MUELLER INDUSTRIES INC
Form 10-Q
July 28, 2006

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 July 1, 2006 Commission file number 1-6770

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

Delaware	25-0790410
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8285 Tournament Drive, Suite 150 Memphis, Tennessee	38125
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
(Check one):
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

The number of shares of the Registrant's common stock outstanding as of July 25, 2006, was 36,946,768.

MUELLER INDUSTRIES, INC.

FORM 10-Q

For the Period Ended July 1, 2006

INDEX

Part I. Financial Information		Page
Item 1.	Financial Statements (Unaudited)	
	a.) Condensed Consolidated Statements of Income for the quarters and six months ended July 1, 2006 and July 2, 2005	3
	b.) Condensed Consolidated Balance Sheets as of July 1, 2006 and December 31, 2005	7
	c.) Condensed Consolidated Statements of Cash Flows for the six months July 1, 2006 and July 2, 2005	9
	d.) Notes to Condensed Consolidated Financial Statements	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 4.	Controls and Procedures	32
Part II. Other Information		
Item 1.	Legal Proceedings	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 4.	Submission of Matters to a Vote of Security Holders	37
Item 6.	Exhibits	38
Signatures		39

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	For the Quarter Ended July 1, 2006	July 2, 2005
	(In thousands, except per share data)	
Net sales	$ 779,663	$ 410,506
Cost of goods sold	637,038	345,663
Gross profit	142,625	64,843
Depreciation and amortization	10,376	10,411
Selling, general, and administrative expense	39,689	29,136
Operating income	92,560	25,296
Interest expense	(5,214)	(4,752)
Other (expense) income, net	(67)	3,973
Income before income taxes	87,279	24,517
Current income tax expense	(29,584)	(7,545)
Deferred income tax benefit	1,055	211
Total income tax expense	(28,529)	(7,334)
Net income	$ 58,750	$ 17,183

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
(Unaudited)

	For the Quarter Ended July 1, 2006	July 2, 2005
	(In thousands, except per share data)	
Weighted average shares for basic earnings per share	36,891	36,599
Effect of dilutive stock options	421	466
Adjusted weighted average shares for diluted earnings per share	37,312	37,065
Basic earnings per share	$ 1.59	$ 0.47
Diluted earnings per share	$ 1.57	$ 0.46
Dividends per share	$ 0.10	$ 0.10

See accompanying notes to condensed consolidated financial statements.

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

	For the Six Months Ended July 1, 2006	July 2, 2005
	(In thousands, except per share data)	
Net sales	$ 1,330,702	$ 812,169
Cost of goods sold	1,094,107	679,687
Gross profit	236,595	132,482
Depreciation and amortization	20,571	20,489
Selling, general, and administrative expense	74,648	59,491
Operating income	141,376	52,502
Interest expense	(10,076)	(9,936)
Other (expense) income, net	1,946	4,767
Income before income taxes	133,246	47,333
Current income tax expense	(46,077)	(15,981)
Deferred income tax benefit	4,946	1,039
Total income tax expense	(41,131)	(14,942)
Net income	$ 92,115	$ 32,391

See accompanying notes to condensed consolidated financial statements.

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

For the Six Months Ended

	July 1, 2006	July 2, 2005
	(In thousands, except per share data)	
Weighted average shares for basic earnings per share	36,791	36,552
Effect of dilutive stock options	405	556
Adjusted weighted average shares for diluted earnings per share	37,196	37,108
Basic earnings per share	$ 2.50	$ 0.89
Diluted earnings per share	$ 2.48	$ 0.87
Dividends per share	$ 0.20	$ 0.20

See accompanying notes to condensed consolidated financial statements.

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

	July 1, 2006	December 31, 2005
	(In thousands)	

Assets		
Current assets:		
Cash and cash equivalents	$ 138,887	$ 129,685
Accounts receivable, less allowance for doubtful accounts of $7,595 in 2006 and $5,778 in 2005	408,666	248,395
Inventories:		
Raw material and supplies	58,307	42,268
Work-in-process	37,711	24,610
Finished goods	152,650	130,109
Total inventories	248,668	196,987
Other current assets	40,308	36,919
Total current assets	836,529	611,986
Property, plant, and equipment, net	313,248	307,046
Goodwill	152,175	152,171
Other assets	17,549	33,435
	$ 1,319,501	$ 1,104,638

See accompanying notes to condensed consolidated financial statements.

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

	July 1, 2006	December 31, 2005
	(In thousands, except share data)	
Liabilities and Stockholders' Equity		
Current liabilities:		

Current portion of long-term debt	$ 26,961	$ 4,120
Accounts payable	206,171	124,216
Accrued wages and other employee costs	36,980	38,095
Other current liabilities	95,088	84,961
Total current liabilities	365,200	251,392
Long-term debt	308,483	312,070
Pension liabilities	22,702	21,721
Postretirement liabilities other than pensions	13,132	13,515
Environmental reserves	8,997	9,073
Deferred income taxes	51,341	63,944
Other noncurrent liabilities	2,884	3,078
Total liabilities	772,739	674,793
Minority interest in subsidiaries	21,017	6,937
Stockholders' equity:		
Preferred stock - shares authorized 4,985,000; none outstanding	-	-
Series A junior participating preferred stock - $1.00 par value; shares authorized 15,000; none outstanding	-	-
Common stock - $.01 par value; shares authorized 100,000,000; issued 40,091,502; outstanding 36,946,768 in 2006 and 36,643,590 in 2005	401	401
Additional paid-in capital, common	254,177	252,889
Retained earnings	338,174	253,433
Accumulated other comprehensive income (loss)	1,471	(8,848)
Treasury common stock, at cost	(68,478)	(74,967)
Total stockholders' equity	525,745	422,908
Commitments and contingencies (Note 2)	-	-
	$ 1,319,501	$ 1,104,638

See accompanying notes to condensed consolidated financial statements.

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

	For the Six Months Ended July 1, 2006	July 2, 2005
	(In thousands)	
Cash flows from operating activities		
Net income	$ 92,115	$ 32,391

Reconciliation of net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	20,719	20,568
Deferred income taxes	(4,946)	(1,039)
Minority interest in subsidiaries	1,805	7
Share-based compensation expense	1,308	-
Equity in earnings of unconsolidated subsidiary	(964)	(3,471)
Gain on early retirement of debt	(97)	-
Loss on disposal of properties	1,905	457
Gain on sale of equity investment	(1,876)	-
Income tax benefit from exercise of stock options	(1,042)	529
Changes in assets and liabilities:		
Receivables	(162,602)	(30,347)
Inventories	(51,127)	(3,823)
Other assets	(4,642)	(1,305)
Current liabilities	93,754	20,058
Other liabilities	4,439	161
Other, net	(3,657)	304
Net cash (used in) provided by operating activities	(14,908)	34,490
Cash flows from investing activities		
Capital expenditures	(20,918)	(8,876)
Business acquired, net of cash received	3,632	-
Proceeds from sales of properties and equity investment	23,218	559
Net cash provided by (used in) investing activities	5,932	(8,317)

See accompanying notes to condensed consolidated financial statements.

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

	For the Six Months Ended July 1, 2006	July 2, 2005
	(In thousands)	
Cash flows from financing activities		
Issuance of debt by joint venture	$ 22,425	$ -
Dividends paid	(7,373)	(7,320)
Proceeds from the sale of		

treasury stock	5,823	3,911
Repayments of long-term debt	(3,413)	(396)
Income tax benefit from exercise of stock options	1,042	-
Acquisition of treasury stock	(396)	(168)
Net cash provided by (used in) financing activities	18,108	(3,973)
Effect of exchange rate changes on cash	70	(509)
Increase in cash and cash equivalents	9,202	21,691
Cash and cash equivalents at the beginning of the period	129,685	47,449
Cash and cash equivalents at the end of the period	$ 138,887	$ 69,140

See accompanying notes to condensed consolidated financial statements.

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

General

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

The accompanying unaudited interim financial statements include all normal recurring adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. The six-month period ended July 1, 2006 contained 26 weeks while the six-month period ended July 2, 2005 contained 27 weeks.

Note 1 - Earnings per Common Share and Stock-Based Compensation

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

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (R), "Share-Based Payment", and began recognizing compensation expense in its Condensed Consolidated Statements of Income as a selling, general, and administrative expense, for its stock option grants based on the fair value of the awards. Prior to January 1, 2006, the Company accounted for stock option grants under the recognition and measurement provisions of APB Opinion 25, "Accounting for Stock Issued to Employees", and related Interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation". No stock-based compensation expense was reflected in net income prior to adopting SFAS 123 (R) as all options were granted at an exercise price equal to the market value of the underlying common stock on the date of grant. SFAS 123 (R) was adopted using the modified prospective transition method. Under this transition method, compensation cost recognized in the periods after adoption includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Results from prior periods have not been restated. As a result of adopting SFAS 123 (R), the Company's income before income taxes and net income was decreased by $0.7 million and $0.5 million, respectively, for the second quarter of 2006 and $1.3 million and $1.0 million, respectively, for the first six months of 2006.

-11-

Prior to the adoption of SFAS 123 (R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS 123 (R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. The $1.0 million tax benefit classified as a financing cash inflow in the first six months of 2006 would have been classified as an operating cash flow under previous guidance.

The following table illustrates the pro forma effect on the prior year's net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company's stock option plans. For purposes of this pro forma disclosure, the value to the options is estimated using a Black-Scholes-Merton option pricing model and amortized to expense over the options' vesting period.

	For the Quarter Ended July 2, 2005	For the Six Months Ended July 2, 2005
	(In thousands, except per share data)	
Net income as reported	$ 17,183	$ 32,391
Deduct: Total stock-based compensation expense determined under a fair value based method, net of related tax effects	(691)	(1,225)
SFAS No. 123 pro forma net income	$ 16,492	$ 31,166
Pro forma earnings per share:		
Basic	$ 0.45	$ 0.85
Diluted	$ 0.44	$ 0.84
Earnings per share, as reported:		
Basic	$ 0.47	$ 0.89
Diluted	$ 0.46	$ 0.87

Under existing plans, the Company may grant options to purchase shares of common stock at prices not less than the fair market value of the stock on the date of grant. Generally, the options vest annually in equal increments over a five-year period beginning one year from the date of grant. Any unexercised options expire after not more than ten years. The fair value of each grant is estimated as a single award and amortized into compensation expense on a straight-line basis over its vesting period.

The Company estimates the fair value of all stock option awards as of the grant date by applying the Black-Scholes-Merton option pricing model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, and exercise price. Additionally under SFAS 123 (R), forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The forfeiture rate, which is estimated at a weighted average of 3.5 percent of unvested options outstanding as of July 1, 2006, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. Under SFAS 123 and APB 25, the Company elected to account for forfeitures when awards were actually forfeited and reflected the forfeitures as a cumulative adjustment to the pro forma expense.

In accordance with SFAS 123 (R), the fair values of options granted prior to adoption and determined for purposes of disclosure under SFAS 123 have not been changed. The fair value of options granted prior to adoption of SFAS 123 (R), of which a portion is unvested, was estimated assuming the following weighted averages: expected life of six years, dividend yield of 1.3 percent for grants in 2005 and 2004 (no dividend payments prior to 2004), risk-free interest rate of 3.8 percent, and expected volatility of 30.6 percent.

The Company generally issues treasury shares when options are exercised. A summary of stock option activity since our most recent fiscal year end is as follows:

	Options (Shares in thousands)	Weighted Average Exercise Price
Outstanding at December 31, 2005	1,912	$ 21.49
Granted	10	34.46
Exercised	(317)	18.43
Cancelled	(6)	26.27
Outstanding at July 1, 2006	1,599	20.20

At July 1, 2006, the aggregate intrinsic value of all outstanding options was $21.6 million with a weighted average remaining contractual term of 6.8 years, of which 758,714 of the outstanding options are currently exercisable with an aggregate intrinsic value of $11.8 million, a weighted average exercise price of $20.20 and a weighted average remaining contractual term of 5.7 years. The total intrinsic value of options exercised during the quarter and six months ended July 1, 2006 was $1.3 million and $4.0 million, respectively. Shares available for future employee grants were approximately 1.0 million at July 1, 2006. The total compensation cost at July 1, 2006 related to non-vested awards not yet recognized was $5.4 million with an average expense recognition period of 3.0 years.

Under the Company's 1994 Non-Employee Director Stock Option Plan, each member of the Company's Board of Directors who is neither an employee nor an officer of the Company is automatically granted each year on the date of the Company's Annual Meeting of Stockholders', without further action by the Board, an option to purchase 2,000 shares of Common Stock at the fair market value of the Common Stock on the date the option is granted. As of July 1, 2006, options to purchase 54,232 shares of Common Stock were outstanding under this Plan and 21,588 options are available under the Plan for future issuance.

On February 16, 2006, the Board approved an amendment and restatement of the 2002 Stock Option Plan which, among other things, would increase the number of shares available for issuance by 1.0 million shares. The amendment and restatement was approved by the Company's stockholders at the Annual Meeting held on May 4, 2006.

Note 2 - Commitments and Contingencies

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

Beginning in September 2004, the Company has been named as a defendant in several purported class action complaints brought by direct and indirect purchasers alleging anticompetitive activities with respect to the sale of copper tubes in the United States (the Copper Tube Actions). Two such purported class actions were filed in the United States District Court for the Western District of Tennessee (the Federal Actions). The remaining Copper Tube Actions were filed in state courts in Tennessee, California and Massachusetts.

Certain of the Copper Tube Actions purport to address the sale of copper plumbing tube in particular. Plaintiffs' motions to consolidate the Federal Actions and the actions pending in California state court, respectively, have been granted. All of the Copper Tube Actions, which are similar, seek monetary and other relief.

Wholly owned Company subsidiaries, WTC Holding Company, Inc., Deno Holding Company, Inc., and Mueller Europe Ltd. (Mueller Europe), are named in all of the Copper Tube Actions, and Deno Acquisition Eurl is named in two of the Copper Tube Actions. The claims against WTC Holding Company, Inc. and Deno Holding Company Inc. have been dismissed without prejudice in the Copper Tube Actions pending in California and Massachusetts state court.

Motions to dismiss the Federal Actions for failure to state a claim have been denied as to WTC Holding Company, Inc., Deno Holding Company, Inc. and the Company. Mueller Europe's motion to dismiss the Federal Actions for lack of personal jurisdiction and on other grounds is pending. The Company's demurrer to the complaint and the Company's motion to dismiss for failure to state a claim are pending in the state court actions filed in California and Tennessee, respectively. The Company has not yet been required to respond to the complaint in the action pending in Massachusetts state court. Mueller Europe has not yet been required to respond to the complaints in any of the state court actions pending in Tennessee, California or Massachusetts.

The Company believes that the claims for relief in the Copper Tube Actions are without merit and intends to defend the Copper Tube Actions vigorously.

In March 2006, the Company and Mueller Europe were named in a complaint brought by Carrier Corporation, Carrier S.A., and Carrier Italia S.p.A. alleging anticompetitive activities with respect to the sale of copper tubes used in the manufacturing of air-conditioning and refrigeration units (ACR copper tubes) in the United States and elsewhere (the Carrier Action). The Carrier Action was filed in United States District Court for the Western District of Tennessee. Neither the Company nor Mueller Europe has yet been required to respond to the complaint in the Carrier Action.

In addition, beginning in April 2006, the Company has been named as a defendant in several purported class actions lawsuits brought by direct and indirect purchasers also alleging anticompetitive activities with respect to the sale of ACR copper tubes in the United States and elsewhere (the ACR Class Actions, and with the Carrier Action, the ACR Actions). Mueller Europe is named in all of the ACR Class Actions. One of the ACR Class Actions was filed in United States District Court for the Northern District of California, while the remaining ACR Class Actions were filed in the United States District Court for the Western District of Tennessee. Plaintiffs' motion to consolidate the ACR Class Actions brought by direct purchasers in the Western District of Tennessee has been granted. All of the ACR Actions seek monetary and other relief. Neither the Company nor Mueller Europe has yet been required to respond to the complaints in any of the ACR Class Actions.

The Company believes that the claims for relief in the ACR Actions are without merit and intends to defend the ACR Actions vigorously.

Two of the Company's subsidiaries, Mueller Copper Tube Products Inc. and Mueller Copper Tube Company Inc., brought a lawsuit (the Price Manipulation Action) against J.P. Morgan Chase & Co. and Morgan Guaranty Trust Company of New York (collectively Morgan) to recover damages the Company believes it suffered on first purchases of copper cathode resulting from an alleged conspiracy to manipulate the price of copper cathode by Morgan (and certain of its predecessors and affiliates) and others in violation of the federal antitrust laws. The lawsuit was filed on June 12, 2003, in the U.S. District Court for the Western District of Wisconsin. The Company's lawsuit was consolidated with those of certain

other first purchasers of copper cathode and rod under the name In re Copper Antitrust Litigation. Although the Price Manipulation Action was dismissed by the district court on March 2, 2004, as barred by the statute of limitations, the U.S. Court of Appeals for the Seventh Circuit, on February 6, 2006, reversed the district court's decision in part and remanded the Price Manipulation Action for further proceedings in the district court. Although the Company is unable to predict the likely outcome of the Price Manipulation Action at this time, the Company is prosecuting the case vigorously, and intends to continue to do so in the future.

In June 2006, the Canada Border Services Agency (CBSA) initiated an investigation into the alleged dumping of copper pipe fittings from the United States and from South Korea and the dumping and subsidizing of these same goods from China. The Company and certain affiliated companies were identified by the CBSA as possible U.S. exporters and importers of these goods and requested to provide information to Canadian authorities. The Company is responding to the CBSA's requests for information regarding the investigation.

The Company is aware of investigations of competition in markets in which it participates, or has participated in the past, in Europe and Canada. On September 22, 2005, the European Commission adopted a statement alleging infringements in Europe of competition rules by manufacturers of copper fittings and related companies, including the

Company, WTC Holding Company, Inc., and Mueller Europe, for activities undertaken in Europe. The Company took the lead in bringing these issues to the attention of the European Commission and has fully cooperated in the resulting investigation from its inception. The Company does not anticipate any material adverse effect on its business or financial condition as a result of the matters discussed in this paragraph.

The Company has assessed its risk and provided estimated accruals for various potential tax matters in a number of jurisdictions. Although the ultimate amount of the liabilities, if any, may vary, the Company believes it has adequate reserves for its assessed risk.

Guarantees, in the form of letters of credit, are issued by the Company generally to guarantee the payment of insurance deductibles, retiree health benefits, and certain operating costs of a foreign subsidiary. The terms of the Company's guarantees are generally one year but are renewable annually as required. The maximum potential amount of future payments the Company could have been required to make under its guarantees at July 1, 2006 was $18.9 million.

Note 3 - Acquisitions and Investments

In December 2005, two subsidiaries of the Company received a business license from a Chinese industry and commerce authority, establishing a joint venture with Jiangsu Xingrong Hi-Tech Co., Ltd. and Jiangsu Baiyang Industries Ltd. The joint venture, in which the Company holds a 50.5 percent interest, produces inner groove and smooth tube in level-wound coils, pancake coils, and straight lengths, primarily to serve the Chinese domestic OEM air-conditioning market as well as to complement the Company's U.S. product line. The joint venture is located primarily in Jintan City, Jiangsu Province, China. The joint venture entity is named Jiangsu Mueller-Xingrong Copper Industries Limited (Mueller-Xingrong). In December 2005, the Company contributed $7.0 million cash investment to the venture. During the first quarter of 2006 the Company contributed an additional $12.4 million, which completed its initial planned cash investment. Non-cash contributions from the other joint venture parties included long-lived assets of approximately $5.3 million in December 2005 and $8.5 million during the first quarter of 2006. The results of operations of this joint venture are reported in the OEM segment and are included in the Company's Condensed Consolidated Financial Statements from January 1, 2006.

During the first quarter of 2006, Mueller-Xingrong had a temporary Bridge Loan Facility with two banks providing for secured borrowings of up to RMB 110 million, or $13.7 million USD, to fund working capital. On April 4, 2006, Mueller-Xingrong entered into a Credit Agreement with a syndicate of four banks establishing a secured RMB 320 million, or

$39.9 million USD, revolving working capital credit facility (the JV Credit Facility) which matures in April 2007. Proceeds from the JV Credit Facility were used to pay-off amounts outstanding under the Bridge Loan Facility. Borrowings under the JV Credit Facility are secured by the real property and equipment of Mueller-Xingrong and bear interest at 98 percent of the latest base-lending rate published by the Peoples Bank of China (currently 5.2 percent).

On August 15, 2005, the Company acquired 100 percent of the outstanding stock of KX Group LTD (Brassware). Brassware, located in Witton, Birmingham, England, is an import distributor of plumbing and residential heating products with historical annual sales of approximately $48.0 million to plumbers' merchants and builders' merchants in the U.K. and Ireland. The cost of the acquired business, including cash of $10.6 million plus $1.8 million of notes issued, totaled $12.4 million. The total estimated fair value of assets acquired was approximately $17.6 million, consisting primarily of receivables of $8.4 million, inventory of $6.4 million and property and equipment of $1.5 million. The total estimated fair value of liabilities assumed was approximately $16.4 million, consisting primarily of notes payable of $8.3 million and trade payables and other current liabilities of $8.1 million. The excess of the purchase price over the estimated fair value of assets acquired and liabilities assumed of $11.2 million was allocated to goodwill of the Plumbing & Refrigeration segment. This acquisition will broaden the Company's product line in the U.K. The acquisition was accounted for using the purchase method of accounting. Therefore, the results of operations of

the acquired business were included in the Company's Condensed Consolidated Financial Statements from its acquisition date. The purchase price, which was financed by available cash balances, has been allocated to the assets of the acquired business based on their respective fair market values.

In April 2006, the Company sold its approximately 38 percent interest in Conbraco Industries, Inc. which had a net book value of approximately $21.1 million. Aggregate cash proceeds from the sale were approximately $23.0 million. This transaction resulted in a pre-tax gain of approximately $1.9 million.

Note 4 - Industry Segments

The Company's businesses are aggregated into two reportable segments: the Plumbing & Refrigeration segment and the OEM segment. Prior to the fourth quarter of 2005, the Company disclosed its reportable segments as Standard Products and Industrial Products. Additional operating segments have been recognized following an internal reorganization in 2005. For disclosure purposes, as permitted under SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information", certain operating segments are aggregated into reportable segments. The Plumbing & Refrigeration segment is composed of the Standard Products Division (SPD), the Trading Group, and European Operations. The OEM segment is composed of the Industrial Products Division (IPD) and the Engineered Products Division (EPD). These reportable segments are described in more detail below. SPD manufactures and sells copper tube, copper and plastic fittings, and valves in North America. European Operations manufactures copper tube in Europe, which is sold in Europe and the Middle East; activities also include import distribution. The Trading Group sources products for import distribution in North America. The Plumbing & Refrigeration segment sells products to wholesalers in the HVAC (heating, ventilation, and air-conditioning), plumbing, and refrigeration markets, to distributors to the manufactured housing and recreational vehicle industries, and to building material retailers. The OEM segment, through IPD, manufactures and sells brass and copper alloy rod, bar, and shapes; aluminum and brass forgings; and aluminum and copper impact extrusions; and through EPD, manufactures and sells refrigeration valves and fittings; fabricated tubular products; gas valves and assemblies; and commercial copper tube. The OEM segment sells its products primarily to original equipment manufacturers (OEMs), many of which are in the HVAC, plumbing, and refrigeration markets in the U.S., Mexico, and China.

-18-

Summarized segment information is as follows:

	For the Quarter Ended	
	July 1, 2006	July 2, 2005
	(In thousands)	
Net sales:		
Plumbing & Refrigeration	$ 551,158	$ 302,435
OEM	242,128	110,958
Elimination of intersegment sales	(13,623)	(2,887)
	$ 779,663	$ 410,506
Operating income:		
Plumbing & Refrigeration	$ 78,328	$ 23,150
OEM	21,511	7,306
Unallocated expenses	(7,279)	(5,160)
	$ 92,560	$ 25,296
Income before income taxes:		
Plumbing & Refrigeration	$ 77,419	$ 23,260
OEM	19,029	7,339
Unallocated expenses	(9,169)	(6,082)

	$ 87,279	$ 24,517

	For the Six Months Ended July 1, 2006	July 2, 2005
	(In thousands)	
Net sales:		
Plumbing & Refrigeration	$ 938,099	$ 596,332
OEM	410,100	222,283
Elimination of intersegment sales	(17,497)	(6,446)
	$ 1,330,702	$ 812,169
Operating income:		
Plumbing & Refrigeration	$ 122,521	$ 47,777
OEM	32,464	13,840
Unallocated expenses	(13,609)	(9,115)
	$ 141,376	$ 52,502
Income before income taxes:		
Plumbing & Refrigeration	$ 121,946	$ 48,142
OEM	29,584	13,888
Unallocated expenses	(18,284)	(14,697)
	$ 133,246	$ 47,333

	July 1, 2006	December 31, 2005
	(In thousands)	
Segment assets:		
Plumbing & Refrigeration	$ 816,915	$ 718,484
OEM	293,961	197,697
General corporate	208,625	188,457
	$ 1,319,501	$ 1,104,638

Operating income and income before income taxes for the OEM segment was reduced by a $3.9 million impairment charge during the six months ended July 2, 2005. The quarter and six month period ended July 1, 2006, includes the acquired operations of Brassware in the Plumbing & Refrigeration segment and Mueller-Xingrong in the OEM segment.

Note 5 - Comprehensive Income

Comprehensive income is as follows:

	For the Quarter Ended July 1, 2006	July 2, 2005
	(In thousands)	
Comprehensive income:		
Net income	$ 58,750	$ 17,183
Other comprehensive income (loss):		
Foreign currency translation	5,645	(3,427)
Minimum pension liability	4,315	-
Change in the fair value of derivatives	(53)	(36)
	$ 68,657	$ 13,720

	For the Six Months Ended July 1, 2006	July 2, 2005
	(In thousands)	
Comprehensive income:		
Net income	$ 92,115	$ 32,391
Other comprehensive income (loss):		
Foreign currency translation	5,901	(5,734)

Minimum pension liability	4,315	-
Change in the fair value of derivatives	103	92
	$ 102,434	$ 26,749

The change in cumulative foreign currency translation adjustment primarily relates to the Company's investment in its U.K. and Mexican subsidiaries and fluctuations in exchange rates between their local currencies and the U.S. dollar. During the first six months of 2006, the value of the British pound sterling increased 7.3 percent compared to the U.S. dollar and the value of the Mexican peso decreased 5.5 percent compared to the U.S. dollar.

Note 6 - Employee Benefits

The Company sponsors several qualified and nonqualified pension plans and other postretirement benefit plans for certain of its employees. The net periodic benefit (income) cost is based on estimated values provided by independent actuaries. The components of net periodic benefit (income) cost are as follows:

	For the Quarter Ended	
	July 1, 2006	July 2, 2005
	(In thousands)	
Pension benefits:		
Service cost	$ 422	$ 555
Interest cost	1,861	2,061
Expected return on plan assets	(2,241)	(2,613)
Amortization of prior service cost	93	98
Amortization of net (gain) loss	106	(159)
Net periodic benefit (income) cost	$ 241	$ (58)
Other benefits:		
Service cost	$ 2	$ 1
Interest cost	160	162
Amortization of prior service cost	2	(2)
Amortization of net loss	32	36
Net periodic benefit cost	$ 196	$ 197

	For the Six Months Ended July 1, 2006	July 2, 2005
	(In thousands)	
Pension benefits:		
Service cost	$ 949	$ 1,109
Interest cost	3,884	4,124
Expected return on plan assets	(4,849)	(4,937)
Amortization of prior service cost	186	187
Amortization of net (gain) loss	418	(279)
Net periodic benefit (income) cost	$ 588	$ 204
Other benefits:		
Service cost	$ 4	$ 2
Interest cost	318	324
Amortization of prior service cost	4	(4)
Amortization of net loss	65	72
Net periodic benefit cost	$ 391	$ 394

The Company anticipates contributions to its pension plans for 2006 to be approximately $2.4 million. During the first six months of 2006, approximately $1.2 million of contributions have been made to certain pension plans.

Note 7 - Environmental Reserves

The Company is subject to normal environmental standards imposed by federal, state, local, and foreign environmental laws and regulations. At July 1, 2006, the Company had $9.0 million reserved for environmental remediation, post-closure monitoring, and related obligations. The Company periodically reassesses these amounts and estimates its obligations over the foreseeable future based upon results of ongoing remediation and monitoring programs, communications with regulatory agencies, and changes in environmental law. While additional costs are possible, the Company believes that its reserve is adequate and amounts beyond that are not reasonably estimable. Costs of estimated future expenditures for environmental remediation obligations are not discounted to their present value. Accrued environmental liabilities are not reduced by potential insurance reimbursements. Based upon information currently available, management believes that the outcome of pending environmental matters will not materially affect the overall financial position and results of operations of the Company.

Note 8 - Income Taxes

The Company's effective tax rate for the second quarter of 2006 was 32.7 percent compared with 29.9 percent for the same period of last year. The current period rate was less than the expected federal rate due primarily to reductions to valuation allowances related to the U.K. net operating loss carryforwards of approximately $1.0 million, or $0.03 per diluted share, recognition of a benefit from U.S. manufacturer's deduction of $0.4 million, and recognition of a benefit of a foreign tax holiday of approximately $1.0 million.

The Company's effective tax rate for the first six months of 2006 was 30.9 percent compared with 31.6 percent for the same period of last year. The current period rate was less than the expected federal rate due primarily to reductions to valuation allowances related to the U.K. net operating loss carryforwards of approximately $3.0 million, or $0.08 per diluted share, recognition of a benefit from U.S. manufacturer's deduction of $0.7 million, recognition of a benefit of a foreign tax holiday of approximately $1.0 million, and recognition of approximately $0.8 million benefit from the favorable resolution of an Internal Revenue Service audit of tax returns filed for 2002 and 2003.

Note 9 - Other (expense) income, net

	For the Quarter Ended	
	July 1, 2006	July 2, 2005
	(In thousands)	
Interest income	$ 1,003	$ 319
Gain on sale of equity investment	1,876	-
Equity in earnings of unconsolidated subsidiary	-	3,205
Gain on early retirement of debt	97	-
Environmental expense	(140)	(145)
Minority interest in income of subsidiaries	(1,412)	(7)
Loss on disposal of properties, net	(2,026)	(364)

Rent, royalties, and other	535	965
	$ (67)	$ 3,973

	For the Six Months Ended July 1, 2006	July 2, 2005
	(In thousands)	
Interest income	$ 1,963	$ 705
Gain on sale of equity investment	1,876	-
Equity in earnings of unconsolidated subsidiary	964	3,471
Gain on early retirement of debt	97	-
Environmental expense	(265)	(290)
Minority interest in income of subsidiaries	(1,805)	(7)
Loss on disposal of properties, net	(1,905)	(457)
Rent, royalties, and other	1,021	1,345
	$ 1,946	$ 4,767

Note 10 - Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not yet completed the process of evaluating what effect, if any, the adoption of FIN 48 will have on its consolidated statements of income or financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General Overview

The Company is a leading manufacturer of copper, brass, plastic, and aluminum products. The range of these products is broad: copper tube and fittings; brass and copper alloy rod, bar, and shapes; aluminum and brass forgings; aluminum and copper impact extrusions; plastic fittings and valves; refrigeration valves and fittings; and fabricated tubular products. The Company also resells imported brass and plastic plumbing valves, malleable iron fittings, steel nipples, faucets and plumbing specialty products. The Company's operations are located throughout the United States, and in Canada, Mexico, Great Britain, and China.

The Company's businesses are aggregated into two reportable segments: the Plumbing & Refrigeration segment and the OEM segment. Prior to the first quarter of 2005, the Company disclosed its reportable segments as Standard Products and Industrial Products. Additional operating segments have been recognized following an internal reorganization in 2005. For disclosure purposes, as permitted under SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information, certain operating segments are aggregated into reportable segments. The Plumbing & Refrigeration segment is composed of the Standard Products Division (SPD), the Trading Group, and European Operations. The OEM segment is composed of the Industrial Products Division (IPD) and the Engineered Products Division (EPD). These reportable segments are described in more detail below. SPD manufactures and sells copper tube, copper and plastic fittings, and valves in North America. European Operations manufactures copper tube in Europe, which is sold in Europe and the Middle East; activities also include import distribution. The Trading Group sources products for import distribution in North America. The Plumbing & Refrigeration segment sells products to wholesalers in the HVAC (heating, ventilation, and air-conditioning), plumbing, and refrigeration markets, to distributors to the manufactured housing and recreational vehicle industries, and to building material retailers. The OEM segment, through IPD, manufactures and sells brass and copper alloy rod, bar, and shapes; aluminum and brass forgings; and aluminum and copper impact extrusions; and through EPD, manufactures and sells refrigeration valves and fittings; fabricated tubular products; gas valves and assemblies; and commercial copper tube. The OEM segment sells its products primarily to original equipment manufacturers (OEMs), many of which are in the HVAC, plumbing, and refrigeration markets in the U.S., Mexico, and China.

New housing starts and commercial construction are important determinants of the Company's sales to the HVAC, refrigeration, and plumbing markets because the principal end use of a significant portion of the Company's products is in the construction of single and multi-family housing and commercial buildings. Repairs and remodeling projects are also important drivers of underlying demand for these products.

Profitability of certain of the Company's product lines depends upon the "spreads" between the cost of raw material and the selling prices of its completed products. The open market prices for copper cathode and scrap, for example, influence the selling price of copper tubing, a principal product manufactured by the Company. The Company attempts to minimize the effects on profitability from fluctuations in material costs by passing through these costs to its customers. The Company's earnings and cash flow are dependent upon these spreads that fluctuate based upon market conditions.

Earnings and profitability are also subject to market trends such as substitute products and imports. Plastic plumbing systems are the primary substitute product; these products represent an increasing share of consumption. Imports of copper tubing from Mexico have increased in recent years, although U.S. consumption is still predominantly supplied by U.S. manufacturers. The six-month period ended July 1, 2006 contained 26 weeks while the six-month period ended July 2, 2005 contained 27 weeks.

Results of Operations

During the second quarter of 2006, the Company's net sales were $779.7 million, which compares with net sales of $410.5 million over the same period of 2005. Net sales were $1.33 billion in the first half of 2006 compared with $812.2 million in the same period of 2005. The increase in net sales is attributable to higher selling prices, increased volumes and acquired businesses. The average price of copper was approximately 88 percent higher in the first half of 2006 compared with the same period of 2005. Businesses acquired in late 2005 contributed $92.3 million of sales in the first half of 2006.

Cost of goods sold increased from $345.7 million in the second quarter of 2005 to $637.0 million in the same period of 2006. Cost of goods sold for the six months ended July 1, 2006 was $1.09 billion compared with $679.7 million for the first six months of 2005. The current year increase was attributable to higher material costs and increased volume. Gross profit increased to $142.6 million from $64.8 million in the second quarter and increased to $236.6 million from $132.5 for the six-month period due primarily to higher margins on copper tube, European operations, and Brass rod. The impact of rising raw material costs also significantly contributed to the gross profit improvement. Inventories valued using the LIFO method totaled $26.9 million at July 1, 2006 and $33.5 million at December 31, 2005. At July 1, 2006 and December 31, 2005, the approximate FIFO cost of such inventories was $124.2 million and $87.7 million, respectively. During the first six months of 2006, inventory quantities valued using the LIFO method declined. The Company expects to replenish these LIFO inventories during 2006 and as such, has not recognized the effect of liquidating LIFO layers.

Selling, general, and administrative expense was $39.7 million for the second quarter of 2006 compared with $29.1 million for the same period of 2005. Year-to-date selling, general, and administrative expense was $74.6 million for 2006 compared with $59.5 million for the same period of 2005. The increase for the quarter and six months was primarily due to businesses acquired in second half of 2005 and increased incentive compensation including stock-based compensation.

For the second quarter of 2006, operating income at the Plumbing & Refrigeration segment was $78.3 million, which compares with $23.2 million in the same period of 2005. Year-to-date, 2006 operating income at the Plumbing & Refrigeration segment was $122.5 million, which compares with $47.8 million in the same period of 2005. The second quarter and six month increase are primarily attributable to better margins from copper tube, plastic fittings, and European operations including contributions from acquired businesses.

Operating income at the OEM segment was $21.5 million in the second quarter of 2006 compared with $7.3 million in the second quarter of 2005. Year-to-date, 2006 operating income at the OEM segment was $32.5 million, which compares with $13.8 million in the same period of 2005. Improved profitability in the second quarter and first half of 2006 was due to (i) higher volumes in the brass rod business, (ii) contributions from Mueller-Xingrong, which reported total operating income of $3.3 million for the quarter and $4.1 million for the first half of 2006, and (iii) improvements in other product lines. Operating income for the first half of 2005 was reduced by a $3.9 million impairment charge.

Interest expense for the second quarter of 2006 totaled $5.2 million, compared with $4.8 million for the same period of 2005. For the first half of 2006, interest expense was $10.1 million compared with $9.9 million for the same period of 2005. The increase in the second quarter and first half of 2006 is primarily attributable to increased borrowings at Mueller-Xingrong.

Other (expense) income, net was $1.9 million for the first half of 2006 compared with $4.8 million for the same period of 2005. The current year decrease is primarily due to a decrease in earnings from unconsolidated subsidiary and elimination of minority interest in Mueller-Xingrong. In April 2006, the Company sold its approximately 38 percent interest in Conbraco Industries, Inc. which had a net book value of approximately $21.1 million. This transaction resulted in a pre-tax gain of approximately $1.9 million. Aggregate cash proceeds from the sale were approximately $23.0 million.

The Company's effective tax rate for the first six months of 2006 was 30.9 percent compared with 31.6 percent for the same period of last year. The current period rate was less than the expected federal rate due primarily to reductions to valuation allowances related to the U.K. net operating loss carryforwards of approximately $3.0 million, or $0.08 per diluted share, recognition of a benefit from a U.S. manufacturer's deduction of $0.7 million, recognition of a benefit of a foreign tax holiday of approximately $1.0 million, and recognition of approximately $0.8 million benefit from the favorable resolution of an Internal Revenue Service audit of tax returns filed for 2002 and 2003. The Company's effective tax rate for the second quarter of 2006 was 32.7 percent compared with 29.9 percent for the same period of last year.

The current period rate was less than the expected federal rate due primarily to reductions to valuation allowances primarily related to the U.K. net operating loss carryforwards of approximately $1.0 million, or $0.03 per diluted share, recognition of a benefit from U.S. manufacturer's deduction of $0.4 million, and recognition of a benefit of a foreign tax holiday of approximately $1.0 million.

Liquidity and Capital Resources

Cash used in operating activities during the first half of 2006 totaled $14.9 million, which is primarily attributable to increased receivables of $162.6 million and increased inventories of $51.1 million, offset primarily by net income of $92.1 million, depreciation and amortization of $20.7 million, and increased current liabilities of $93.8 million. Fluctuations in the cost of copper and other raw materials affect the Company's liquidity. Changes in material costs directly impact components of working capital, primarily inventories and accounts receivable. During the first half of 2006, the average COMEX copper price was approximately $2.81 per pound, which represents an 88 percent increase over the average price during the first half of 2005. This rise in the price of cathode has also resulted in sharp increases in the open market price for copper scrap and, to a lesser extent, the price of brass scrap.

During the first half of 2006, cash provided by investing activities was $5.9 million, consisting primarily of $23.2 million proceeds from the sale of properties including the equity interest in Conbraco Industries, Inc. partially offset by capital expenditures totaling $20.9 million. Cash provided by financing activities totaled $18.1 million for the first half of 2006 consisting primarily of issuance of debt to fund working capital of Mueller-Xingrong of $22.4 million and proceeds from the sale of treasury stock of $5.8 million, partially offset by payment of dividends of $7.4 million. Repayments of long-term debt totaled $3.4 million for the first half of 2006 which included $1.8 million of the Company's 6% Subordinated Debentures.

The Company has a $150 million unsecured line-of-credit (Credit Facility) which expires in November 2007. At July 1, 2006, there were no outstanding borrowings under the Credit Facility. Approximately $18.8 million in letters of credit were backed by the Credit Facility at the end of the quarter. At July 1, 2006, the Company's total debt was $335.4 million or 39 percent of its total capitalization.

Covenants contained in the Company's financing obligations require, among other things, the maintenance of minimum levels of working capital, tangible net worth, and debt service coverage ratios. At July 1, 2006, the Company was in compliance with all of its debt covenants.

The Company declared and paid a regular quarterly cash dividend of ten cents per common share in the first and second quarters of 2006 and 2005. Payment of dividends in the future is dependent upon the Company's financial condition, cash flows, capital requirements, earnings, and other factors. On May 1, 2006, the Company made its semi-annual interest payment of approximately $9.0 million on its 6% Subordinated Debentures.

Management believes that cash provided by operations and currently available cash of $138.9 million will be adequate to meet the Company's normal future capital expenditures and operational needs. The Company's current ratio was 2.3 to 1 at July 1, 2006.

The Company's Board of Directors has authorized the repurchase until October 2006 of up to ten million shares of the Company's common stock through open market transactions or through privately negotiated transactions. The Company has no obligation to purchase any shares and may cancel, suspend, or extend the time period for the purchase of shares at any time. The Company may hold any shares purchased in treasury or use a portion of the repurchased shares for employee benefit plans, as well as for other corporate purposes. Through July 1, 2006, the Company has repurchased approximately 2.4 million shares under this authorization. Additionally, the Company may repurchase its outstanding 6% Subordinated Debentures through open market transactions. Purchases of those securities, if any, will be funded primarily through existing cash and cash from operations.

There have been no significant changes in the Company's contractual cash obligations reported at December 31, 2005, except the following. At December 31, 2005 the Company reported contractual supply commitments for raw materials consumed in the ordinary course of business totaling $327.3 million or $2.05 per pound. At July 1, 2006 the price per pound for the same raw materials was approximately $3.40. The increased price will affect cash outflows during the second half of 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in raw material costs, energy costs, interest rates, and foreign currency exchange. To reduce such risks, the Company may periodically use financial instruments. All hedging transactions are authorized and executed pursuant to policies and procedures. Further, the Company does not buy or sell financial instruments for trading purposes.

Cost and Availability of Raw Materials and Energy

Adequate supplies of raw material have historically been available to the Company from primary producers, metal brokers, and scrap dealers. Sufficient energy in the form of natural gas, fuel oils, and electricity is available to operate the Company's production facilities. While temporary shortages of raw material and fuels may occur occasionally, to date they have not materially hampered the Company's operations.

Copper and brass represent the largest component of the Company's variable costs of production. The cost of these materials is subject to global market fluctuations caused by factors beyond the Company's control. Significant increases in the cost of metal, to the extent not reflected in prices for the Company's finished products, or the lack of availability could materially and adversely affect the Company's business, results of operations and financial condition.

The Company occasionally enters into forward fixed-price arrangements with certain customers. The Company may utilize forward contracts to hedge risks associated with forward fixed-price arrangements. The Company may also utilize forward contracts to manage price risk associated with inventory. Gains or losses with respect to these positions are deferred in stockholders' equity as a component of comprehensive income and reflected in earnings upon the sale of inventory. Periodic value fluctuations of the contracts generally offset the value fluctuations of the underlying fixed-price transactions or inventory. As of July 1, 2006, the Company held open forward contracts to purchase approximately $18.6 million of copper through December 2006.

Futures contracts may also be used to manage price risk associated with natural gas purchases. Gains and losses with respect to these positions are deferred in stockholders' equity as a component of comprehensive income and reflected in earnings upon consumption of natural gas. Periodic value fluctuations of the contracts generally offset the value fluctuations of the underlying natural gas prices. At July 1, 2006, the Company had open forward contracts to purchase $1.0 million of natural gas through March 2007. The lack of availability of energy sources and the impact of rising energy prices could materially affect the Company's business, results of operations and financial condition.

Interest Rates

At July 1, 2006, the Company had variable rate debt outstanding of $25.3 million, the majority of which relates to the debt issued during the second quarter by Mueller-Xingrong which is discussed above. At these borrowing levels, a hypothetical 10 percent increase in interest rates would have had an insignificant unfavorable impact on the Company's pre-tax earnings and cash flows. The primary interest rate exposure on floating-rate debt is based on LIBOR and on the base-lending rate published by the People's Bank of China.

Foreign Currency Exchange Rates

Foreign currency exposures arising from transactions include firm commitments and anticipated transactions denominated in a currency other than an entity's functional currency. The Company and its subsidiaries generally enter into transactions denominated in their respective functional currencies. Foreign currency exposures arising from transactions denominated in currencies other than the functional currency are not material; however, the Company may utilize certain forward fixed-rate contracts to hedge such transactional exposures. Gains and losses with respect to these positions are deferred in stockholders' equity as a component of comprehensive income and reflected in earnings upon collection of receivables. At July 1, 2006, one of the Company's foreign subsidiaries had $4.9 million in open forward contracts to purchase U.S. dollars.

The Company's primary foreign currency exposure arises from foreign-denominated revenues and profits and their translation into U.S. dollars. The primary currencies to which the Company is exposed include the Canadian dollar, the British pound sterling, the Euro, and the Mexican peso. Additionally, with the investment in Mueller-Xingrong, the Company is exposed to the Chinese currency (RMB). The Company generally views as long-term its investments in foreign subsidiaries with a functional currency other than the U.S. dollar. As a result, the Company generally does not hedge these net investments.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure information required to be disclosed in Company reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, because of the material weakness in internal controls related to the accounting for income taxes as described below, the Company's disclosure controls and procedures were not effective as of July 1, 2006.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 based on the control criteria established in a report entitled Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation management determined that a material weakness related to the accounting for income taxes existed as of December 31, 2005. At July 1, 2006, management determined that the material weakness had not yet been remediated.

As defined by the Public Company Accounting Oversight Board's Auditing Standard No. 2, a material weakness in internal control is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by the Company. The principal factors contributing to the material weakness in accounting for income taxes were (1) inadequate staffing and technical expertise within the Company's tax department, (2) ineffective review and approval practices, (3) inadequate processes to effectively reconcile income tax accounts, and (4) inadequate application of the provisions of SFAS No. 109 to tax planning strategies. These deficiencies resulted in adjustments to correct the Company's accounting for income taxes which were recorded prior to the issuance of the Consolidated Financial Statements as of and for the year ended December 31, 2005. These deficiencies, in the aggregate, were determined to be a material weakness. As a result of the aforementioned material weakness, management has concluded that the Company's internal control over financial reporting was not effective as of December 31, 2005. Management has also determined that the existence of the material weakness did not result in a material misstatement of the financial results reported for prior annual or interim periods.

Changes in Internal Control over Financial Reporting

Management is in the process of implementing additional procedures to enhance the controls surrounding accounting for income taxes. Specifically, management has begun to undertake the following actions intended to address the identified control weakness:

* Evaluate current staffing resources;
* Require additional education and training in prevailing accounting standards that govern income tax reporting for personnel involved in the preparation and review of income tax reporting matters;
* Engage third-party experts to conduct an independent review and evaluation of the Company's process of accounting for and reporting of income taxes; and
* Implement a standardized reporting system related to income tax reporting matters that will facilitate timely information gathering and analysis for all business units.

As of July 1, 2006, selected members of the corporate accounting and tax departments have completed training courses in prevailing accounting standards that govern income tax reporting, a third-party expert has completed its initial review of the Company's process of accounting for and reporting of income taxes, although recommendations have not yet been implemented, and the corporate accounting department has increased its staffing.

There were no changes in the Company's internal control over financial reporting during the Company's fiscal quarter ending July 1, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, as described above, the Company has begun to undertake changes in internal control over financial reporting to correct the material weakness related to the accounting for income taxes.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

General

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

Copper Tube Antitrust Litigation

Beginning in September 2004, the Company has been named as a defendant in several purported class action complaints brought by direct and indirect purchasers alleging anticompetitive activities with respect to the sale of copper tubes in the United States (the Copper Tube Actions). Two such purported class actions were filed in the United States District Court for the Western District of Tennessee (the Federal Actions). The remaining Copper Tube Actions were filed in state courts in Tennessee, California and Massachusetts.

Certain of the Copper Tube Actions purport to address the sale of copper plumbing tube in particular. Plaintiffs' motions to consolidate the Federal Actions and the actions pending in California state court, respectively, have been granted. All of the Copper Tube Actions, which are similar, seek monetary and other relief.

Wholly owned Company subsidiaries, WTC Holding Company, Inc., Deno Holding Company, Inc., and Mueller Europe Ltd. (Mueller Europe), are named in all of the Copper Tube Actions, and Deno Acquisition Eurl is named in two of the Copper Tube Actions. The claims against WTC Holding Company, Inc. and Deno Holding Company Inc. have been dismissed without prejudice in the Copper Tube Actions pending in California and Massachusetts state court.

Motions to dismiss the Federal Actions for failure to state a claim have been denied as to WTC Holding Company, Inc., Deno Holding Company, Inc. and the Company. Mueller Europe's motion to dismiss the Federal Actions for lack of personal jurisdiction and on other grounds is pending. The Company's demurrer to the complaint and the Company's motion to dismiss for failure to state a claim are pending in the state court actions filed in California and Tennessee, respectively. The Company has not yet been required to respond to the complaint in the action pending in Massachusetts state court. Mueller Europe has not yet been required to respond to the complaints in any of the state court actions pending in Tennessee, California or Massachusetts.

The Company believes that the claims for relief in the Copper Tube Actions are without merit and intends to defend the Copper Tube Actions vigorously.

In March 2006, the Company and Mueller Europe were named in a complaint brought by Carrier Corporation, Carrier S.A., and Carrier Italia S.p.A. alleging anticompetitive activities with respect to the sale of copper tubes used in the manufacturing of air-conditioning and refrigeration units (ACR copper tubes) in the United States and elsewhere (the Carrier Action). The Carrier Action was filed in United States District Court for the Western District of Tennessee. Neither the Company nor Mueller Europe has yet been required to respond to the complaint in the Carrier Action.

In addition, beginning in April 2006, the Company has been named as a defendant in several purported class actions lawsuits brought by direct and indirect purchasers also alleging anticompetitive activities with respect to the sale of ACR copper tubes in the United States and elsewhere (the ACR Class Actions, and with the Carrier Action, the ACR Actions). Mueller Europe is named in all of the ACR Class Actions. One of the ACR Class Actions was filed in United States District Court for the Northern District of California, while the remaining ACR Class Actions were filed in the United States District Court for the Western District of Tennessee. Plaintiffs' motion to consolidate the ACR Class Actions brought by direct purchasers in the Western District of Tennessee has been granted. All of the ACR Actions seek monetary and other relief. Neither the Company nor Mueller Europe has yet been required to respond to the complaints in any of the ACR Class Actions.

The Company believes that the claims for relief in the ACR Actions are without merit and intends to defend the ACR Actions vigorously.

Copper Price Manipulation Litigation

Two of the Company's subsidiaries, Mueller Copper Tube Products Inc. and Mueller Copper Tube Company Inc., brought a lawsuit (the Price Manipulation Action) against J.P. Morgan Chase & Co. and Morgan Guaranty Trust Company of New York (collectively Morgan) to recover damages the Company believes it suffered on first purchases of copper cathode resulting from an alleged conspiracy to manipulate the price of copper cathode by Morgan (and certain of its predecessors and affiliates) and others in violation of the federal antitrust laws. The lawsuit was filed on June 12, 2003, in the U.S. District Court for the Western District of Wisconsin. The Company's lawsuit was consolidated with those of certain other first purchasers of copper cathode and rod under the name In re Copper Antitrust Litigation. Although the Price Manipulation Action was dismissed by the district court on March 2, 2004, as barred by the statute of limitations, the U.S. Court of Appeals for the Seventh Circuit, on February 6, 2006, reversed the district court's decision in part and remanded the Price Manipulation Action for further proceedings in the district court. Although the Company is unable to predict the likely outcome of the Price Manipulation Action at this time, the Company is prosecuting the case vigorously, and intends to continue to do so in the future.

Canadian Dumping and Countervail Investigation

In June 2006, the Canada Border Services Agency (CBSA) initiated an investigation into the alleged dumping of copper pipe fittings from the United States and from South Korea and the dumping and subsidizing of these same goods from China. The Company and certain affiliated companies were identified by the CBSA as possible U.S. exporters and importers of these goods and requested to provide information to Canadian authorities. The Company is responding to the CBSA's requests for information regarding the investigation.

Other Matters

The Company is aware of investigations of competition in markets in which it participates, or has participated in the past, in Europe and Canada. On September 22, 2005, the European Commission adopted a statement alleging infringements in Europe of competition rules by manufacturers of copper fittings and related companies, including the Company, WTC Holding Company, Inc., and Mueller Europe, for activities undertaken in Europe. The Company took the lead in bringing these issues to the attention of the European Commission and has fully cooperated in the resulting investigation from its inception. The Company does not anticipate any material adverse effect on its business or financial condition as a result of the matters discussed in this paragraph.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The Company's Board of Directors has authorized the repurchase, until October 2006, of up to ten million shares of the Company's Common Stock through open market transactions or through privately negotiated transactions. The Company has no obligation to purchase any shares and may cancel, suspend, or extend the time period for the purchase of shares at any time. Any purchases will be funded primarily through existing cash and cash from operations. The Company may hold any shares purchased in treasury or use a portion of the repurchased shares for employee benefit plans, as well as for other corporate purposes. Through July 1, 2006, the Company had repurchased approximately 2.4 million shares under this authorization. Below is a summary of the Company's stock repurchases for the quarterly period ended July 1, 2006.

	(a)	(b)	(c)	(d)
			Total Number of	Maximum

	Total Number of Shares Purchased	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet Be Purchased Under the Plans or Programs
				7,647,030(1)
April 2 - April 29, 2006	-	$ -		
April 30 - May 27, 2006	-	-		
May 28 - July 1, 2006	249(2)	31.60		

(1) Shares available to be purchased under the Company's 10 million share repurchase authorization until October 2006. This repurchase plan was announced on October 27, 2005.

(2) Shares tendered to the Company by employee stock option holders in payment of the option purchase price and/or withholding taxes upon exercise.

Item 4. Submission of Matters to a Vote of Security Holders

On May 4, 2006, the Company held its Annual Meeting of Stockholders at which three proposals were voted upon: (i) the election of directors, (ii) the approval of the amendment and restatement of the Company's 2002 Stock Option Plan and (iii) the approval of the appointment of independent auditors. The following persons were duly elected to serve, subject to the Company's Bylaws, as Directors of the Company until the next Annual Meeting, or until election and qualification of their successors:

	Votes in Favor	Votes Withheld
Alexander P. Federbush	32,977,534	1,066,755
Gennaro J. Fulvio	32,977,634	1,066,655
Gary S. Gladstein	32,276,209	1,768,080
Terry Hermanson	32,990,145	1,054,144
Robert B. Hodes	28,729,845	5,314,444
Harvey L. Karp	32,655,632	1,388,657
William D. O'Hagan	32,658,528	1,385,761

The proposal to approve the amendment and restatement of the Company's 2002 Stock Option Plan was ratified by 29,277,127 votes in favor, 1,151,894 votes against, 87,680 votes abstaining, and 3,527,588 broker non-votes.

-37-

The proposal to approve the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm was ratified by 33,601,587 votes in favor, 428,416 votes against, and 10,886 votes abstaining.

Item 6. Exhibits

10.1	Mueller Industries, Inc. 2002 Stock Option Plan (Amended and Restated as of February 16, 2006) (Incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated May 10, 2006).
19.1	Mueller Industries, Inc.'s Quarterly Report to Stockholders for the quarter ended July 1, 2006. Such report is being furnished for the information of the Securities and Exchange Commission only and is not to be deemed filed as part of this Quarterly Report on Form 10-Q.
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 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Items 1A, 3, and 5 are not applicable and have been omitted.

SIGNATURES

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

MUELLER INDUSTRIES, INC.

July 28, 2006	/S/ KENT A. MCKEE
Date	Kent A. McKee
	Executive Vice President and
	Chief Financial Officer
July 28, 2006	/S/ RICHARD W. CORMAN
Date	Richard W. Corman
	Vice President - Controller

EXHIBIT INDEX

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