewith that the Company may reasonably request. This Section does not apply to any inventions that
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the Participant made prior to his or her employment by the Company or its Subsidiaries, or to any inventions that he or she develops entirely on his or her own time without using any of the Company's equipment, supplies, facilities or the Company's or its Subsidiaries' or their customers' confidential information and which do not relate to the Company's or its Subsidiaries' businesses, anticipated research and Developments or the work he or she has performed for the Company or its Subsidiaries.

14. **Non-Disparagement** . The Participant agrees that neither during his or her employment nor following his or her Termination of Employment and continuing for so long as the Company or any affiliate, successor or assigns thereof carries on the name or like business within the Restricted Area, the Participant shall not, directly or indirectly, for himself or herself or on behalf of, or in conjunction with, any other person, persons, company, partnership, corporation, business entity or otherwise make any statements that are inflammatory, detrimental, slanderous, or materially negative in any way to the interests of the Company or its Subsidiaries or other affiliated entities.
15. **Confidentiality and Nondisclosure** .
- (a) The Participant agrees that he or she will not, other than in performance of his or her duties for the Company or its Subsidiaries, disclose or divulge to Third Parties (as defined below) or use or exploit for his or her own benefit or for the benefit of Third Parties any Confidential Information, including trade secrets. For the purposes of this Agreement, "Confidential Information" shall mean confidential and proprietary information, trade secrets, knowledge or data relating to the Company and its Subsidiaries and their businesses, including but not limited to information disclosed to the Participant, or known by the Participant as a consequence of or through employment with the Company or its Subsidiaries, where such information is not generally known in the trade or industry, and where such information refers or relates in any manner whatsoever to the business activities, processes, services, or products of the Company or its Subsidiaries; business and development plans (whether contemplated, initiated, or completed); mergers and acquisitions; pricing information; business contacts; sources of supply; customer information (including customer lists, customer preferences, and sales history); methods of operation; results of analysis; customer lists (including advertising contacts); business forecasts; financial data; costs; revenues; information maintained in electronic form (such as e-mails, computer files, or information on a cell phone, Blackberry, or other personal data device); and similar information. Confidential Information shall not include any data or information in the public domain, other than as a result of a breach of this Agreement. The provisions of this paragraph shall apply to the Participant at any time during his or her employment with the Company or its Subsidiaries and for a period of two (2) years following his or her Termination of Employment or, if the Confidential Information is a trade secret, such longer period of time as may be permitted by controlling trade secret laws.
  - (b) The Participant acknowledges and agrees that the Confidential Information is necessary for the Company's ability to compete with its competitors. The Participant further acknowledges and agrees that the prohibitions against disclosure and use of Confidential Information recited herein are in addition to, and not in lieu of, any rights or remedies that the Company or a Subsidiary may have available pursuant to the laws of the State of Delaware to prevent the disclosure of trade secrets or proprietary information, including but not limited to the Delaware Uniform Trade Secrets Act, 6 Del. Code Ann. §2001, et seq. The Participant agrees that this non-disclosure obligation may extend longer than two (2) years following his or her Termination of Employment as to any materials or information that constitutes a trade secret under the Delaware Uniform Trade Secrets Act.
  - (c) For purposes of this Agreement, "Third Party" or "Third Parties" shall mean persons, sole proprietorships, firms, partnerships, limited liability partnerships, associations, corporations, limited liability companies, and all other business organizations and entities, excluding the Participant and the Company.
  - (d) The Participant agrees to take all reasonable precautions to safeguard and prevent disclosure of Confidential Information to unauthorized persons or entities.
16. **Intellectual Property** . The Participant agrees that he or she has no right to use for the benefit of the Participant or anyone other than the Company or its Subsidiaries, any of the copyrights, trademarks, service marks, patents, and inventions of the Company or its Subsidiaries.
17. **Injunctive Relief** . The Participant and the Company recognize that breach of the provisions of this Agreement restricting the Participant's activities would give rise to immediate and irreparable injury to the Company that is inadequately compensable in damages. In the event of a breach or threatened breach of the restrictions contained in this Agreement regarding noncompetition, nonsolicitation of employees, nonsolicitation of customers, Developments, non-
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disparagement, confidentiality and nondisclosure of Confidential Information, and intellectual property (collectively, the “Covenants”), the Participant agrees and consents that the Company shall be entitled to injunctive relief, both preliminary and permanent, without bond, in addition to reimbursement from the Participant for all reasonable attorneys’ fees and expenses incurred by the Company in enforcing these provisions, should the Company prevail. The Participant also agrees not raise the defense that the Company has an adequate remedy at law. In addition, the Company shall be entitled to any other legal or equitable remedies as may be available under law. The remedies provided in this Agreement shall be deemed cumulative and the exercise of one shall not preclude the exercise of any other remedy at law or in equity for the same event or any other event.

**18. Dispute Resolution; Agreement to Arbitrate.**

- (a) The Participant and the Company agree that final and binding arbitration shall be the exclusive remedy for any controversy, dispute, or claim arising out of or relating to this Agreement.
- (b) This Section covers all claims and actions of whatever nature, both at law and in equity, including, but not limited to, any claim for breach of contract (including this Agreement), and includes claims against the Participant and claims against the Company and its Subsidiaries and/or any parents, affiliates, owners, officers, directors, employees, agents, general partners or limited partners of the Company, to the extent such claims involve, in any way, this Agreement. This Section covers all judicial claims that could be brought by either party to this Agreement, but does not cover the filing of charges with government agencies that prohibit waiver of the right to file a charge.
- (c) The arbitration proceeding will be administered by a single arbitrator (the “Arbitrator”) in accordance with the Commercial Arbitration Rules of the American Arbitration Association, taking into account the need for speed and confidentiality. The Arbitrator shall be an attorney or judge with experience in contract litigation and selected pursuant to the applicable rules of the American Arbitration Association.
- (d) The place and situs of arbitration shall be Wilmington, Delaware (or such other location as may be mutually agreed to by the parties). The Arbitrator may adopt the Commercial Arbitration Rules of the American Arbitration Association, but shall be entitled to deviate from such rules in the Arbitrator’s sole discretion in the interest of a speedy resolution of any dispute or as the Arbitrator shall deem just. The parties agree to facilitate the arbitration by (a) making available to each other and to the Arbitrator for inspection and review all documents, books and records as the Arbitrator shall determine to be relevant to the dispute, (b) making individuals under their control available to other parties and the Arbitrator and (c) observing strictly the time periods established by the Arbitrator for the submission of evidence and pleadings. The Arbitrator shall have the power to render declaratory judgments, as well as to award monetary claims, provided that the Arbitrator shall not have the power to act (i) outside the prescribed scope of this Agreement, or (ii) without providing an opportunity to each party to be represented before the Arbitrator.
- (e) The Arbitrator’s award shall be in writing. The arbitrator shall allocate the costs and expenses of the proceedings between the parties and shall award interest as the Arbitrator deems appropriate. The arbitration judgment shall be final and binding on the parties. Judgment on the Arbitrator’s award may be entered in any court having jurisdiction.
- (f) The Participant and the Company agree and understand that by executing this Agreement and agreeing to this Arbitration provision, they are giving up their rights to trial by jury for any dispute related to this Agreement.

\_\_\_\_\_ (the Participant’s initials)

\_\_\_\_\_ (the Company Representative’s initials)

**19. Clawback .**

- (a) In the event of a breach of this Agreement by the Participant or a material breach of Company policy or laws or regulations that could result in a termination for cause (whether or not the Participant is terminated), then the RSUs granted hereby shall be void and of no effect, unless the Committee determines otherwise.
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(b) In the event of financial impropriety by the Participant that results in a restatement of the financial statements of the Company for any applicable period (the "Applicable Period"), as determined by the Audit Committee or the Company's independent registered public accounting firm; then, if the award granted hereby is made during the Applicable Period or within 90 days after the end of such Applicable Period, the number of RSUs granted hereunder shall be reduced by a fraction:

i. The numerator of which is the amount of operating income decline for the Applicable Period caused by such restatement or breach, and

ii. The denominator of which is the amount of operating income previously determined for the Applicable Period,

or if the breach does not result in a decrease in the amount of operating income, the fraction shall be 50%.

If RSUs have already vested under this Agreement, then the reduction contemplated by this Section 19(b) shall be applied first to the remaining RSUs that have not vested, pro rata, and second to the vested shares and the Participant shall repay the Company by forfeiting to the Company a number of excess shares received that would have exceeded the amount granted hereby, to be taken from the most recent vesting of RSUs or, if such shares have been sold, the proceeds received from the sale of such shares that would otherwise have been forfeited.

As an example of the foregoing, assume the Participant is granted an award of 300 RSUs on December 3, 2013, which vest equally on December 3, 2014, December 3, 2015 and December 3, 2016.

If the Company discovers a breach or financial impropriety by the Participant on June 30, 2015, which leads to a 50% decrease in operating income for the 2013 fiscal year and which could not result in termination for Cause, then the award granted would be reduced to 150 RSUs, and the reduction would be applied equally to the remaining RSUs, which would mean that the 100 RSUs vesting on December 3, 2015 would be reduced by 75 to 25 RSUs and the 100 remaining RSUs vesting on December 3, 2016 would be reduced by 75 to 25 RSUs.

If the Company discovers a breach or financial impropriety by the Participant on June 30, 2016, which leads to a 50% decrease in operating income for the 2013 fiscal year and which could not result in termination for Cause, then the award granted would be reduced to 150 RSUs, which would be applied to the remaining RSUs, which would mean that the 100 RSUs vesting on December 3, 2016 would be reduced by 100 RSUs to 0 RSUs and the Participant would forfeit 50 shares to the Company, taken from the most recent vesting on December 3, 2015, or if such shares had been sold, the Participant would pay to the Company the proceeds received from the sale of those 50 shares.

(c) In addition to the foregoing, if the Participant has realized any profits from the sale of other Company's securities during the 12-month period prior to the discovery of breach or financial impropriety referred to above, the Participant shall reimburse the Company for those profits to the extent required by the Company's Clawback Policy.

(d) The Company shall have the right to offset future compensation, including, at its sole discretion, stock compensation, to recover any amounts that may be recovered by the Company hereunder.

## 20. Miscellaneous .

(a) This Agreement and the rights of the Participant hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. The Committee shall have the right to impose such restrictions on any shares acquired pursuant to this Agreement, as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such shares are then listed and/or traded, under any blue sky or state securities laws applicable to such shares. It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Participant.

(b) The Committee may terminate, amend, or modify the Plan and this Agreement under the terms of and as set forth in the Plan.

(c) The Participant may elect, subject to any procedural rules adopted by the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold and sell shares having an aggregate Fair Market Value on the date the tax is to be determined, equal to the amount required to be withheld, subject to the restrictions imposed by applicable securities laws and Company policies regarding trading in its shares.

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The Company shall have the power and the right to deduct or withhold from the Participant's compensation, or require him or her to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation), domestic or foreign, required by law to be withheld with respect to any payout to him or her under this Agreement.

- (d) The Participant agrees to take all steps necessary to comply with all applicable provisions of federal and state securities laws in exercising his or her rights under this Agreement.
  - (e) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.
  - (f) This Agreement and the Plan constitute the entire understanding between the Participant and the Company regarding the RSUs granted hereunder. This Agreement and the Plan supersede any prior agreements, commitments or negotiations concerning the RSUs granted hereunder.
  - (g) All rights and obligations of the Company under the Plan and this Agreement, shall inure to the benefit of and be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.
  - (h) To the extent not preempted by the laws of the United States, the laws of the State of Delaware shall be the controlling law in all matters relating to this Agreement without giving effect to principles of conflicts of laws.
  - (i) The Participant acknowledges and agrees that the Covenants and other provisions contained herein are reasonable and valid and do not impose limitations greater than those that are necessary to protect the business interests and Confidential Information of the Company. The Company and the Participant agree that the invalidity or unenforceability of any one or more of the Covenants, other provisions, or parts thereof of this Agreement shall not affect the validity or enforceability of the other Covenants, provisions, or parts thereof, all of which are inserted conditionally on their being valid in law, and in the event one or more Covenants, provisions, or parts thereof contained herein shall be invalid, this Agreement shall be construed as if such invalid Covenants, provisions, or parts thereof had not been inserted. The Participant and the Company agree that the Covenants and other provisions contained in this Agreement are severable and divisible, that none of such Covenants or provisions depend on any other Covenant or provision for their enforceability, that each such Covenant and provision constitutes an enforceable obligation between the Company and the Participant, that each such Covenant and provision shall be construed as an agreement independent of any other Covenant or provision of this Agreement, and that the existence of any claim or cause of action by one party to this Agreement against another party to this Agreement, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by any party to this Agreement of any such Covenant or provision.
  - (j) If any of the provisions contained in this Agreement relating to the Covenants or other provisions contained herein, or any part thereof, are determined to be unenforceable because of the length of any period of time, the size of any area, the scope of activities or similar term contained therein, then such period of time, area, scope of activities or similar term shall be considered to be adjusted to a period of time, area, scope of activities or similar term which would cure such invalidity, and such Covenant or provision in its reduced form shall then be enforced to the maximum extent permitted by applicable law.
  - (k) This Agreement is intended to satisfy the requirements of Section 409A of the Code and shall be construed accordingly. To the extent that any amount or benefit that constitutes nonqualified deferred compensation under Section 409A of the Code, and that is not exempt under Section 409A, is otherwise payable or distributable to him or her on account of separation from service (within the meaning of Section 409A of the Code) while he or she is a specified employee (within the meaning of Section 409A of the Code), such amount or benefit shall be paid or distributed on the *later of* time for payment described in Section 3 of this Agreement and that date which is six (6) months after such separation from service.
  - (l) The parties agree that the mutual promises and covenants contained in this Agreement constitute good and valuable consideration.
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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective as of the Date of Grant.  
Mueller Water Products, Inc.

By: \_\_\_\_\_  
Gregory E. Hyland  
Chairman, President, and  
Chief Executive Officer

ATTEST:

Participant

**Mueller Water Products, Inc.**  
**Amended and Restated 2006 Stock Incentive Plan**  
**Notice of Stock Option Grant**

Unless otherwise defined herein, all capitalized terms in this Notice of Stock Option Grant (“Notice of Grant”) shall have the meanings ascribed to them in the Mueller Water Products, Inc. Amended and Restated 2006 Stock Incentive Plan (the “Plan”).

[Participant Name]

[Address Line 1]

[Address Line 2]

The person named above (the “Optionholder”) has been granted an option (the “Option”) to purchase shares of Common Stock of Mueller Water Products, Inc. (the “Company”), subject to the terms and conditions of the Plan, this Notice of Grant, and the Stock Option Agreement (attached as Exhibit A), as follows:

Date of Grant:

Exercise Price per Share: \$

Total Number of Shares Granted:

Total Exercise Price: \$

Type of Option (check one):    Incentive Stock Option    Nonstatutory Stock Option

Term/ Expiration Date:    Not later than [insert date that is 10 years from date of grant]

Payment :

By one or a combination of the following items (as described in greater detail in the Stock Option Agreement and the Plan):

- By cash or check
- By a “same day sale” arrangement
- By delivery of other shares of Common Stock

Vesting Schedule :

This Option will vest and may be exercised, in whole or in part, to the extent vested in accordance with the following schedule:

- **Vesting Without Termination of Continuous Service.** One-third of the options subject to the Option shall vest and become exercisable on each of the first three anniversaries of the Date of Grant (each, a “vesting date”), subject to the Optionholder’s Continuous Service on each such date.
  - **No Fractional Shares.** If, on any vesting date, the vesting schedule would result in the vesting of a fraction of a share, such fraction shall be rounded to the nearest whole share in a manner acceptable to management or any independent third party administering any terms of the Plan for the Company.
  - **Termination of Continuous Service.** In the event the Optionholder terminates Continuous Service for any reason before a vesting date (other than by reason of the Optionholder’s death, Disability or Retirement), all unvested shares of Common Stock subject to the Option shall be forfeited to the Company and the portion of the Option attributable to such unvested shares will lapse and terminate and shall not be exercisable by any Person.
  - **Death or Disability.** All shares of Common Stock subject to the Option that have not previously vested shall vest and become exercisable upon the Optionholder’s termination of Continuous Service as a result of death or Disability.
  - **Retirement.** In the event that an Optionholder is Retirement eligible on the Date of Grant or becomes Retirement eligible before a vesting date, the Optionholder will vest in shares of Common Stock subject to the Option that
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have not previously vested upon the Optionholder's Retirement provided that the Optionholder has remained in Continuous Service from the Grant Date through at least the first anniversary of the Grant Date (for Optionholders who are not non-employee directors) or at least to the date of the next regularly scheduled annual stockholders meeting (for Optionholders who are non-employee directors). If an Optionholder who is not a non-employee director terminates Continuous Service before the first anniversary of the Grant Date or an Optionholder who is a non-employee director terminates Continuous Service before the next regularly scheduled annual stockholders meeting, the portion of the Option attributable to any unvested shares will lapse and terminate and shall not be exercisable by any Person. By way of example, (i) if an Optionholder who is not a non-employee director and who received an Option (scheduled to vest one-third on each of the first three anniversaries of the grant date) on December 3, 2013 terminates Continuous Service by reason of Retirement on December 4, 2014, then the remaining unvested shares of Common Stock subject to the Option will vest and such vested shares may be exercised immediately and (ii) if this same Optionholder terminates Continuous Service on December 2, 2014, then none of the shares of Common Stock subject to the Option will vest and the Option will lapse and terminate and shall not be exercisable by any Person.

The undersigned Optionholder acknowledges receipt of, and understands and agrees to, this Notice of Grant, the Stock Option Agreement, and the Plan, both of which are made a part of this document. The Optionholder has reviewed the Plan, the Notice of Grant and the Stock Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing the Notice of Grant. Optionholder further acknowledges that as of the Date of Grant, this Notice of Grant, the Stock Option Agreement, and the Plan set forth the entire understanding between Optionholder and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) options previously granted and delivered to Optionholder, and (ii) the following agreements only:

**Other Agreements (if any) :**

The Optionholder acknowledges that if no other agreements are listed above, no other agreements on the subject hereof exist. By signing the Notice of Grant, the Optionholder agrees to accept as binding, conclusive and final all decisions or interpretations of the Board of Directors (or any Committee to whom the Board has delegated administration of the Plan) upon any questions relating to the Plan, the Notice of Grant and the Option Agreement.

OPTIONHOLDER:                    MUELLER WATER PRODUCTS, INC.

/s/ Gregory E. Hyland

(Signature)    (Signature)

Gregory E. Hyland, Chairman of the Board of Directors,  
President and Chief Executive Officer

(Date)

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## EXHIBIT A

### MUELLER WATER PRODUCTS, INC.

#### SECOND AMENDED AND RESTATED 2006 STOCK INCENTIVE PLAN

##### STOCK OPTION AGREEMENT

1. Grant of Option. The Company hereby grants to the Optionholder named in the Notice of Grant attached to this Agreement (the "Optionholder") an option (the "Option") to purchase the number of shares of Common Stock ("Shares") of the Company, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated by reference into this Stock Option Agreement (the "Option Agreement"), the Option Agreement and the Notice of Grant. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail. The Optionholder must accept this Option no later than ninety (90) days following the Date of Grant, after which time the Option and this Option Agreement shall be void and of no further effect.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that the aggregate Fair Market Value of the Common Stock subject to the Option (as determined at the time of grant) exceeds the \$100,000 rule of Code Section 422(d), it shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.
    - (a) Right to Exercise. This Option is exercisable during its term in accordance with the vesting schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.
    - (b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan and the Option Agreement. The Exercise Notice shall be completed by the Optionholder and delivered to the Company's Stock Plan Administrator, as designated by the Company from time to time. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. The Optionholder shall also be required to make adequate provision for all withholding taxes relating to the exercise of the Option as a condition to the exercise of the Option. This Option shall be deemed to be exercised only upon receipt by the Company of such fully executed Exercise Notice accompanied by the payment of such aggregate Exercise Price and arrangement for the adequate provision for the withholding taxes relating to the exercise.
    - (c) Compliance. No Shares shall be issued pursuant to the exercise of this Option unless such issuance, exercise and the method of payment of consideration for such Shares complies with Applicable Law. This Option may not be exercised for a fraction of a share. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionholder on the date the Option is exercised with respect to such Exercised Shares. Notwithstanding the foregoing, the Company shall not be liable to the Optionholder for damages relating to any delays in issuing the certificates for the Exercised Shares to the Optionholder, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves.
  3. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionholder:
    - (a) cash or check;
    - (b) consideration received by the Company under a "same day sale" program implemented by the Company in connection with the Plan; or
    - (c) by delivery to the Company of other shares of Common Stock of the Company; provided, however, that if the Exercise Price of Shares acquired pursuant to this Option is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, the Exercise Price shall be paid only by shares of the Common Stock of the Company that have been held by the Optionholder for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). The Optionholder may, subject to procedures satisfactory to the Board, satisfy such delivery requirement by presenting proof of beneficial ownership of such Common Stock.
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4. Period for Exercise. Subject to the provisions of the Plan, the Notice of Grant and this Option Agreement, the Optionholder may exercise this Option as to any vested Shares at any time prior to the earliest to occur of the following:
    - (a) the Term/Expiration Date set forth in the Notice of Grant;
    - (b) two (2) years following the date of the Optionholder's termination of Continuous Service as a result of death or Disability;
    - (c) the Term/Expiration Date set forth in the Notice of Grant in the case of an Optionholder who terminates Continuous Service on or after the first anniversary of the Grant Date as a result of Retirement;
    - (d) three (3) months following the date of the Optionholder's termination of Continuous Service by the Company without Cause (and other than as a result of death, Disability or Retirement) or by the Optionholder for any reason; and
    - (e) the date of the Optionholder's termination of Continuous Service by the Company for Cause.
  5. Non-Transferability of Option. This Option may not be transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionholder only by the Optionholder. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionholder.
  6. Notice of Disqualifying Disposition of ISO Shares. If the Optionholder sells or otherwise disposes of any of the Shares acquired pursuant to an ISO ("ISO Shares") on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, the Optionholder shall immediately notify the Company in writing of such disposition. The Optionholder understands and agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current earnings paid to the Optionholder.
  7. Lock-Up. By exercising the Option, the Optionholder agrees that the Company (or a representative of the underwriter(s)) may, in connection with an underwritten registration of the offering of any equity securities of the Company under the Securities Act require that the Optionholder not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any shares of Common Stock or other securities of the Company held by the Optionholder, for a period of time specified by the underwriter(s) (not to exceed one hundred eighty (180) days) following the effective date of the registration statement of the Company filed under the Securities Act. The Optionholder further agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the underwriter(s) that are consistent with the foregoing or that are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop transfer instructions with respect to Shares of Common Stock until the end of such period. The underwriters of the Company's stock are intended third party beneficiaries of this section and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.
  8. Entire Agreement; Governing Law. The Plan and the Notice of Grant are incorporated herein by reference. Except as expressly set forth in the Notice of Grant, the Plan, the Notice of Grant and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionholder with respect to the subject matter hereof. The Company may amend the terms of the Option; provided that the rights under any Option shall not be materially impaired by any such amendment except by means of a writing signed by the Company and the Optionholder. The Option is governed by the law of the State of Delaware, without regard to the principles of conflicts of law.
  9. NO GUARANTEE OF CONTINUED SERVICE. THE OPTIONHOLDER ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS AN EMPLOYEE, DIRECTOR, OR CONSULTANT AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). THE OPTIONHOLDER FURTHER ACKNOWLEDGES AND AGREES THAT THIS OPTION AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS AN EMPLOYEE, DIRECTOR, OR CONSULTANT FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH THE OPTIONHOLDER'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONHOLDER'S RELATIONSHIP (I) AS AN EMPLOYEE AT ANY TIME, WITH OR WITHOUT CAUSE; (II) AS A CONSULTANT pursuant to the terms of OPTIONHOLDER'S agreement with the Company or an
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Affiliate; OR (III) AS A DIRECTOR pursuant to the Bylaws of the Company, and any applicable provisions of the corporate law of the state or other jurisdiction in which the Company is domiciled, as the case may be.

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MUELLER WATER PRODUCTS, INC.

SECOND AMENDED AND RESTATED 2006 STOCK INCENTIVE PLAN

EXERCISE NOTICE

Mueller Water Products, Inc.  
1200 Abernathy Road  
Atlanta, GA 30328

Attention: Stock Plan Administrator

1. Exercise of Option. Effective as of today, \_\_\_\_\_, 20\_\_, the undersigned (“Purchaser”) hereby elects to purchase \_\_\_\_\_ shares (the “Shares”) of the Common Stock of Mueller Water Products, Inc. (the “Company”) under and pursuant to the Amended and Restated 2006 Stock Incentive Plan (the “Plan”) and the Notice of Stock Option Grant and Stock Option Agreement dated \_\_\_\_\_, 20\_\_ (the “Option Agreement”) with the Grant Number \_\_\_\_\_. The total purchase price for the Shares shall be \$\_\_\_\_\_, as required by the Option Agreement.
2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares in the form of:  
Cash or check in the amount of \$\_\_\_\_\_, with any checks made payable to Mueller Water Products, Inc.  
Irrevocable instructions to sell shares acquired upon exercise in accordance with the terms of the Company’s “same day sale” program.  
\_\_\_\_\_ shares of Common Stock, with a fair market value of \$\_\_\_\_\_, as to which I am attesting ownership pursuant to the form of Tender of Already-Owned Shares by Attestation of Share Ownership Rather than Physical Delivery of Shares attached hereto as Attachment 2 (as further described in Attachment 1, Exercise via Attestation).
3. Tax Withholding. Purchaser has contacted the Company’s Stock Plan Administrator to confirm that the tax withholding due upon exercise of the Option is \$\_\_\_\_\_.
4. Representations of Purchaser.
  - (a) Purchaser has received, read and understood the Plan, the Notice of Grant and the Option Agreement and agrees to abide by and be bound by their terms and conditions.
  - (b) Purchaser agrees: (i) to provide such additional documents as the Company may require pursuant to the terms of the Plan, (ii) to provide for the payment by Purchaser to the Company (in the manner designated by the Company) of the Company’s withholding obligation, if any, relating to the exercise of this Option, and (iii) if this exercise relates to an ISO, to notify the Company in writing promptly after the date of any disposition of any of the Shares of Common Stock issued upon exercise of this Option that occurs within two (2) years after the date of grant of the Option or within one (1) year after such Shares of Common Stock are issued upon exercise of the Option.
  - (c) Purchaser hereby makes the following certifications and representations with respect to the Shares, which are being acquired by the Purchaser for his or her own account (or otherwise in compliance with applicable law) upon exercise of the Option as set forth above:
    - (i) If Purchaser is an officer and/or director of the Company, Purchaser has contacted the Company’s Stock Plan Administrator to determine whether he or she is subject to Section 16 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and if so:
      - Purchaser has reviewed his or her transactions relative to Section 16 of the Exchange Act (“Section 16”);
      - The Company has informed the Purchaser that the grant of the Option is exempt from Section 16(b) of the Exchange Act either because (i) it was approved by the Company’s Board of Directors or a committee duly authorized by the Board pursuant to the rules issued under Section 16, or (ii) Purchaser has held the Option for six (6) months or more, and, therefore, this transaction may not be matched with a non-exempt purchase; and
      - Purchaser understands that the filing of a Form 4 with the U.S. Securities and Exchange Commission may be required because of this transaction.

- (ii) Purchaser understands that if he or she is an officer and/or director of the Company, Purchaser may be deemed an “affiliate” of the Company and is therefore subject to certain of the conditions set forth in Rule 144 of the Securities Act.
  - (iii) Purchaser further acknowledges that all certificates representing any of the Shares subject to the provisions of the Option shall have endorsed thereon appropriate legends reflecting the foregoing limitations, as well as any legends reflecting restrictions pursuant to Applicable Law. Purchaser agrees that the Shares are being acquired in accordance with and subject to the terms, provisions and conditions of his or her option documents and the Plan, to all of which the Purchaser hereby expressly assents. This agreement shall inure to the benefit of and be binding upon the Purchaser’s heirs, executors, administrators, successors and assigns.
  - (iv) If Purchaser is selling some or all of these Shares in accordance with the terms of the Company’s “same day sale” program, Purchaser does not have access to, nor is Purchaser aware of, any nonpublic, material information regarding the Company that could or has influenced his or her decision to sell these Shares.
  - (v) Purchaser hereby agrees to notify the Company upon the transfer or sale or other disposition of the Shares acquired under any ISO exercise and agrees to hold harmless the Company regarding the reporting of income subject to the disposition of these Shares.
  - (vi) Purchaser further acknowledges that he or she has received a copy of the prospectus prepared by the Company, which provides information regarding the Company, the Plan and the Shares.
  - (vii) Purchaser represents that he or she is entitled to exercise the Option with respect to the number of Shares that the Purchaser wishes to purchase hereby.
- (d) Purchaser agrees that, if required by the Company (or a representative of the underwriters) in connection with an underwritten registration of the offering of any equity securities of the Company under the Securities Act, or the similar laws of a foreign jurisdiction, Purchaser will not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Shares or other securities of the Company held by Purchaser, for a period of time specified by the underwriter(s) (not to exceed one hundred eighty (180) days) following the effective date of the registration statement of the Company filed under the Securities Act. Purchaser further agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the underwriter(s) that are consistent with the foregoing or that are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Shares until the end of such period.
5. Rights as Stockholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares of the Company’s Common Stock subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionholder as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in the Plan.
6. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.
7. Entire Agreement; Governing Law. The Plan, the Notice of Grant and Option Agreement are incorporated herein by reference. This agreement, the Plan, the Notice of Grant and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the law of the State of Delaware.
-

Submitted by: Accepted by:

PURCHASER: MUELLER WATER PRODUCTS, INC.

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Print Name)

Address:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
(Date Executed)

\_\_\_\_\_  
(Date Received)

## EXHIBIT A

### Maximum Number of Performance Shares and Allocation to Performance Periods

The Participant shall be eligible to earn up to the following number of Performance Shares identified opposite each Performance Period below:

Performance Period	Maximum Number of Performance Shares That May be Earned	Target Number of Performance Shares That May be Earned	Threshold Number of Performance Shares That May be Earned
October 1, 2012 - September 30, 2013			
October 1, 2013 - September 30, 2014			
October 1, 2014 - September 30, 2015			

Award Cycle	Maximum Number of Performance Shares That May be Earned	Target Number of Performance Shares That May be Earned	Threshold Number of Performance Shares That May be Earned
October 1, 2012 - September 30, 2015			

### Performance Criteria

#### General

The Performance Shares shall be earned as set forth below with respect to the applicable Performance Period; provided that the Company's RONA for the applicable Performance Period equals or exceeds the Target RONA (as set forth below) for such Performance Period. "RONA" means the quotient obtained by dividing "Adjusted Operating Income" (after taxes but excluding amortization) by the monthly average of "Working Capital" and fixed assets, as derived from the Company's financial statements, with such adjustments as the Committee establishes in writing at the time it establishes the Target RONA, Threshold RONA and Maximum RONA for such Performance Period. "Adjusted Operating Income" for this purpose means income from operations adjusted to remove primarily restructuring charges. "Working Capital" for this purpose means the average of adjusted current assets less adjusted current liabilities, which measures exclude cash and cash equivalents, debt and items reported as held for sale.

"Target RONA", "Threshold RONA" and "Maximum RONA", in each case means the specific fiscal year-over-year improvement in RONA, expressed as a percentage, established by the Committee for the applicable Performance Period. Notwithstanding the foregoing, if the Company's RONA for the Performance Period exceeds Threshold RONA, but does not meet the percentage for Target RONA or Maximum RONA, then the Performance Shares award for such Performance Period shall be interpolated on a straight-line basis between Threshold RONA and Maximum RONA. For the avoidance of doubt, if RONA for the Performance Period is below Threshold RONA, no Performance Shares shall be granted for such Performance Period.

The Committee will develop the performance criteria for subsequent Performance Periods in the Award Cycle annually within the time period for developing performance goals under the regulations under Code Section 162(m). An amended Exhibit A describing the performance criteria for a particular Performance Period will be provided to each Participant prior to the end of the first quarter of that Performance Period and will automatically become a part of this Agreement.

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Performance Goals for Performance Period October 1, 2012 to September 30, 2013

Performance Level	Fiscal 2013 RONA Goal	Percentage of Target Performance Shares Earned	Maximum Number of Performance Shares Earned
Maximum	22.82%	200%	
Target	11.41%	100%	
Threshold	7.6%	50%	
Below Threshold	NA	0%	

Performance Goals for Performance Period October 1, 2013 to September 30, 2014

Performance Level	Fiscal 2014 RONA Goal	Percentage of Target Performance Shares Earned	Maximum Number of Performance Shares Earned
Maximum	16%	200%	
Target	8%	100%	
Threshold	4%	50%	
Below Threshold	NA	0%	

Performance Goals for Performance Period October 1, 2014 to September 30, 2015

Performance Level	Fiscal 2015 RONA Goal	Percentage of Target Performance Shares Earned	Maximum Number of Performance Shares Earned
Maximum	___%	200%	
Target	___%	100%	
Threshold	___%	50%	
Below Threshold	NA	0%	



EXHIBIT A

Maximum Number of Performance Shares and Allocation to Performance Periods

The Participant shall be eligible to earn up to the following number of Performance Shares identified opposite each Performance Period below:

Performance Period	Maximum Number of Performance Shares That May be Earned	Target Number of Performance Shares That May be Earned	Threshold Number of Performance Shares That May be Earned
October 1, 2013 - September 30, 2014			
October 1, 2014 - September 30, 2015			
October 1, 2015 - September 30, 2016			

Award Cycle	Maximum Number of Performance Shares That May be Earned	Target Number of Performance Shares That May be Earned	Threshold Number of Performance Shares That May be Earned
October 1, 2013 - September 30, 2016			

Performance Criteria

General

The Performance Shares shall be earned as set forth below with respect to the applicable Performance Period; provided that the Company's RONA for the applicable Performance Period equals or exceeds the Target RONA (as set forth below) for such Performance Period. "RONA" means the quotient obtained by dividing "Adjusted Operating Income" (after taxes but excluding amortization) by the monthly average of "Working Capital" and fixed assets, as derived from the Company's financial statements, with such adjustments as the Committee establishes in writing at the time it establishes the Target RONA, Threshold RONA and Maximum RONA for such Performance Period. "Adjusted Operating Income" for this purpose means income from operations adjusted to remove primarily restructuring charges. "Working Capital" for this purpose means the average of adjusted current assets less adjusted current liabilities, which measures exclude cash and cash equivalents, debt and items reported as held for sale.

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Performance Goals for Performance Period October 1, 2013 to September 30, 2014

Performance Level	Fiscal 2014 RONA Goal	Percentage of Target Performance Shares Earned	Maximum Number of Performance Shares Earned
Maximum	16%	200%	
Target	8%	100%	
Threshold	4%	50%	
Below Threshold	NA	0%	

Performance Goals for Performance Period October 1, 2014 to September 30, 2015

Performance Level	Fiscal 2015 RONA Goal	Percentage of Target Performance Shares Earned	Maximum Number of Performance Shares Earned
Maximum	__%	200%	
Target	__%	100%	
Threshold	__%	50%	
Below Threshold	NA	0%	

Performance Goals for Performance Period October 1, 2015 to September 30, 2016

Performance Level	Fiscal 2016 RONA Goal	Percentage of Target Performance Shares Earned	Maximum Number of Performance Shares Earned
Maximum	__%	200%	
Target	__%	100%	
Threshold	__%	50%	
Below Threshold	NA	0%	

E XHIBIT A

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The Participant shall be eligible to earn up to the following number of Performance Shares identified opposite each Performance Period below:

Performance Period	Maximum Number of Performance Shares That May be Earned	Target Number of Performance Shares That May be Earned	Threshold Number of Performance Shares That May be Earned
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October 1, 2013 - September 30, 2014			

Award Cycle	Maximum Number of Performance Shares That May be Earned	Target Number of Performance Shares That May be Earned	Threshold Number of Performance Shares That May be Earned
October 1, 2012 - September 30, 2014			

Performance Criteria

General

The Performance Shares shall be earned as set forth below with respect to the applicable Performance Period; provided that the Company's RONA for the applicable Performance Period equals or exceeds the Target RONA (as defined below) for such Performance Period. "RONA" means the quotient obtained by dividing "Adjusted Operating Income" (after taxes but excluding amortization) by the monthly average of "Working Capital" and fixed assets, as derived from the Company's financial statements, with such adjustments as the Committee establishes in writing at the time it establishes the Target RONA, Threshold RONA and Maximum RONA for such Performance Period. "Adjusted Operating Income" for this purpose means income from operations adjusted to remove primarily restructuring charges. "Working Capital" for this purpose means the average of adjusted current assets less adjusted current liabilities, which measures exclude cash and cash equivalents, debt and items reported as held for sale.

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Performance Goals for Performance Period October 1, 2012 to September 30, 2013

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Target	8%	100%	
Threshold	4%	50%	
Below Threshold	NA	0%	

# Code of Business Conduct and Ethics

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## A Message from our Chairman

### To My Fellow Employees:

We are proud of the reputation Mueller Water Products and our subsidiaries have in the marketplace and in our local communities. We are known for producing superior quality products and for exceptional customer service. But our reputation derives from the way we conduct our business as much as from how we produce products and deliver services. Our employees, customers, stockholders and local communities expect us to *Act with Integrity* and *Do the Right Thing*, and we strive to do just that every day.

Our Core Values define us. They reflect the beliefs, principles and standards that form the basis for our behavior and decision making. Our Code of Business Conduct and Ethics is one of the ways we put our Core Values into action.

Please review our Code and abide by its spirit as well as its letter. Our Code is intended to serve as the foundation of our compliance program, and it can help you make the right choices when questions concerning proper business conduct arise.

You are the face of the Company and of our Core Values to each other and to our other stakeholders. We depend on you to use good judgment, and if you see something that doesn't seem ethical or right, please speak up. More importantly, I encourage you to always *Do the Right Thing*, and if you're not sure what the right thing to do is, just ask. That is how we will become a better company.

Thank you for making our Code a part of the way you do business. Sincerely,

Gregory E. Hyland  
Chairman of the Board, President and  
Chief Executive Officer

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# ABOUT OUR CODE

## Our Core Values

Our Core Values define us. They reflect the beliefs, principles and standards that form the basis for our behavior and decision making and they are the foundation of our Code. By complying with our Code, you play an important role in preserving and promoting our Core Values.

### **Act with Integrity - Do the Right Thing.**

We are committed to maintaining high ethical standards in all of our business dealings.

We align our actions with our words and deliver what we promise.

We build and strengthen our reputation by acting with integrity.

### **Treat Each Other with Respect.**

We provide a healthy work environment.

We are considerate, professional and open in our interactions.

We are an inclusive organization that values a diversity of experience and perspectives.

We treat all of our colleagues, customers and suppliers with respect.

### **Foster a Safe and Environmentally Responsible Culture.**

Our highest priority is to protect the health, safety and well-being of our employees.

We strive to adhere to work processes and procedures that reflect industry best practices and foster safety and environmental stewardship.

### **Build Relationships.**

Trust is at the foundation of our relationships with our customers, communities, stakeholders and each other.

We recognize that more is accomplished by working as a team than by working alone.

We strengthen our business by building relationships that last.

### **Promote a Culture of Innovation and Continuous Improvement.**

We are committed to innovation and value creativity.

We continuously look for ways to improve our products, services and processes.

We anticipate and drive change and promote a culture of continuous improvement.

### **Deliver Exceptional Results.**

We take pride in what we do.

We expect superior effort and results from all of our colleagues.

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We are accountable for accomplishing aggressive goals and objectives and delivering exceptional results.

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## Ethics is Good Business

Our Code is built on the foundation of our Core Values and outlines the standard of conduct that applies to everyone who works for or represents our company. Acting ethically is not only the right thing to do, it is also good business. Compliance with our Code will:

- protect our reputation
- facilitate business strategies
- save us money.

Put another way - our continued business success depends on our customers and stockholders respecting us for our honesty and integrity as much as it does on how we produce products and deliver services.

## Application of Our Code

All directors and employees of Mueller Water Products, Inc. and its subsidiaries are expected to carefully read and adhere to our Code. We also expect all of our contractors, consultants, representatives, agents and others working temporarily for or providing services to us to comply with this Code in connection with any work or services performed on our behalf.

Our managers have a special responsibility to lead by example. Managers must instill a culture of integrity and ethical business practices, and cannot ignore violations or potential violations of our Code.

## Using Our Code

Our Code is designed to provide a broad overview and scenarios on how to conduct our business in a manner consistent with our Core Values. It cannot cover every potential scenario you may encounter.

**Q: Something doesn't feel right to me, but I don't feel comfortable approaching my manager. What should I do?**

**A: Contact our Chief Compliance Officer, your local human resources representative or use the Helpline. Trust your sense of integrity; if some- thing doesn't feel right, you should seek guidance.**

The table of contents on page 1 will help you locate and identify the issue about which you have a concern. Our Code is divided into five sections, four of which include issue-specific subsections. To help you develop a more complete understanding of the topic, we have included summary boxes within some topics, along with frequently asked questions.

Our Code is available on our Intranet at [intranet.muellerwaterproducts.com](http://intranet.muellerwaterproducts.com). Our Code does not set forth all policies and guidelines applicable to our employees generally or particular job responsibilities.

If you have any questions or concerns regarding our policies or guidelines, please do not hesitate to utilize any of the resources described in this document.

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## **Approval, Amendment and Waivers**

Our Code has been approved by our board of directors. Any substantive amendments to our Code must be approved by the board of directors or an appropriate committee of the board of directors. You may request a waiver of a provision of our

Code by contacting our Chief Compliance Officer. A waiver request submitted by an officer or director must be approved by our board of directors.

## **No Retaliation Policy**

You can raise questions or concerns or participate in the investigation process without fear of retaliation. Our strict “no retaliation” policy supports our commitment to you. Without exception, we prohibit retaliation against anyone who reports a violation or suspected violation of our Code or any of our policies in good faith. If you believe you are being retaliated against, contact our Chief Compliance Officer immediately.

**Q: What can I do if I believe someone is retaliating against me for reporting a matter to our Compliance Office or my human resources representative?**

**A: Report it to our Chief Compliance Officer immediately. Retaliation is a violation of our Code, and appropriate action will be taken to stop any retaliation and prevent future occurrences.**

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# WE ARE COMMITTED TO EACH OTHER

We want employees to have the opportunity to reach their fullest potential. This section of our Code outlines what is expected from each of us in our personal conduct and treatment of others to ensure an inclusive, supportive work environment.

## Health and Safety

Our highest priority is to protect the health, safety and well-being of our employees and those who visit our facilities or offices. Your health and safety is important to us. It is also important to your family, colleagues and community. We protect your health and safety by implementing policies that help individuals safeguard themselves and their colleagues.

The work we perform and the environment in which we work may present health and safety risks. You play an important role in our commitment to employee health and safety by maintaining a safe work environment. Please ensure that everyone uses personal safety equipment when required and adheres to all health and safety rules and regulations.

You should immediately report any known or suspected unsafe conditions, hazard or workplace injury to your local environment, health and safety representative or our Compliance Office. (See our *Environment, Health and Safety Policy* for more information).

**Q: My plant manager suggested adopting a practice that will save time, but poses a potential safety risk. What should I do?**

**A: Report the matter to another leader, your local environment, health and safety representative or our Compliance Office. Never compromise your safety or the safety of your team members or others.**

**Q: I overheard a manager say he would not promote an individual because the person is a different race. He also used a racial slur to describe the person. What should I do?**

**A: Immediately contact your supervisor, human resources representative or our Compliance Office. We do not tolerate unlawful discrimination of any kind.**

## Fair Treatment / Anti-Discrimination

Everyone deserves to be treated fairly. We respect your dignity and expect you to act in a fair and equitable manner toward colleagues, customers and others with whom you come in contact. We are committed to fair treatment in all aspects of employment for employees and applicants. Employment with us is based solely on individual merit and qualifications directly related to how well you do your job. We prohibit unlawful discrimination of any kind, including discrimination based on race, color, religion, gender, age, national origin, marital status, sexual orientation, veteran status, pregnancy or disability. See the *Workplace Free, No Violence, Harassment, Discrimination and Retaliation Policy* for more information.

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## **Intimidation / Harassment / Violence**

You should expect a positive working environment. There is no room in our culture for intimidation or harassment in any work-related setting. Harassment can include behavior that creates an intimidating, hostile or offensive work environment. It can also include displays of written or graphic material of an inappropriate nature. Examples include yelling or intimidating someone, including by making threats, offensive jokes regarding someone's ethnicity and sexual advances. We prohibit unlawful harassment in any form. See our *Anti-Harassment Policy* for more information.

We are also committed to a violence-free work environment. We will not tolerate any level of violence or threat of violence in the workplace.

**Q: My co-worker circulated an email that was offensive to me. What should I do?**

**A: If you are not comfortable speaking directly with the co-worker, or if the co-worker does not stop sending these emails, contact your supervisor, human resources representative or our Compliance Office.**

## **Drugs and Alcohol**

Substance abuse is incompatible with the health and safety of our employees. The possession, sale or use of illegal drugs while performing your job is not permitted under any circumstances. Similarly, we prohibit the consumption of alcohol in our offices and at our facilities, unless approved by the office or plant manager. See the *Drug and Alcohol-Free Workplace Policy* for more information.

**Q: I occasionally smell alcohol on the breath of my co-worker who operates machinery at our plant. Do I have an obligation to report my co-worker?**

**A: Yes. Operating machinery while intoxicated is extremely dangerous. We care about the health and welfare of our employees. You should report the incidents to your supervisor, human resources representative or our Compliance Office.**

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# WE ARE COMMITTED TO OUR CUSTOMERS AND COMMUNITIES

We are committed to fair competition. Competition drives us to continue to develop new and better ways of doing business. We will continue to earn and maintain the trust of our customers by competing fairly, honestly, legally and ethically wherever we operate. We are also committed to operating in an environmentally conscious and respectful manner. This section outlines what is expected from each of us in our dealings with our customers and communities.

## Fair Dealing

We are committed to the concept of fair and vigorous competition. We compete on the basis of the quality of the products and services we offer. Your role is to deal fairly with our customers, suppliers, business partners, competitors and other stakeholders. You must not misrepresent facts, conceal information, abuse confidential information or use manipulation to obtain an unfair advantage when conducting business.

## Antitrust

We comply with all competition laws (called anti-trust laws in some countries) in the markets where we do business. These laws vary by country, but generally prohibit competitors from restraining competition by, for example, price fixing, bid rigging, tying arrangements and dividing territories or customers. They also prohibit other anti-competitive practices, such as setting distributor resale prices or abusing dominant market positions.

Given the complexity of competition laws, you should consult with our Compliance Office whenever:

- You have questions about your obligations under competition laws
- Before entering discussions or agreements with a competitor, customer, reseller or supplier about any arrangement that could have the effect of limiting competition.

You should be particularly careful when interacting with competitors. To avoid even the appearance of an agreement, you should never discuss with competitors such things as prices, terms of sale, territories, customers and bids. Please contact an attorney listed in our *Antitrust Compliance Policy* to address any questions concerning obligations to comply with this policy. See the *Antitrust Compliance Policy* for more information.

**Q: I was recently at a trade association meeting and overheard a representative of a competitor talking about its pricing strategy. I immediately left the room. Was that the right thing to do?**

**A: Yes. Removing yourself from the meeting reduces the risk that someone might think you were engaged in fixing prices or other inappropriate activity. Contact our Compliance Office to report the incident and do not share any of the information you may have heard at the meeting with any of your colleagues.**

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## Anti-Corruption

Anti-corruption laws generally prohibit offering, authorizing or receiving bribes, kickbacks or any other improper payment for the purpose of obtaining or retaining business. You should never accept, give or promise anything that could be interpreted as intending to improperly influence a commercial or governmental transaction.

**Q: A foreign customs official detains import product due to incorrect paperwork but offers to release the goods for a payment. I was told this is customary in this country. Is it allowed?**

**A: No. You must fix the paperwork and contact an attorney listed in our *Anti-Corruption Policy* . Providing money, gifts or entertainment to the foreign official would violate U.S. laws, as well as laws of other countries.**

Regardless of competitive pressures or local practices, you must avoid even the appearance of unlawful influence when dealing with government officials, as well as employees of state-owned or controlled enterprises. Given the complexity of anti-corruption laws, you should work with an attorney listed in our *Anti-Corruption Policy* to address any questions concerning obligations to comply with this policy. See the *Anti-Corruption Policy* for more information.

## Gifts and Entertainment

Offering gifts to current or potential customers can easily create the appearance of a conflict of interest. Examples of gifts include: meals, travel and travel accommodations for business or personal purposes; tickets to sporting or cultural events; discounts not available to the general public; cash gifts including gift cards; and wine or alcohol.

We treat gift giving to customers or potential customers in the private sector differently from those in the public sector. For private sector customers (or potential customers), we draw a distinction between “lavish” gifts, which are generally prohibited, and “token” non-cash gifts, which are generally permissible. Cash gifts including gift cards are never permitted. “Lavish” gifts - and all gifts that exceed, or might be expected to exceed, \$250 in value should be reported to our Compliance Office to determine whether the gift is appropriate. For more information on the distinction between “lavish” gifts and “token” gifts, see “WE ARE COMMITTED TO OUR STOCKHOLDERS-Conflicts of Interest.”

For public sector customers (or potential customers), including governmental entities, government officials and representatives, the legal requirements related to business gifts, meals and entertainment are complex and apply both to our employees and third parties acting on our behalf, including sales agents. No gift or entertainment of any form or value may be offered to any governmental entity, government official or representative without the prior approval of an attorney listed in our Anti-Corruption Policy.

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## Trade

We must comply with trade regulations applicable to our international transactions. Trade regulations cover activities such as importing, exporting and engaging in certain financial transactions. For example, all imported products entering the United States must clear customs (customs examines shipments to confirm, among other things, country of origin markings and special labeling requirements). Our international transactions must also comply with various trade restrictions. For example, we cannot export products or services to countries that are embargoed by the U.S. government or sell to certain persons and entities or for specific end uses. If you are in any way involved with importing or exporting our products or services, you must ensure that you:

- have proper authorization before exporting or importing goods across national borders;
- know your customers and how they intend to use the products you sell them;
- and work with an attorney listed in our *Trade Policy* to be absolutely sure that the transaction is in compliance with applicable laws. See our *Trade Policy* for more information.

## Environment

We are proud of the role we play in ensuring that our communities have access to safe, clean drinking water by making quality products that are vital to a sustainable water infrastructure. We are equally proud of our environmental stewardship in making those products and in running our business using modern sustainable principles.

We strive to comply with all applicable environmental laws and regulations. We are also committed to minimizing the impact of our business on the environment with methods that are socially responsible, scientifically based, economically sound and sustainable.

**Q: I work in sales. A distributor has contacted me about a bid that includes “Buy America“ provisions. I think I know what this means. May I proceed?**

**A: Various domestic laws and regulations promote purchases of certain goods manufactured in the United States. These laws and regulations are complex. For example, different standards apply to different programs. You should contact an attorney listed in our *Trade Policy* who will work with you to ensure that the products meet the applicable requirements.**

**Q: I think certain of our manufacturing processes could be done in a different manner that would lessen their impact on the environment and potentially save the company money. Would management like to hear my ideas?**

**A: Yes. Our Core Values promote both a culture of innovation and continuous improvement and a commitment to minimizing our environmental impact. Please contact your immediate supervisor or manager or your local environment, health and safety representative.**

Our commitment to the environment extends to helping employees understand the environmental performance of our business and pursuing process modifications that prevent pollution, result in less waste and minimize the use of natural resources.

Following safe environmental practices is required by our policies and applicable law. It is also the right thing to do. We need your help in implementing our environmental policy. If you become aware of any situation that may negatively

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affect how our operations impact the environment, please discuss it with your local environment, health and safety representative. See our Sustainability Policy for more information.

## **Political Activities and Contributions**

We encourage you to be a responsible citizen who participates in civic and political activities. However, any decision to become involved is entirely personal and voluntary. Your personal political activities must be done on your own time and with your own resources. At all times, you must make it clear that your views and actions are your own.

Corporate political contributions are permitted only with the prior written approval of our General Counsel, and only to the extent permitted by law. If you interact with government officials on the company's behalf, you must familiarize yourself with the laws applicable to those interactions.

# **WE ARE COMMITTED TO OUR STOCKHOLDERS**

We are committed to providing returns to our stockholders. However, under no circumstances will we sacrifice integrity for profits. We will comply with all applicable legal requirements and stock exchange rules relating to corporate organization and governance and securities trading. Many people play a part in ensuring our compliance in these very important areas. This section of our Code outlines what is expected from each of us.

## **Accounting and Financial Reporting**

The integrity of our financial statements and other regulatory filings is non-negotiable. It is critical to successfully operating our business, and to maintaining the confidence and trust of our stockholders, customers, business partners and other stakeholders. Our business records must be accurate, truthful and complete without restriction or qualification.

Everybody involved with our financial reporting process plays a key role in our commitment to honestly and accurately record and report financial information. We depend on you to ensure that all transactions and balances are timely and accurately recorded, classified and summarized in accordance with our financial and accounting practices.

Never misrepresent our financial or operational performance or otherwise knowingly compromise the integrity of our financial statements. Do not enter information in our books or records that intentionally hides, misleads or disguises the true nature of any financial or non-financial transaction, result or balance. Our financial disclosures must be reasonable with the understanding that what we might not disclose can be just as important as what we disclose.

If you are responsible for overseeing, operating or evaluating our internal controls over financial reporting, make sure you perform your duties in accordance with our policies, guidance and instruction. If you are asked to provide, review or certify information related to our internal controls, provide the information requested and otherwise respond in a full, accurate and timely manner. Finally, be sure to retain, protect and dispose of our financial records in accordance with applicable legal requirements and our information management policies.

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**Q: I think a team member may have negotiated a contract that includes an unwritten side agreement that could prove detrimental to the company. I don't know whether this side agreement is known to the people responsible for evaluating the company's financial reporting obligations related to this contract. What should I do?**

**A: Report the matter immediately to our Compliance Office or by using the Helpline. You may also notify the company's Audit Committee at [auditcommittee@muellerwp.com](mailto:auditcommittee@muellerwp.com).**

## **Conflicts of Interest**

You have a responsibility to make decisions based on the interests of the company without regard to how they might personally benefit you. A conflict may occur when your private or professional interests interfere in any way - or even appear

to interfere - with the interests of the company. Even if you did not intend for your actions to create a conflict of interest, the perceptions of a conflict by others can be just as damaging.

If you are faced with a potential conflict of interest, ask yourself:

- Would this activity create an incentive for me, or be perceived by others to create an incentive for me, to benefit personally at the expense of the company?
- Would this activity harm my reputation, negatively impact my ability to do my job or potentially harm the company?
- Would this activity embarrass the company or me if it showed up on the front page of a newspaper or blog?

If the answer is "yes" to any of these questions, then the relationship or situation may be likely to create a conflict of interest and you should probably avoid it.

Because conflicts of interest can sometimes be difficult to identify and assess, we have provided additional guidance below to address several areas where conflicts of interest often arise. If you are in a situation that may create a conflict of interest, or the appearance of a conflict of interest, review it with your direct supervisor or with our Compliance Office.

**Outside Employment, Business Venture and Investments.** Your secondary employment, outside business ventures and other commercial or financial activities must not take away from your primary responsibility to the company. Outside business activities may be conducted during non-working hours only and cannot interfere with your satisfactory work performance. You may not use company equipment or resources in connection with these outside activities and you must never engage in any outside employment or other activity that competes with the company, violates your confidentiality or other obligations to the company or otherwise reflects negatively on the company. Likewise, you may not use information about business opportunities learned from your role at the company for your own or anyone else's benefit. You should also avoid making personal investments in companies that compete with the company when the investment might cause, or appear to cause, you to act in a way that could harm the company.

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**Q: How do I know whether an activity I am engaged in outside of work creates an actual or potential conflict of interest?**

**A: It is not possible to anticipate all circumstances that might signal potential conflicts. A conflict situation can arise when you take actions or have interests that may make it difficult to perform your company work objectively and effectively. Contact your human resources representative or our Compliance Office if you are in doubt.**

**Q: Why do close personal relationships pose a potential problem in business situations?**

**A: In short, your judgment or loyalty to the company may be compromised. For example, if you engage a friend or family member on behalf of the company to conduct work or provide products and services to the company, it may be difficult to balance your personal relationship with your duties and responsibilities to the company.**

**Friends and Relatives.** You should avoid participating in a potential or existing business relationship between the company and any of your relatives, spouse or significant other, or close friends. As a first step, you should disclose to your immediate supervisor any relationship you have with a friend or relative who is an employee or owner of a customer, supplier or competitor of the company. You should not use your position within the company to influence the hiring of a friend or relative; similarly, if a friend or relative is also an employee of the company, you should not be in a position to influence employment or performance, compensation or promotional decisions about the friend or relative.

**Gifts and Entertainment.** Accepting gifts from current or potential suppliers, vendors or service providers can easily create the appearance of a conflict of interest. Examples of gifts include: meals, travel and travel accommodations for business or personal purposes; tickets to sporting or cultural events; discounts not available to the general public; cash gifts including gift cards; vendor product samples for personal use; and wine or alcohol.

We treat the acceptance of gifts from suppliers, vendors or service providers in the private sector differently from those in the public sector. For private sector suppliers, vendors or service providers (or potential suppliers, vendors or service providers), we draw a distinction between “lavish” gifts, which are generally prohibited, and “token” non-cash gifts, which are generally permissible. Cash gifts including gift cards are never permitted.

**Q: Does our policy require that I never accept a gift from a business contact or give a gift to a business contact.**

**A: No. The occasional exchange of “token” non-cash gifts is permitted. Lavish gifts, on the other hand, must be reported to our Compliance Office to determine whether the gift is appropriate.**

For information related to giving gifts, see “We are committed to our customers and communities - Gifts and Entertainment.” The legal requirements related to business gifts, meals and entertainment where a government official or representative is involved are complex and apply both to employees and representatives of the company, including sales agents. No gift or entertainment of any form or value may be offered to or accepted from any governmental entity, or government official or representative, without the prior approval of an attorney listed in our Anti-Corruption Policy. You should contact our Chief Compliance Officer if you have any questions. Also, see the *Anti-Corruption Policy* for more information.

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“Lavish” gifts - and all gifts that exceed, or might be expected to exceed, \$250 in value should be reported to our Compliance Office to determine whether the gift is appropriate. In addition, certain gifts should not be accepted under any circumstances, including loans from individuals or organizations dealing with the company, cash gratuities and private or personal discounts not approved by the company. Gifts given with the intent to bribe, make a kickback or place undue influence are, of course, illegal.

We treat “token” non-cash gifts differently. We recognize that the occasional exchange of these sorts of small value gifts are a common business practice meant to provide a legitimate opportunity to interact, create goodwill and establish trust. Infrequent and moderate business meals and entertainment with clients and infrequent invitations to attend local sporting or cultural events or gifts during the holidays may be appropriate provided that they are not “lavish” and do not create an appearance of impropriety. For example, you may be asked to play golf with a customer or vendor - we recognize this is often an appropriate and normal way to conduct business in our industry. To be sure, you should pre-clear with our Compliance Office any gift that exceeds or is expected to exceed \$250 in value.

**Dealing with Suppliers.** Purchasing decisions must be made solely on the basis of quality, reputation, service, cost and similar competitive factors. We caution against engaging in social relationships with current or prospective suppliers that may interfere with your ability to perform your job objectively or create an appearance of a conflict of interest. In dealing with suppliers, keep in mind the following best practices:

- Purchase materials and services fairly and impartially; reject the influence of bias or favoritism.
- Expenses related to attendance at a supplier sponsored event that provides a business opportunity for the company should be paid by the company, rather than the supplier.
- Solicitation or acceptance of a bribe, kickback or similar consideration is illegal and constitutes grounds for immediate termination of employment.

**Governance Opportunities.** You must obtain the approval of our Chief Compliance Officer prior to accepting any opportunity to serve as a director (or in a similar function) of a for-profit business.

**Q: My co-worker’s sister is a representative for one of our suppliers. Should I report this relationship?**

**A: Yes. Most likely this relationship will not create an issue. But to avoid a conflict of interest or an appearance of a conflict of interest, you should inform our Compliance Office.**

**Q: I heard from a team member that we are planning to acquire a publicly- traded company, but it hasn’t been announced yet. May I tell my friend to consider buying stock in the target company?**

**A: No. Not only would this violate your confidentiality obligations to the company, but you could also be charged with insider trading.**

## **Insider Trading**

Federal and state securities laws prohibit insider trading and so do we. Insider trading means trading securities on the basis of material, non-public information or sharing this information with another person so they can trade. Information is considered material if a reasonable investor would consider it important to his or her decision to buy, hold or sell the security. You may have access to inside information about the company or other companies such as current or potential suppliers, customers or acquisition targets. You are obligated to keep this information confidential and you, your family

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members and individuals with whom you have a significant personal relationship must never use this kind of information to trade in any company's securities. Likewise, you should never provide stock tips or share inside information with any other person who might use it to trade stock. See the *Insider Trading Policy* for more information.

## **Records Retention and Information Management**

Our records are important assets and must be managed appropriately. Each of us is responsible for retaining, protecting and appropriately disposing of company records in accordance with applicable law and policy. See our *Records Retention and Information Management Policy* and the related retention schedule for information on what, how and for how long documents should be retained. Because we incur costs to retain our records, we have a business interest in ensuring that we retain only those records that are relevant to our business.

In addition, you may receive an instruction from time to time from an attorney in the Legal Department to preserve all documents that may be relevant to a particular legal matter. Please comply with these requests.

## **Company Assets**

Our continued success depends on the effective use of available resources. We offer you access to the tools you need to do your job effectively, including facilities, furniture, supplies, equipment and information technology resources. In return, we expect you to treat company assets with care and respect and to guard against waste and abuse. Our assets should not be used for your personal benefit or for the benefit of other, non-company related entities or persons.

## **Intellectual Property and Confidential Information**

Our intellectual property and other confidential information are valuable assets. Protecting this information is vital to our ability to effectively conduct our business. Intellectual property includes copyrights, patents, licenses, trademarks and trade secrets. Confidential information includes contract terms, customer lists, proposals, project plans, business plans, processes and other information that we have not released publicly or which is not available through other public methods. As part of your work, intellectual property or confidential information may become available to you. Always be careful to protect confidential information belonging to us, as well as confidential information belonging to our customers, business partners and other stakeholders. Take reasonable physical and electronic precautions to safeguard the information from a variety of threats, such as error, fraud, sabotage, industrial espionage and privacy violations.

Share confidential information only with employees who have a legitimate business need to know or with others who are covered by contractual non-disclosure agreements. Be very careful when talking about confidential information. Don't talk about it in public places and never share it with non-company individuals, including family members and friends. Also, don't leave documents out in the open. You never know who may overhear a conversation or see sensitive printed material.

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**Q: Our new team member has a lot of industry experience that we would like to use to our advantage. Is it okay for him to share with us what he knows?**

**A: Yes and no. It is okay and even helpful to learn from a new team member, but be careful. He or she can share his or her general knowledge and experience but cannot share confidential information, trade secrets or other intellectual property belonging to the former employer.**

## **Public Disclosure**

Sharing material information with our stockholders, regulators and the public at the right time, and in the right manner, is an important part of doing business as a public company. It is also required by law. As a public company, we regularly disclose material information through our filings with various regulatory agencies, press releases, annual reports and earnings calls. We are committed to making all disclosures in a manner designed to provide appropriate access to material information for all stockholders, investors and the public in a timely, non-selective manner.

You play an important role in helping us to fulfill these obligations. If you are approached by, or receive a call from, the media or a member of the investment community, refer the caller to Corporate Communications or Investor Relations.

**Q: A local newspaper reporter contacted me to ask me about the level of capacity utilization at our plant. How should I respond?**

**A: Unless you have been given specific authority to speak about this topic on our behalf, you should refer the reporter to the Director of Communications.**

We have designated a few employees, including our CEO and CFO, to speak on our behalf. This allows us to speak with a consistent voice. See the *Regulation F-D/Public Disclosure Policy* for more information.

## **Social Media**

The way we communicate with each other continues to evolve with the rise of new media and next generation communications tools. While these changes create new opportunities for communication and collaboration, they also create new responsibilities for you.

We offer general guidelines that you should consider when using social media, including Facebook, LinkedIn, Yahoo! Groups, YouTube and Twitter among others. These include a requirement that you take personal responsibility for your use of social media and suggestions that you communicate in the first person (“I believe”), rather than in the third person (“The company believes”), to make clear that you are not speaking for the company and to encourage you to pause and think before posting. See the *Social Media Policy* for more information.

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# CONCLUSION

Thank you for taking the time to read our Code and for making it an integral part of Mueller Water Products. We hope you find it useful in guiding your behavior and decisions as you carry out your daily activities. As a reminder, if you are not able to get an answer to a question or resolve an issue under our Code by working with your immediate manager or supervisor or if you feel uncomfortable talking with them for any reason, please contact one of the following resources:

**Compliance Office or Chief Compliance Officer at (770)206-4200 or [compliance@muellerwp.com](mailto:compliance@muellerwp.com)**

**Local human resources representative or an attorney in the Legal Department**

**Anonymous Helpline at 1-800-569-9358 or <https://iwf.tnwgrc.com/muellerwp>**

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gregory E. Hyland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mueller Water Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 7, 2014

/s/ Gregory E. Hyland

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Gregory E. Hyland  
Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Evan L. Hart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mueller Water Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 7, 2014

/s/ Evan L. Hart

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Evan L. Hart,  
Senior Vice President  
and Chief Financial Officer



**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report on Form 10-Q of Mueller Water Products, Inc. (the "Company") for the quarter ended December 31, 2013 (the "Report"), I, Gregory E. Hyland, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 7, 2014

/s/ Gregory E. Hyland

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Gregory E. Hyland  
Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report on Form 10-Q of Mueller Water Products, Inc. (the "Company") for the quarter ended December 31, 2013 (the "Report"), I, Evan L. Hart, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 7, 2014

/s/ Evan L. Hart

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Evan L. Hart,  
Senior Vice President  
and Chief Financial Officer