



**Mueller Industries, Inc. (NYSE: MLI)** *is the leading U.S. manufacturer of 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. Mueller was once again recognized by Forbes magazine, appearing on it's "Platinum List: Best Big Companies." The Company's operations are located throughout the United States, and in the United Kingdom, Canada and Mexico.*

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## 2002 Financial Highlights

(In thousands, except per share data)

	2002	2001	2000	1999	1998
<b>Summary of Operations</b>					
Net sales	\$ 952,983	\$ 969,106	\$ 1,157,660	\$ 1,110,361	\$ 854,030
Product shipments (in millions of pounds)	694.0	649.9	732.5	759.9	589.5
Net income	\$ 77,992	\$ 66,955	\$ 92,690	\$ 99,279	\$ 75,445
Diluted earnings per share	\$ 2.11	\$ 1.80	\$ 2.43	\$ 2.51	\$ 1.90
<b>Significant Year-End Data</b>					
Cash and cash equivalents	\$ 217,601	\$ 121,862	\$ 100,268	\$ 149,454	\$ 80,568
Ratio of current assets to current liabilities	4.7 to 1	4.0 to 1	3.4 to 1	2.9 to 1	2.7 to 1
Long-term debt (including current portion)	\$ 18,166	\$ 50,973	\$ 106,884	\$ 149,870	\$ 194,549
Debt as a percent of total capitalization	2.4%	7.0%	14.8%	20.8%	27.9%
Stockholders' equity	\$ 753,523	\$ 672,933	\$ 614,105	\$ 569,430	\$ 502,122
Book value per share	\$ 22.00	\$ 20.11	\$ 18.41	\$ 16.31	\$ 14.02
Capital expenditures	\$ 23,265	\$ 46,624	\$ 62,876	\$ 38,272	\$ 45,639

### Mueller at a Glance

**Stockholders' Equity**  
(Dollars in millions)



**Debt as a Percent of Total Capitalization**  
(in %)



## 2002 Operating Highlights

### Strengthened Financial Position in 2002

- Increased cash to \$218 million
- Reduced debt by \$34 million
- No net debt at year-end
- Stockholders' equity rose 12% to a record \$754 million
- \$200 million line-of-credit, fully available

### Expanded Market Penetration

- Acquired manufacturer of pressure plastic fittings
- Acquired minority interest in manufacturer of flow control valves

# To Our Stockholders, Customers, and Employees

Mueller's net sales for 2002 totaled \$953 million compared with \$969 million in 2001. Income from continuing operations was \$71.2 million in 2002 versus \$65.4 million for the prior year. Earnings per diluted share from continuing operations for 2002 were \$1.92 compared with \$1.76 for the year before. And pounds of product shipped increased to 694 million pounds from 650 million pounds in 2001.

The reference above to "continuing operations" reflects the fact that in 2002 Mueller sold the Utah Railway and also made the decision to sell or liquidate its manufacturing operation in France. These two events, when taken together, had a positive net effect on earnings of 19 cents per diluted share. In total, earnings from combined continuing and discontinued operations were \$2.11 per diluted share in 2002 compared with \$1.80 in 2001.

Importantly, the sale of the Utah Railway allowed Mueller to utilize tax benefits, which increased earnings per diluted share by 34 cents, and as required by Generally Accepted Accounting Principles, was incorporated in income from continuing operations.

The housing and construction industry, the most significant market for Mueller's products, had a good year in 2002. However, Mueller did not realize the full benefits from this vibrant market because our profit margins, particularly in the copper tube business, were compressed by market conditions.

## Mueller is Financially Strong

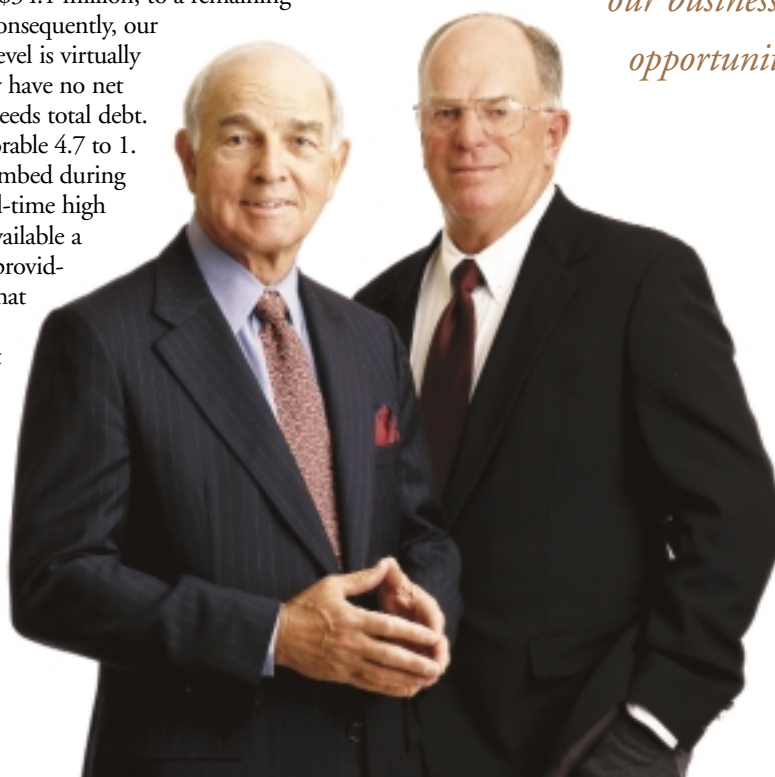
Mueller ended 2002 with \$218 million in cash. Cash flow from continuing operations during the year was \$124.2 million. In addition, cash received from the sale of the Utah Railway totaled \$55.4 million. Also, in 2002, Mueller paid down debt by \$34.1 million, to a remaining balance of \$18.2 million. Consequently, our debt-to-total capitalization level is virtually nil and, in fact, we currently have no net debt as cash on hand far exceeds total debt.

Our current ratio is a favorable 4.7 to 1. And stockholders' equity climbed during 2002 by 12 percent to an all-time high of \$754 million. We have available a \$200 million line-of-credit provided by a syndicate of banks that has no outstanding borrowings. The terms of the credit facility are comparable to a single "A" credit rating which reflects the underlying strength of our financial condition.

Mueller's depreciation provision is approximately \$37 million annually. In the past, we re-invested this amount, and more, in capital improvement projects. However, given the fact that we aggressively pursued improvements over the past seven years, it is likely that capital spending will be less than depreciation for the next several years. Of course, this will have a further positive effect on cash flow.

Mueller's financial strength should enable us to grow and expand our business as opportunities arise. For example, late in 2002 we acquired a minority stake in Conbraco Industries, Inc., a North Carolina based manufacturer of flow control products including Apollo® ball valves, butterfly valves, check valves, and other products for commercial and industrial applications. Early in 2003, we increased our ownership in Conbraco to approximately 34 percent by acquiring an additional 45,000 shares for approximately \$10.8 million. We look forward to working with Conbraco's management to achieve mutual benefits for our companies.

*"Mueller's financial strength  
should enable us to grow and expand  
our business as  
opportunities arise."*



Harvey L. Karp, left  
and William D. O'Hagan

### Domestic Copper Tube Operations

We encountered pricing pressures in our domestic copper tube business during 2002. Volumes were slightly below 2001, but margins were depressed for much of the year, accounting for the majority of the Company's decline in operating income. We will continue our emphasis on being the low cost manufacturer and vigorously defend our market position.

### Fittings Operations

Our copper fittings operations had an excellent year. Both volume and margins were solid.

In plastic fittings, we acquired a manufacturer of pressure fittings in Fort Pierce, Florida. In the coming years, we will modernize and upgrade this operation. By broadening our plastic product line, we now offer customers a single, hassle-free source for their copper and plastic fittings requirements.

### B&K Industries

B&K, our subsidiary that imports residential and commercial plumbing products, enjoyed an outstanding year. B&K's import business exceeded all sales and profit expectations. Additionally, we have leveraged our manufacturing and distribution efforts through increased sales to the big box retailers. We will continue our focus on expanding our product offering through this growth channel while implementing initiatives to minimize the costs related thereto.

### European Operations

Late in 2002, we made the difficult decision to liquidate our interests in the French manufacturing activity. We continued to encounter difficult business conditions. Our efforts to improve this operation have been frustrating. By exiting this activity, we will have more management resources devoted to our promising U.K. operation. While the U.K. operations were profitable during 2002, we expect better results in 2003. After completing the modernization of our operation in Bilston, England in 2001, we have a world-class copper tube mill with the potential to provide excellent returns for years to come.

In January 2003, Mr. Pat Donovan was appointed managing director of our European Operations. Pat has been in the industry for 30 years and brings a wealth of knowledge to us as we begin to leverage our investment in the U.K.

### Industrial Products

Brass rod consumption in the U.S. was up 6 percent in 2002 after a 20 percent decline in 2001. Margins have improved somewhat, but remain lower than previous levels.

We combined our Micro Gauge and Impacts businesses and, working together to meet customer needs, they

enjoyed an excellent year. We also benefited from additional business as automotive customers launched several new parts programs.

### Business Outlook for 2003

The housing and construction industry was a strong contributor to our national economy in 2002. Housing starts and new building permits were at a 16-year high. Moreover, mortgage rates declined to a 40-year low. The demographic factors underlying the strength of the housing market are clearly in place, as demonstrated by the increase in home ownership to 68 percent.

Looking ahead, we believe the housing market will continue its strong performance in 2003. With 15-year mortgage rates near 5.3 percent, consumers have a powerful inducement to purchase homes. And for most people, the investment in their home has proven to be financially wise and personally satisfying.

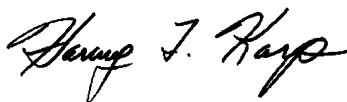
We believe that the housing and construction industry will do better than the economy as a whole in 2003. Of equal importance to Mueller is the potential for improvement in our profit margins but, as always, that is subject to the vicissitudes of the marketplace.

### In Closing

We are pleased to welcome Terry Hermanson as a director of our Company. Mr. Hermanson is an experienced executive who heads an import company selling products to mass merchandisers. As an independent director, he will serve on the Board's Audit Committee.

Mueller's employees are talented and dedicated. They are committed to making our Company the most successful company in our industry. We appreciate their efforts and we are proud of them.

Sincerely,



Harvey L. Karp  
*Chairman of the Board*



William D. O'Hagan  
*President and Chief Executive Officer*

March 17, 2003

## Ten-Year Review

*(Dollars in thousands, except per share data)*

	2002	2001	2000	1999
<b>INCOME STATEMENT DATA</b>				
Net sales	\$ 952,983	\$ 969,106	\$ 1,157,660	\$ 1,110,361
Cost of goods sold	744,781	740,366	887,635	840,364
Gross profit	208,202	228,740	270,025	269,997
Depreciation and amortization	37,440	39,461	34,043	32,901
Selling, general, and administrative expense	85,006	83,750	90,344	91,420
Operating income	85,756	105,529	145,638	145,676
Interest expense	(1,460)	(3,311)	(8,623)	(11,090)
Environmental expense	(1,639)	(3,600)	(2,049)	—
Other income (expense), net	5,810	5,787	9,115	8,317
Income from continuing operations before income taxes	88,467	104,405	144,081	142,903
Income tax expense	(17,290)	(38,982)	(51,096)	(43,541)
Net income from continuing operations	71,177	65,423	92,985	99,362
Income (loss) from discontinued operations	6,815	1,532	(295)	(83)
Net income	\$ 77,992	\$ 66,955	\$ 92,690	\$ 99,279
Adjusted weighted average shares (000)	37,048	37,245	38,096	39,605
Diluted earnings per share	\$ 2.11	\$ 1.80	\$ 2.43	\$ 2.51

### BALANCE SHEET DATA

Cash and cash equivalents	\$ 217,601	\$ 121,862	\$ 100,268	\$ 149,454
Current assets	500,347	403,913	405,171	440,746
Working capital	393,996	302,425	287,322	287,685
Total assets	987,947	916,065	910,276	904,080
Current liabilities	106,351	101,488	117,849	153,061
Debt	18,166	50,973	106,884	149,870
Stockholders' equity	753,523	672,933	614,105	569,430

### SELECTED OPERATING DATA

Cash provided by operations	\$ 124,217	\$ 121,453	\$ 120,619	\$ 164,869
Capital expenditures	\$ 23,265	\$ 46,624	\$ 62,876	\$ 38,272
Number of employees	3,575	3,420	3,965	4,048
Current ratio	4.7 to 1	4.0 to 1	3.4 to 1	2.9 to 1
Return on average equity	10.9%	10.4%	15.7%	18.5%
Debt to total capitalization	2.4%	7.0%	14.8%	20.8%
Outstanding shares (000)	34,257	33,467	33,358	34,919
Book value per share	\$ 22.00	\$ 20.11	\$ 18.41	\$ 16.31

*Historical data has been reclassified to reflect Utah Railway Company and Mueller Europe S.A. as discontinued operations.*

1998	1997	1996	1995	1994	1993
\$ 854,030	\$ 843,545	\$ 709,850	\$ 670,581	\$ 545,136	\$ 499,542
657,664	665,874	555,570	550,846	451,983	407,598
196,366	177,671	154,280	119,735	93,153	91,944
21,127	19,311	18,317	15,308	12,456	13,917
69,784	60,294	53,670	48,416	43,969	45,589
105,455	98,066	82,293	56,011	36,728	32,438
(5,517)	(4,920)	(5,153)	(3,922)	(4,414)	(3,560)
(2,133)	(3,100)	(2,045)	(1,421)	(2,914)	(1,060)
6,492	7,306	4,125	5,058	3,480	(353)
104,297	97,352	79,220	55,726	32,880	27,465
(30,309)	(28,338)	(23,862)	(16,441)	(9,846)	(9,956)
73,988	69,014	55,358	39,285	23,034	17,509
1,457	756	5,815	5,538	4,892	3,627
\$ 75,445	\$ 69,770	\$ 61,173	\$ 44,823	\$ 27,926	\$ 21,136
39,644	39,250	38,993	38,298	39,560	41,772
\$ 1.90	\$ 1.78	\$ 1.57	\$ 1.17	\$ 0.71	\$ 0.51
\$ 80,568	\$ 69,978	\$ 96,956	\$ 48,357	\$ 34,492	\$ 77,336
382,324	309,051	274,712	211,038	183,551	194,411
239,750	208,494	195,756	143,154	116,330	146,981
874,694	610,776	509,357	450,835	430,755	369,743
142,574	100,557	78,956	67,884	67,221	47,430
194,549	72,093	59,650	75,902	94,736	62,711
502,122	418,040	348,082	285,875	241,948	222,114
\$ 91,508	\$ 66,131	\$ 71,631	\$ 49,052	\$ 15,567	\$ 47,432
\$ 45,639	\$ 33,396	\$ 17,182	\$ 40,663	\$ 48,097	\$ 11,010
4,340	2,961	2,290	2,227	2,206	1,967
2.7 to 1	3.1 to 1	3.5 to 1	3.1 to 1	2.7 to 1	4.1 to 1
16.4%	18.2%	19.3%	17.0%	12.0%	9.9%
27.9%	14.7%	14.6%	21.0%	28.1%	22.0%
35,808	35,017	34,870	34,699	34,796	38,333
\$ 14.02	\$ 11.94	\$ 9.98	\$ 8.24	\$ 6.95	\$ 5.79



## Standard Products Division

The Standard Products Division of Mueller Industries includes nine plants in the U.S. and one in Great Britain that manufacture a wide range of copper tubing and copper and plastic fittings. The products are sold through leading distributors and retailers worldwide.

The Company manufactures copper tubes in sizes from 1/8 inch to 8 inch diameters that are used in residential, commercial, and industrial applications. Mueller's copper and plastic fittings and related components for the plumbing and heating industry are used in water distribution systems, heating systems, air-conditioning, refrigeration applications, and drainage, waste, and vent systems.

We are the leading supplier of copper tube and fittings to the air-conditioning, compressor, and refrigeration markets. This is a market with specialized distribution channels that differ from the plumbing market. We have developed strong relationships with leading distributors in this market and our products are frequently specified by name in new installations. We have maintained our market position by providing high quality products and leading the market with new innovations.

Mueller acquired the Fort Pierce, Florida operations of Colonial Engineering, Inc. in September 2002, expanding the Company's product line into the pressure plastic (PVC and CPVC) fittings business. This acquisition was a strategic move to broaden the Company's overall product lines and to improve sales opportunities with retail customers and distributors. The markets for pressure plastic fittings include irrigation, potable water, residential, and commercial applications. With the addition of the pressure plastic product lines, Mueller enhanced its market position by becoming a one-stop supplier for a

full range of PVC, ABS, and CPVC fittings. We have already been awarded a large volume of plastic fittings business by a major retail customer.

Over the past five years, Mueller has invested over \$150 million in new plant and equipment upgrades in the Standard Products Division. These investments have targeted key areas to reduce costs of production, enhance quality, shorten lead times, and improve customer delivery. A \$40 million modernization of Mueller's U.K. copper tube mill in Bilston was completed in late 2001. The state-of-the-art facility includes continuous casting, drawing machinery, and finishing and packaging equipment. The Bilston investments increase our competitiveness as one of the lowest cost producers in Europe, a growing market for copper tube sold to builders' merchants, plumbing, refrigeration, and heating wholesalers.

With major investments already made in our plants, our continuing focus will be on driving down costs. Our operations are focused on reducing conversion costs, improving yield, and reducing direct labor content to be the low-cost producer in our industry. We are also working more closely with our key customers to be a more valuable strategic partner. This includes programs focused on improved inventory management to meet customer demands and broadened product lines to increase our share of each customer's business. We are driving towards continuous improvement in each of these areas to make Mueller Industries the preferred supplier in our markets.





## Industrial Products Division

Mueller has ten plants in the U.S. that manufacture brass rod, nonferrous forgings, impact extrusions, machined components, refrigeration valves and tubular assemblies, gas valves and manifolds, and drawn tubular products. These Industrial Products Division plants supply OEMs in the plumbing, refrigeration, fluid power, LP gas, heating, appliance, and automotive industries.

**Brass Rod** – Mueller's brass rod mill employs state-of-the-art casting, extrusion, and finishing equipment to manufacture a broad range of rounds, squares, hexagons, and other special shapes. Significant upgrades in the Company's Port Huron, Michigan plant have resulted in improved quality, higher yield, and shortened delivery times. New equipment has eliminated production bottlenecks and enabled scheduling practices to take advantage of new high speed drawing equipment. Several customers recognized the plant in 2002 for its service levels.

**Forgings, Impacts, and Micro Gauge** – Brass and aluminum hot forgings, cold-formed aluminum products, and high volume machining operations were combined into a single business unit during 2002 to take advantage of complementary processes and product applications. The new unit experienced significant sales growth of formed and machined components to the automotive industry and other OEMs. New press and machining capabilities were added during the year to improve efficiency and yield.

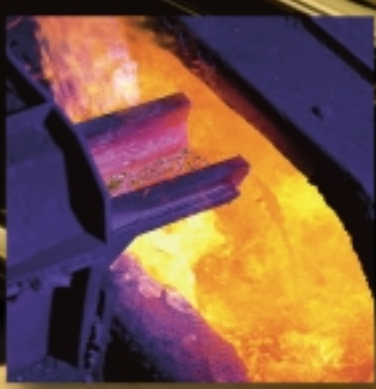
**Gas Products** – Mueller has three plants that manufacture valves and assemblies for the gas appliance and

barbecue grill markets. Operations at these plants continued to focus on improving manufacturing efficiencies and developing new products and applications.

**Refrigeration** – Mueller acquired Overstreet-Hughes Company in 2002, adding capabilities in tube forming, welding, and brazing of refrigeration components. This acquisition expands Mueller's product offering in refrigeration and air-conditioning components, and complements the Company's existing product line of valves and custom products.




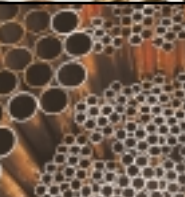
**Precision Tube** – The Company makes tubing for a wide array of applications requiring tight tolerances from medical instruments to appliances. This unit focused on improved productivity and enhanced customer service programs during 2002.

Mueller has made significant investments in plant and equipment in its Industrial Products Division and has consolidated key business units to take advantage of manufacturing and marketing synergies. The focus for 2003 will be on continuous process improvements. These programs will focus on enhancing manufacturing capabilities to improve yield, quality, and cycle time.





# Operational Overview

## Standard Products Division

Plants	Products and Applications	Customers
 Fulton, Mississippi Wynne, Arkansas	<ul style="list-style-type: none"> <li>Water tube, in straight lengths and coils, for plumbing and construction</li> <li>Dehydrated coils and nitrogen-charged straight lengths for refrigeration and air-conditioning</li> <li>Industrial tube, in straight lengths and level-wound coils, for fittings, redraw, etc.</li> <li>Line sets for controlling the flow of refrigerant gases</li> </ul>	<ul style="list-style-type: none"> <li>Plumbing wholesalers, home centers, and hardware wholesalers and co-ops</li> <li>Air-conditioning and refrigeration wholesalers and OEMs</li> <li>Mueller's copper fittings plants and OEMs</li> <li>Wholesalers and OEMs</li> </ul>
 Fulton, Mississippi Covington, Tennessee Port Huron, Michigan	<ul style="list-style-type: none"> <li>Over 1,500 wrought copper elbows, tees and adapters, and assorted fittings for plumbing, heating, air-conditioning, and refrigeration</li> </ul>	<ul style="list-style-type: none"> <li>Plumbing and air-conditioning wholesalers, home centers, hardware wholesalers and co-ops, and OEMs</li> </ul>
 Kalamazoo, Michigan Cerritos, California Upper Sandusky, Ohio Fort Pierce, Florida	<ul style="list-style-type: none"> <li>A broad line of over 1,000 PVC and ABS plastic fittings and valves for drainage, waste and ventilation, in housing and commercial construction, recreational vehicles, and manufactured housing</li> </ul>	<ul style="list-style-type: none"> <li>Plumbing wholesalers, home centers, hardware wholesalers and co-ops, and distributors to the manufactured housing and recreational vehicle industry</li> </ul>
 Bilston, Great Britain	<ul style="list-style-type: none"> <li>Copper tube in various lengths, diameters, and hardesses for plumbing, refrigeration, and heating</li> <li>Industrial tube for redraw, copper fittings, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Builders' merchants, plumbing, refrigeration, and heating wholesalers</li> <li>OEMs</li> </ul>

## Industrial Products Division

 Port Huron, Michigan	<ul style="list-style-type: none"> <li>A broad range of brass rod rounds, squares, hexagons, and special shapes in free machining, thread rolling, and forging alloys for numerous end products, including plumbing brass, valves and fittings, and industrial machinery and equipment</li> </ul>	<ul style="list-style-type: none"> <li>OEMs, contract machining companies and distributors</li> </ul>
 Port Huron, Michigan  Marysville, Michigan Brighton, Michigan  Hartsville, Tennessee Carthage, Tennessee  Jacksboro, Tennessee Waynesboro, Tennessee Middletown, Ohio  North Wales, Pennsylvania	<ul style="list-style-type: none"> <li>Brass and aluminum hot forgings in various alloys for plumbing brass, valves and fittings, and industrial machinery and equipment</li> <li>Cold-formed aluminum and copper products for automotive, industrial, and recreational components</li> <li>High volume machining of aluminum, steel, brass and cast iron, forgings, impacts, and castings for automotive applications</li> <li>Valves and custom OEM products for refrigeration and air-conditioning applications</li> <li>Custom valves and assemblies for the gas appliance and barbecue grill markets</li> <li>Shaped and formed tube, produced to tight tolerances, for baseboard heating, appliances, medical instruments, etc.</li> </ul>	<ul style="list-style-type: none"> <li>OEMs and refrigeration wholesalers</li> </ul>

## Selected Financial Data

<i>(In thousands, except per share data)</i>	<b>2002</b>	2001	2000	1999	1998
For the fiscal year:					
Net sales <sup>(1)</sup>	<b>\$ 952,983</b>	\$ 969,106	\$ 1,157,660	\$ 1,110,361	\$ 854,030
Operating income <sup>(1)</sup>	<b>85,756</b>	105,529	145,638	145,676	105,455
Net income from continuing operations	<b>71,177</b>	65,423	92,985	99,362	73,988
Diluted earnings per share from continuing operations	<b>1.92</b>	1.76	2.44	2.51	1.87
At year-end:					
Total assets	<b>987,947</b>	916,065	910,276	904,080	874,694
Long-term debt	<b>14,005</b>	46,977	100,975	118,858	174,569

<sup>(1)</sup> From continuing operations

# Financial Review

## Overview

Mueller Industries, Inc. is a leading manufacturer of 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. Mueller's operations are located throughout the United States and in Canada, Mexico, and Great Britain.

The Company's businesses are managed and organized into two segments: (i) Standard Products Division (SPD) and (ii) Industrial Products Division (IPD). SPD manufactures and sells copper tube, and copper and plastic fittings and valves. Outside of the United States, SPD manufactures and sells copper tube in Europe. SPD sells these 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. IPD manufactures and sells brass and copper alloy rod, bar, and shapes; aluminum and brass forgings; aluminum and copper impact extrusions; refrigeration valves and fittings; fabricated tubular products; and gas valves and assemblies. IPD sells its products primarily to original equipment manufacturers (OEMs), many of which are in the HVAC, plumbing, and refrigeration markets.

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.

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 of fluctuations in material costs by passing these costs through to its customers. Spreads fluctuate based upon market conditions.

During 2002, the Company sold its wholly owned subsidiary, Utah Railway Company, and initiated steps to sell or liquidate its French manufacturing operations, Mueller Europe S.A. The operations and cash flows of these two businesses have been eliminated from the ongoing operations of the Company, and are reported as discontinued operations.

## Results of Operations

### 2002 Performance Compared with 2001

Consolidated net sales in 2002 were \$953 million, 1.7 percent less than net sales of \$969 million in 2001. Pounds of product sold totaled 694 million in 2002 or 6.8 percent more than the 650 million pounds sold in 2001. This increase in pounds sold was primarily attributable to the brass rod business. Net selling prices generally fluctuate with changes in raw material prices; therefore, pounds sold is an additional measurement of the Company's performance. The COMEX average copper price in 2002 was approximately 1.2 percent less than the 2001 average. This change impacted the Company's net sales and cost of goods sold.

Cost of goods sold increased \$4.4 million, to \$745 million in 2002. This increase was attributable to increased volumes. Gross profit was \$208 million or 21.8 percent of net sales in 2002 compared with \$229 million or 23.6 percent of net sales in 2001. The decline in gross profit was due to lower spreads in certain product lines, primarily copper tube.

Depreciation and amortization decreased to \$37.4 million in 2002 from \$39.5 million in 2001. The decrease was due primarily to discontinuing goodwill amortization, totaling \$4.4 million in 2001, in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Selling, general, and administrative expense increased 1.5 percent to \$85.0 million in 2002, reflecting increased volume.

Interest expense decreased to \$1.5 million in 2002 from \$3.3 million in 2001. This decrease was primarily due to debt reductions. No interest was capitalized during 2002, whereas \$1.4 million of interest was capitalized on major capital improvement projects in 2001. Environmental expense totaled \$1.6 million in 2002 compared with \$3.6 million in 2001. Other income remained flat at \$5.8 million in 2002 and 2001.

During 2002, the Company sold its wholly owned subsidiary, Utah Railway Company, to Genessee & Wyoming Inc. Proceeds from the sale were \$55.4 million. The Company recognized a gain of \$21.1 million, net of income taxes of \$11.6 million, from the sale; additionally, the Company realized income tax benefits as discussed below. Also during 2002, the

## Financial Review

Company initiated steps to sell or liquidate its French manufacturing operations, Mueller Europe S.A. The Company recognized a loss of \$13.4 million, net of \$15.2 million income tax benefit, to write-down the value of the French business to its net realizable value.

Subsequent to year-end, on March 3, 2003, Mueller Europe S.A. filed a petition for liquidation with the Commercial Court of Provins Province, France and, on March 4, the Court declared the entity to be in liquidation. The disposition of remaining assets and obligations of Mueller Europe S.A. is under the jurisdiction of the Court. The Company will recognize operating losses from discontinued operations incurred by Mueller Europe S.A. for the period the business operated during 2003; however, the loss from disposition of the entity was fully provided in 2002.

The Company provided \$17.3 million for income taxes attributable to continuing operations in 2002, of which \$9.7 million was deferred. The sale of Utah Railway Company enabled the Company to utilize previously unrecognized capital loss carryforwards. In accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, the recognition of this capital loss carryforward benefit of \$12.7 million was classified as a reduction to current income taxes on continuing operations. Current income tax expense of \$7.6 million reflects the benefit of recognizing this capital loss carryforward. The 2002 effective tax rate was 19.5 percent while the 2001 rate was 37.3 percent.

The Company's employment at its ongoing operations was approximately 3,600 at the end of 2002. This compares with approximately 3,400 at the 2001 year-end. This increase is attributable to acquisitions.

### *Standard Products Division*

Net sales by SPD were \$679 million in 2002 compared with \$722 million in 2001 for a 6 percent decrease. Operating income was \$79.0 million in 2002 compared with \$105 million in 2001. The decline in operating profit was due to lower spreads in certain product lines, primarily copper tube. In September 2002, the Company acquired certain assets of Colonial Engineering, Inc.'s Fort Pierce, Florida operations. These operations manufacture injected molded plastic pressure fittings for plumbing, agricultural, and industrial use including a line of PVC Schedule 40 and 80 and CPVC fittings. These operations generated sales of approximately \$15 million in 2001. Total consideration paid was approximately \$14.1 million.

### *Industrial Products Division*

IPD's net sales were \$280 million in 2002 compared with \$252 million in 2001. Operating income was \$20.4 million in 2002 compared with \$17.5 million in 2001. Volume increases were responsible for the increase in current year earnings. In August 2002, the Company acquired 100 percent of the outstanding stock of Overstreet-Hughes, Co., Inc. Overstreet-Hughes, located in Carthage, Tennessee, manufactures precision tubular components and assemblies primarily for the OEM air-conditioning market and had sales in 2001 of approximately \$8 million. Total consideration paid at closing, including assumption of debt, was approximately \$6.3 million. A contingent payment of up to \$2 million will be paid if certain financial targets are achieved.

### **2001 Performance Compared with 2000**

Consolidated net sales in 2001 were \$969 million, 16 percent less than net sales of \$1.16 billion in 2000. Pounds of product sold totaled 650 million in 2001 or 11 percent less than the 732 million pounds sold in 2000. This decrease in pounds sold was a result of the economic slowdown experienced during 2001. The COMEX average copper price in 2001 was approximately 14 percent less than the 2000 average. This change impacted the Company's net sales and cost of goods sold.

Cost of goods sold decreased \$147 million, to \$740 million in 2001. This decrease was attributable to lower raw material costs, mostly copper, and reduced volumes. Gross profit was \$229 million or 23.6 percent of net sales in 2001 compared with \$270 million or 23.3 percent of net sales in 2000. The decline in gross profit was due to lower volumes and reduced spreads in certain product lines, partially offset by reductions in manufacturing conversion costs.

Depreciation and amortization increased to \$39.5 million in 2001 compared with \$34.0 million in 2000. This increase was due to capital expenditures in recent years. Selling, general, and administrative expense decreased to \$83.8 million in 2001 reflecting lower volume and results of cost containment measures.

# Financial Review

Interest expense decreased to \$3.3 million in 2001 from \$8.6 million in 2000. This decrease was due to debt reductions combined with lower borrowing rates. The Company capitalized interest of \$1.4 million for major capital improvement projects in 2001 compared with \$1.2 million in 2000. Environmental expense totaled \$3.6 million in 2001 compared with \$2.0 million in 2000. Other income decreased to \$5.8 million in 2001 from \$9.1 million in 2000, primarily due to less interest income.

The Company provided \$39.0 million for income taxes attributable to continuing operations in 2001, of which \$15.7 million was deferred. Current income tax expense of \$23.2 million decreased from 2000 primarily due to decreased earnings. The 2001 effective tax rate of 37.3 percent compares with the 2000 rate of 35.5 percent.

The Company's employment at its ongoing operations was approximately 3,400 at the end of 2001. This compares with approximately 4,000 at the 2000 year-end.

## *Standard Products Division*

Net sales by SPD were \$722 million in 2001 compared with \$854 million in 2000 for a 15 percent decrease. Operating income was \$105 million in 2001 compared with \$124 million in 2000. During 2001, the Company began moving its line set operations from Clinton, Tennessee, to its Wynne, Arkansas, copper tube mill. Benefits from this move, including reduced in-process inventories and reduced material handling, commenced in 2002. The Company also discontinued manufacturing metric copper fittings at its Strathroy, Ontario, Canada facility. Sales of metric fittings exported into the European market totaled less than \$7 million in 2001. Approximately \$1.2 million was charged to operations in 2001 for the rationalization of these two businesses.

## *Industrial Products Division*

IPD's net sales were \$252 million in 2001 compared with \$307 million in 2000. Operating income was \$17.5 million in 2001 compared with \$30.6 million in 2000. Volume declines, as well as reduced spreads were responsible for the shortfall in 2001.

## **Liquidity and Capital Resources**

The Company's cash and cash equivalents balance increased to \$218 million at year-end. Major components of the 2002 change included \$124 million of cash provided by operating activities, \$15.0 million of cash provided by investing activities and \$45.7 million of cash used in financing activities.

Net income from continuing operations of \$71.2 million in 2002 was the primary component of cash provided by operating activities. Depreciation and amortization of \$37.4 million and the income tax benefit from exercise of stock options of \$13.2 million were the primary non-cash adjustments. Major changes in working capital included a \$13.7 million increase in inventories.

During 2002, the Chairman of the Company's Board of Directors, Mr. Harvey L. Karp, exercised options to purchase 1.2 million shares of Company stock. As provided in Mr. Karp's option agreement, the Company withheld the number of shares, at their fair market value, sufficient to cover the minimum withholding taxes incurred by the exercise. These shares withheld have been classified as acquisition of treasury stock on the Company's Consolidated Statement of Cash Flows. The income tax benefit of \$13.2 million from the exercise of stock options was recognized as a direct addition to additional paid-in capital and, therefore, had no effect on the Company's earnings.

The major components of net cash provided by investing activities during 2002 include \$55.4 million of proceeds from the sale of Utah Railway Company, offset by \$23.3 million used for capital expenditures, and \$20.5 million used for business acquisitions. Also during 2002, the Company acquired a 16 percent equity interest in Conbraco Industries, Inc. for \$7.3 million in cash. Conbraco, headquartered in Matthews, North Carolina, is a manufacturer of flow control products including Apollo® ball valves, automation products, backflow preventers, butterfly valves, check valves, forged steel products, marine valves, safety relief valves, strainers, and plumbing and heating products for commercial and industrial applications.

Net cash used in financing activities totaled \$45.7 million. During 2002, the Company used \$34.1 million for debt repayments and \$14.8 million to acquire Company stock.

## Financial Review

The Company has a \$200 million unsecured line-of-credit (Credit Facility) which expires in November 2003. At year-end, the Company had no borrowings against the Credit Facility. Approximately \$6.6 million in letters of credit were backed by the Credit Facility at the end of 2002. At December 28, 2002, the Company's total debt was \$18.2 million or 2.4 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. The Company is in compliance with all of its debt covenants.

The Company's major capital projects were substantially complete in 2001, including casting facilities at the Company's brass rod mill, modernization of the European copper tube mill, and installation of an additional extrusion press at the Company's Fulton, Mississippi copper tube mill. The Company expects to invest between \$30 and \$35 million for capital projects during 2003.

Contractual cash obligations of the Company at December 28, 2002 included the following:

(in millions)	Payments Due by Year				
	Total	2003	2004-2005	2006-2007	Thereafter
Long-term debt, including capital lease obligations	\$ 18.2	\$ 4.2	\$ 3.0	\$ 0.7	\$ 10.3
Operating leases	14.5	4.0	6.1	3.4	1.0
Total contractual cash obligations	\$ 32.7	\$ 8.2	\$ 9.1	\$ 4.1	\$ 11.3

The Company has no off-balance sheet financing arrangements except for the operating leases identified above.

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.

Management believes that cash provided by operations and currently available cash of \$218 million will be adequate to meet the Company's normal future capital expenditure and operational needs. The Company's current ratio was 4.7 to 1 at December 28, 2002.

In 1999, the Company's Board of Directors authorized the repurchase of up to four million shares of the Company's common stock from time-to-time through open market transactions or through privately negotiated transactions. During 2000, this authorization was expanded and extended to repurchase up to a total of ten million shares. During 2002, the authorization was extended through October 2003. 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 purchases will be funded primarily through existing cash and cash from operations. The Company may hold such shares in treasury or use a portion of the repurchased shares for employee benefit plans, as well as for other corporate purposes. Through December 28, 2002, the Company had repurchased approximately 2.4 million shares under this authorization.

### Environmental Matters

The Company ended 2002 with total environmental reserves of approximately \$9.1 million. 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.

### Market Risk

The Company is exposed to market risk from changes in interest rates, foreign currency exchange, raw material costs, and energy costs. 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. A discussion of the Company's accounting for derivative instruments and hedging activities is included in the Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements.

# Financial Review

## *Interest Rates*

At December 28, 2002 and December 29, 2001, the fair value of the Company's debt was estimated at \$19.2 million and \$51.9 million, respectively, using yields obtained for similar types of borrowing arrangements and taking into consideration the underlying terms of the debt. Such fair value exceeded the carrying value of debt at December 28, 2002 by \$1.0 million and at December 29, 2001 by \$0.9 million. Market risk is estimated as the potential change in fair value resulting from a hypothetical 10 percent decrease in interest rates and amounted to \$0.3 million at December 28, 2002 and \$0.5 million at December 29, 2001.

The Company had \$0.2 million of variable-rate debt outstanding at December 28, 2002 and \$30.3 million outstanding at December 29, 2001. At these borrowing levels, a hypothetical 10 percent increase in interest rates would have had an insignificant unfavorable impact on the Company's pretax earnings and cash flows. The primary interest rate exposure on floating-rate debt is based on LIBOR.

## *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 year-end, the Company had no open forward contracts to exchange foreign currencies.

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. 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. The net investment in foreign subsidiaries translated into U.S. dollars using the year-end exchange rates was \$73.6 million at December 28, 2002 and \$115 million at December 29, 2001. The potential loss in value of the Company's net investment in foreign subsidiaries resulting from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates at December 28, 2002 and December 29, 2001 amounted to \$7.6 million and \$11.5 million, respectively. This change would be reflected in the equity section of the Company's Consolidated Balance Sheet.

## *Cost of Raw Materials and Energy*

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, 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. At year-end, the Company held open forward contracts to purchase approximately \$0.9 million of copper over the next 12 months.

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 year-end, the Company held open hedge forward contracts to purchase approximately \$0.6 million of natural gas over the next 3 months.

# Financial Review

## Critical Accounting Policies and Estimates

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States. Application of these principles requires the Company to make estimates and judgments that affect the amounts reported in the Consolidated Financial Statements. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters which are inherently uncertain. The accounting policies that are most critical to aid in understanding and evaluating the results of operations and financial position of the Company include the following:

### *Inventory Valuation*

Inventories are valued at the lower of cost or market. The most significant component of the Company's inventory is copper. Open market prices and the mix of cathode and scrap purchases determine the cost of copper for the Company. Open market prices are subject to volatility. During periods when open market prices decline, the Company may need to provide an allowance to reduce the carrying value of its inventory. In order to provide such an allowance, the Company must estimate the market price of scrap purchases as well as the mix of cathode and scrap in its raw material, WIP, and finished goods inventory. Changes in the Company's estimates of either the market price of scrap inventory or the mix of cathode and scrap in its raw material, WIP, and finished goods inventory, may result in a materially adverse or positive impact on its reported financial position or results of operations. In addition, certain items in inventory may be considered obsolete and, as such, the Company may establish an allowance to reduce the carrying value of those items to their net realizable value. Accordingly, the Company would estimate both the volume of obsolete inventory as well as the net realizable value of the obsolete inventory. Changes in the Company's estimates of either the volume or the net realizable value of its obsolete inventory may result in a materially adverse or positive impact on its reported financial position or results of operations. The Company recognizes the impact of any changes in estimates, assumptions, and judgments in income in the period in which it is determined.

### *Deferred Taxes*

Deferred tax assets and liabilities are recognized on the difference between the financial statement and the tax law treatment of certain items. Realization of certain components of deferred tax assets is dependent upon the occurrence of future events. The Company records a valuation allowance to reduce its deferred tax asset to the amount it believes is more likely than not to be realized. These valuation allowances can be impacted by changes in tax laws, changes to statutory tax rates, and future taxable income levels and are based on the Company's judgment, estimates, and assumptions regarding those future events. In the event the Company were to determine that it would not be able to realize all or a portion of the net deferred tax assets in the future, the Company would increase the valuation allowance through a charge to income in the period that such determination is made. Conversely, if the Company were to determine that it would be able to realize its deferred tax assets in the future, in excess of the net carrying amounts, the Company would decrease the recorded valuation allowance through an increase to income in the period that such determination is made.

### *Environmental Reserves*

The Company recognizes an environmental liability when it is probable the liability exists and the amount is reasonably estimable. The Company estimates the duration and extent of its remediation obligations based upon reports of outside consultants, internal analyses of clean-up costs and ongoing monitoring, communications with regulatory agencies, and changes in environmental law. If the Company's estimates of the duration or extent of its environmental obligations changes, the Company would adjust its environmental liabilities accordingly in the period that such change in estimates are made.

### *Allowance for Doubtful Accounts*

The Company provides an allowance for receivables it believes it may not collect in full. It evaluates the collectibility of its accounts based on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations (i.e., bankruptcy filings or substantial down-grading of credit ratings), it records a specific reserve for bad

# Financial Review

debts against amounts due to reduce the net recognized receivable to the amount it reasonably believes will be collected. For all other customers, the Company recognizes reserves for bad debts based on its historical collection experience. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations), the Company's estimates of the recoverability of amounts due could be reduced by a material amount.

## Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), in June 2001. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 will not have a significant effect on earnings or the financial position of the Company.

In September 2002, Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, was issued. This statement provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. This statement is effective for exit and disposal activities initiated on or after January 1, 2003 and does not impact recognition of costs under the Company's existing program. Adoption of this standard may impact the timing of recognition of costs, if any, associated with future exit and disposal activities.

In November 2002, FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, was issued. The interpretation provides guidance on the guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. The Company has adopted the disclosure requirements of the interpretation as of December 28, 2002. The accounting guidelines are applicable to guarantees issued after December 28, 2002 and require that the Company record a liability for the fair value of such guarantees in the balance sheet. The adoption of this interpretation will not have a significant effect on earnings or the financial position of the Company.

In January 2003, FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), was issued. The interpretation provides guidance on consolidating variable interest entities and applies immediately to variable interest entities created after January 31, 2003. The guidelines of the interpretation will become applicable for the Company in its third quarter 2003 financial statements for variable interest entities created before February 1, 2003. The interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack certain specified characteristics. The adoption of FIN 46 will not have an effect on earnings or the financial position of the Company.

## Cautionary Statement Regarding Forward-Looking Information

This Annual Report contains various forward-looking statements and includes assumptions concerning the Company's operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risk and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important economic, political, and technological factors, among others, the absence of which could cause actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include: (i) the current and projected future business environment, including interest rates and capital and consumer spending; (ii) continuation of the strong domestic housing and commercial construction industry environment; (iii) fluctuations in commodity prices (including prices of copper and other raw materials); (iv) competitive factors and competitor responses to the Company's initiatives; (v) successful implementation and completion of major capital projects; (vi) stability of government laws and regulations, including taxes; and (vii) continuation of the environment to make acquisitions, domestic and foreign, including regulatory requirements and market values of candidates.

# Consolidated Statements of Income

Years Ended December 28, 2002, December 29, 2001, and December 30, 2000

(In thousands, except per share data)

	2002	2001	2000
Net sales	\$ 952,983	\$ 969,106	\$ 1,157,660
Cost of goods sold	744,781	740,366	887,635
Gross profit	208,202	228,740	270,025
Depreciation and amortization	37,440	39,461	34,043
Selling, general, and administrative expense	85,006	83,750	90,344
Operating income	85,756	105,529	145,638
Interest expense	(1,460)	(3,311)	(8,623)
Environmental expense	(1,639)	(3,600)	(2,049)
Other income, net	5,810	5,787	9,115
Income from continuing operations before income taxes	88,467	104,405	144,081
Income tax expense	(17,290)	(38,982)	(51,096)
Income from continuing operations	71,177	65,423	92,985
Discontinued operations, net of income taxes:			
Income (loss) from operation of discontinued operations	(886)	1,532	(295)
Gain on disposition of discontinued operations	7,701	—	—
Net income	\$ 77,992	\$ 66,955	\$ 92,690
Weighted average shares for basic earnings per share	33,993	33,409	34,305
Effect of dilutive stock options	3,055	3,836	3,791
Adjusted weighted average shares for diluted earnings per share	37,048	37,245	38,096
Basic earnings (loss) per share:			
From continuing operations	\$ 2.09	\$ 1.96	\$ 2.71
From discontinued operations	(0.03)	0.04	(0.01)
From gain on disposition of discontinued operations	0.23	—	—
Basic earnings per share	\$ 2.29	\$ 2.00	\$ 2.70
Diluted earnings (loss) per share:			
From continuing operations	\$ 1.92	\$ 1.76	\$ 2.44
From discontinued operations	(0.02)	0.04	(0.01)
From gain on disposition of discontinued operations	0.21	—	—
Diluted earnings per share	\$ 2.11	\$ 1.80	\$ 2.43

See accompanying notes to consolidated financial statements.

# Consolidated Balance Sheets

As of December 28, 2002 and December 29, 2001

(In thousands, except share data)

	2002	2001
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 217,601	\$ 121,862
Accounts receivable, less allowance for doubtful accounts of \$6,443 in 2002 and \$6,573 in 2001	132,427	148,808
Inventories	142,953	126,629
Current deferred income taxes	4,506	2,654
Other current assets	2,860	3,960
Total current assets	500,347	403,913
Property, plant, and equipment, net	352,469	387,533
Goodwill, net	105,551	98,749
Other assets	29,580	25,870
 Total Assets	 \$ 987,947	 \$ 916,065
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Current portion of long-term debt	\$ 4,161	\$ 3,996
Accounts payable	41,004	34,209
Accrued wages and other employee costs	26,199	21,349
Other current liabilities	34,987	41,934
Total current liabilities	106,351	101,488
Long-term debt, less current portion	14,005	46,977
Pension liabilities	22,364	9,564
Postretirement benefits other than pensions	13,186	13,182
Environmental reserves	9,110	9,203
Deferred income taxes	59,269	51,768
Other noncurrent liabilities	9,718	10,679
Total liabilities	234,003	242,861
Minority interest in subsidiaries	421	271
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 34,257,419 in 2002 and 33,466,512 in 2001	401	401
Additional paid-in capital, common	258,939	261,647
Retained earnings	610,114	532,122
Accumulated other comprehensive loss	(21,133)	(22,038)
Treasury common stock, at cost	(94,798)	(99,199)
Total stockholders' equity	753,523	672,933
Commitments and contingencies	—	—
 Total Liabilities and Stockholders' Equity	 \$ 987,947	 \$ 916,065

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Years Ended December 28, 2002, December 29, 2001, and December 30, 2000

<i>(In thousands)</i>	2002	2001	2000
<b>Operating activities:</b>			
Net income from continuing operations	\$ 71,177	\$ 65,423	\$ 92,985
Reconciliation of net income from continuing operations to net cash provided by operating activities:			
Depreciation	36,979	34,539	29,345
Amortization	461	4,922	4,698
Income tax benefit from exercise of stock options	13,243	356	1,402
Deferred income taxes	9,686	15,737	8,187
Provision for doubtful accounts receivable	374	526	586
Minority interest in subsidiaries, net of dividend paid	150	(26)	(57)
Gain on disposal of properties	(485)	(249)	(413)
Changes in assets and liabilities, net of businesses acquired:			
Receivables	6,021	1,293	13,851
Inventories	(13,744)	13,778	(21,993)
Other assets	(4,154)	1,534	464
Current liabilities	3,683	(14,591)	(3,725)
Other liabilities	(91)	(585)	(1,014)
Other, net	917	(1,204)	(3,697)
Net cash provided by operating activities	124,217	121,453	120,619
<b>Investing activities:</b>			
Proceeds from sale of Utah Railway Company	55,403	—	—
Capital expenditures	(23,265)	(46,624)	(62,876)
Acquisition of businesses	(20,457)	—	(15,245)
Proceeds from sales of properties	8,165	2,715	683
Purchase of Conbraco Industries, Inc. common stock	(7,320)	—	—
Escrowed IRB proceeds	2,445	(2,515)	—
Net cash provided by (used in) investing activities	14,971	(46,424)	(77,438)
<b>Financing activities:</b>			
Repayments of long-term debt	(34,119)	(65,911)	(132,986)
Acquisition of treasury stock	(14,754)	—	(48,411)
Proceeds from the sale of treasury stock	3,204	1,729	2,708
Proceeds from issuance of long-term debt	—	10,000	90,000
Net cash used in financing activities	(45,669)	(54,182)	(88,689)
Effect of exchange rate changes on cash	719	(1,084)	(844)
Increase (decrease) in cash and cash equivalents	94,238	19,763	(46,352)
Cash provided by (used in) discontinued operations	1,501	1,831	(2,834)
Cash and cash equivalents at the beginning of the year	121,862	100,268	149,454
Cash and cash equivalents at the end of the year	\$ 217,601	\$ 121,862	\$ 100,268

For supplemental disclosures of cash flow information, see Notes 1, 5, 7, and 13.

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Stockholders' Equity

Years Ended December 28, 2002, December 29, 2001, and December 30, 2000

(In thousands)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Number of Shares	Amount				Number of Shares	Cost	
<b>Balance, December 25, 1999</b>	40,092	\$ 401	\$ 259,977	\$ 372,477	\$ (8,112)	5,173	\$ (55,313)	\$ 569,430
Comprehensive income:								
Net income	—	—	—	92,690	—	—	—	92,690
Other comprehensive loss:								
Foreign currency translation	—	—	—	—	(3,714)	—	—	(3,714)
Comprehensive income								88,976
Issuance of shares under incentive stock option plan	—	—	(400)	—	—	(295)	3,108	2,708
Repurchase of common stock	—	—	—	—	—	1,856	(48,411)	(48,411)
Tax benefit related to employee stock options	—	—	1,402	—	—	—	—	1,402
<b>Balance, December 30, 2000</b>	40,092	401	260,979	465,167	(11,826)	6,734	(100,616)	614,105
Comprehensive income:								
Net income	—	—	—	66,955	—	—	—	66,955
Other comprehensive income (loss):								
Foreign currency translation	—	—	—	—	(4,564)	—	—	(4,564)
Minimum pension liability adjustment, net of applicable income tax benefit of \$1,165	—	—	—	—	(4,370)	—	—	(4,370)
Cumulative effect of change in accounting for derivative financial instruments, net of applicable income taxes of \$75	—	—	—	—	122	—	—	122
Change in fair value of derivatives, net of applicable income tax benefit of \$1,414	—	—	—	—	(2,306)	—	—	(2,306)
Losses reclassified into earnings from other comprehensive income, net of applicable income tax benefit of \$556	—	—	—	—	906	—	—	906
Comprehensive income								56,743
Issuance of shares under incentive stock option plan	—	—	312	—	—	(109)	1,417	1,729
Tax benefit related to employee stock options	—	—	356	—	—	—	—	356
<b>Balance, December 29, 2001</b>	40,092	401	261,647	532,122	(22,038)	6,625	(99,199)	672,933
Comprehensive income:								
Net income	—	—	—	77,992	—	—	—	77,992
Other comprehensive income (loss):								
Foreign currency translation	—	—	—	—	10,706	—	—	10,706
Minimum pension liability adjustment, net of applicable income taxes of \$1,153	—	—	—	—	(12,747)	—	—	(12,747)
Change in fair value of derivatives, net of applicable income tax benefit of \$386	—	—	—	—	(630)	—	—	(630)
Losses reclassified into earnings from other comprehensive income, net of applicable income tax benefit of \$685	—	—	—	—	3,576	—	—	3,576
Comprehensive income								78,897
Issuance of shares under incentive stock option plan	—	—	(15,951)	—	—	(1,247)	19,155	3,204
Repurchase of common stock	—	—	—	—	—	456	(14,754)	(14,754)
Tax benefit related to employee stock options	—	—	13,243	—	—	—	—	13,243
<b>Balance, December 28, 2002</b>	<b>40,092</b>	<b>\$ 401</b>	<b>\$ 258,939</b>	<b>\$ 610,114</b>	<b>\$ (21,133)</b>	<b>5,834</b>	<b>\$ (94,798)</b>	<b>\$ 753,523</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## Note 1 - Summary of Significant Accounting Policies

### *Nature of Operations*

The principal business of Mueller Industries, Inc. is the manufacture and sale of 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; fabricated tubular products; and gas valves and assemblies. The Company markets its products to the HVAC, plumbing, refrigeration, hardware, and other industries. Mueller's operations are located throughout the United States and in Canada, Mexico, and Great Britain.

### *Principles of Consolidation*

The Consolidated Financial Statements include the accounts of Mueller Industries, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The minority interest represents separate private ownership of 25 percent of Ruby Hill Mining Company and 19 percent of Richmond-Eureka Mining Company.

### *Inventories*

The Company's inventories are valued at the lower of cost or market. The material component of its U.S. copper tube and copper fittings inventories is valued on a last-in, first-out (LIFO) basis. Other inventories, including the non-material components of U.S. copper tube and copper fittings, are valued on a first-in, first-out (FIFO) basis. Inventory costs include material, labor costs, and manufacturing overhead.

### *Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost. Depreciation of buildings, machinery, and equipment is provided on the straight-line method over the estimated useful lives ranging from 20 to 40 years for buildings and five to 20 years for machinery and equipment.

### *Goodwill and Other Intangible Assets*

Goodwill represents cost in excess of fair values assigned to the underlying net assets of acquired businesses, and was historically amortized using the straight-line method over 20 to 25 years. Effective July 1, 2001, the Company adopted the provisions of Statements of Financial Accounting Standards No. 141, *Business Combinations* (SFAS No. 141), and No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), applicable to business combinations completed after June 30, 2001. In accordance with these standards, goodwill acquired after June 30, 2001 is not amortized.

At the beginning of 2002, the remaining provisions of SFAS No. 142 were effective for the Company. This standard describes the accounting for intangible assets and goodwill subsequent to initial recognition. Under this standard, goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization. Therefore, amortization of goodwill ceased at the end of 2001. All other intangible assets are amortized over their estimated useful lives. Goodwill is subject to impairment testing using the guidance and criteria described in the standard. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is required to be reduced to fair value.

Prior to the adoption of SFAS No. 142, the Company evaluated potential impairment of goodwill on an ongoing basis and of other intangible assets when appropriate. This evaluation compared the carrying value of assets to the sum of the undiscounted expected future cash flows. If an asset's carrying value exceeded the expected cash flows, the asset would be written-down to fair value.

### *Revenue Recognition*

Revenue is recognized when products are shipped. The Company classifies the cost of shipping its product to customers as a component of cost of goods sold.

### *Stock-Based Compensation*

The Company accounts for its stock-based compensation plans using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related

# Notes to Consolidated Financial Statements

Interpretations. No stock-based employee compensation expense is reflected in net income because the exercise price of the Company's incentive employee stock options equals the market price of the underlying stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), to stock-based employee compensation.

<i>(In thousands, except per share data)</i>	<b>2002</b>	2001	2000
Net income	\$ <b>77,992</b>	\$ 66,955	\$ 92,690
SFAS No. 123 compensation expense, net of income taxes	<b>(2,485)</b>	(1,991)	(2,257)
SFAS No. 123 pro forma net income	<b>\$ 75,507</b>	\$ 64,964	\$ 90,433
Pro forma earnings per share:			
Basic	\$ <b>2.22</b>	\$ 1.94	\$ 2.64
Diluted	\$ <b>2.04</b>	\$ 1.75	\$ 2.39
Earnings per share, as reported:			
Basic	\$ <b>2.29</b>	\$ 2.00	\$ 2.70
Diluted	\$ <b>2.11</b>	\$ 1.80	\$ 2.43

## *Earnings Per Share*

Basic earnings per share is computed based on the average number of common shares outstanding. Diluted earnings per share reflects the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options calculated using the treasury stock method.

## *Income Taxes*

The Company accounts for income taxes using the liability method required by Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS No. 109).

## *Cash Equivalents*

Temporary investments with maturities of three months or less are considered to be cash equivalents. These investments are stated at cost. At December 28, 2002 and December 29, 2001, temporary investments consisted of certificates of deposit, commercial paper, bank repurchase agreements, and U.S. and foreign government securities totaling \$219.7 million and \$122.1 million, respectively.

## *Concentrations of Credit and Market Risk*

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's customer base, and their dispersion across different industries, including HVAC, plumbing, refrigeration, hardware, automotive, OEMs, and others.

The Company minimizes its exposure to base metal price fluctuations through various strategies. Generally, it prices an equivalent amount of copper raw material, under flexible pricing arrangements it maintains with its suppliers, at the time it determines the selling price of finished products to its customers.

At December 28, 2002, the Company held open forward commitments to purchase approximately \$0.9 million of copper in the next 12 months and approximately \$0.6 million of natural gas in the next 3 months.

## *Derivative Instruments and Hedging Activities*

Effective at the beginning of fiscal 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (SFAS No. 138), which requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for

# Notes to Consolidated Financial Statements

designation and effectiveness of hedging relationships. The cumulative effect of adopting SFAS No. 133 and SFAS No. 138 as of the beginning of fiscal 2001 was not material to the Company's Consolidated Financial Statements. The amounts of gains and losses reported in accumulated other comprehensive loss upon adoption of SFAS No. 133 and SFAS No. 138 that were reclassified into earnings during the 12 months following the adoption were also not material to the Company's Consolidated Financial Statements.

The Company has utilized forward contracts to manage the volatility related to purchases of copper and natural gas, and sales denominated in foreign currencies. In addition, the Company has reduced its exposure to increases in interest rates by entering into an interest rate swap contract. These contracts have been designated as cash flow hedges. In accordance with SFAS No. 133, the Company has recorded the fair value of these contracts in the Consolidated Balance Sheets. The related gains and losses on the contracts are deferred in stockholders' equity as a component of comprehensive income. With respect to the copper and natural gas contracts, deferred gains and losses are recognized in cost of goods sold in the period in which the related sales or consumption of the commodities are recognized. Deferred gains and losses on foreign currency contracts are recognized in selling, general, and administrative expense in the period in which the foreign sales are collected. Deferred gain or loss on the interest rate swap contract is recognized in interest expense in the period in which the related interest payment being hedged is expensed. As of December 28, 2002, the Company expects to reclassify \$0.2 million of net losses on derivative instruments from accumulated other comprehensive loss into earnings during the next 12 months. To the extent that the changes in the fair value of the contracts do not perfectly offset the changes in the present value of the hedged transactions, that ineffective portion is immediately recognized in earnings. Gains and losses recognized by the Company in 2002 related to the ineffective portion of its hedging instruments, as well as gains and losses related to the portion of the hedging instruments excluded from the assessment of hedge effectiveness, were not material to the Company's Consolidated Financial Statements. Should these contracts no longer meet hedge criteria in accordance with SFAS No. 133, either through lack of effectiveness or because the hedged transaction is not probable of occurring, all deferred gains and losses related to the hedge will be immediately reclassified from accumulated other comprehensive loss into earnings.

Prior to the adoption of SFAS No. 133, the Company also used copper, natural gas, and foreign currency forward contracts for hedging purposes. Unrealized gains and losses on these contracts were not recognized in income. Realized gains and losses were recognized when the related operating revenue or expense was recognized.

The Company executes derivative contracts with counterparties that expose the Company to credit risk in the event of non-performance. Management considers the exposure to be minimal due to the historical limited use of derivative contracts.

## *Fair Value of Financial Instruments*

The carrying amounts for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short-term maturity of these instruments. Using a discounted cash flow analysis, the fair value of the Company's long-term debt instruments exceeded their carrying value by \$1.0 million and \$0.9 million at December 28, 2002 and December 29, 2001, respectively, based on the estimated current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's interest rate swap contract was approximately \$(1.3) million at December 28, 2002. This value represents the estimated amount the Company would need to pay if such contract is terminated before maturity, principally resulting from market interest rate decreases. The contracted rates on committed forward contracts do not exceed the market rates for similar term contracts at December 28, 2002. The Company estimates the fair value of contracts by obtaining quoted market prices.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## *Foreign Currency Translation*

For foreign subsidiaries, the functional currency is the local currency. Balance sheet accounts are translated at exchange rates in effect at the end of the year and income statement accounts are translated at average exchange rates for the year. Translation gains and losses are included in stockholders' equity as a component of comprehensive income. Transaction gains and losses included in the Consolidated Statements of Income were not significant.

# Notes to Consolidated Financial Statements

## *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## *Recently Issued Accounting Standards*

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), in June 2001. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 will not have a significant effect on earnings or the financial position of the Company.

In September 2002, Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, was issued. This statement provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. This statement is effective for exit and disposal activities initiated on or after January 1, 2003 and does not impact recognition of costs under the Company's existing program. Adoption of this standard may impact the timing of recognition of costs, if any, associated with future exit and disposal activities.

In November 2002, FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, was issued. The interpretation provides guidance on the guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. The Company has adopted the disclosure requirements of the interpretation as of December 28, 2002. The accounting guidelines are applicable to guarantees issued after December 28, 2002 and require that the Company record a liability for the fair value of such guarantees in the balance sheet. The adoption of this interpretation will not have a significant effect on earnings or the financial position of the Company.

In January 2003, FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), was issued. The interpretation provides guidance on consolidating variable interest entities and applies immediately to variable interest entities created after January 31, 2003. The guidelines of the interpretation will become applicable for the Company in its third quarter 2003 financial statements for variable interest entities created before February 1, 2003. The interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack certain specified characteristics. The adoption of FIN 46 will not have an effect on earnings or the financial position of the Company.

## *Reclassifications*

Certain amounts in the 2001 and 2000 Consolidated Financial Statements have been reclassified to conform to the 2002 presentation.

## **Note 2 - Inventories**

<i>(In thousands)</i>	<b>2002</b>	<b>2001</b>
Raw material and supplies	<b>\$ 22,692</b>	\$ 28,185
Work-in-process	<b>21,477</b>	16,346
Finished goods	<b>98,784</b>	82,098
Inventories	<b><u>\$ 142,953</u></b>	<b><u>\$ 126,629</u></b>

Inventories valued using the LIFO method totaled \$37.2 million at December 28, 2002 and \$33.7 million at December 29, 2001. At December 28, 2002 and December 29, 2001, the FIFO cost of such inventories approximates the LIFO values.

# Notes to Consolidated Financial Statements

## Note 3 - Property, Plant, and Equipment, Net

<i>(In thousands)</i>	2002	2001
Land and land improvements	\$ 11,742	\$ 9,266
Buildings	82,931	83,125
Machinery and equipment	444,570	458,898
Construction in progress	13,618	26,748
	<b>552,861</b>	<b>578,037</b>
Less accumulated depreciation	<b>(200,392)</b>	<b>(190,504)</b>
Property, plant, and equipment, net	<b>\$ 352,469</b>	<b>\$ 387,533</b>

## Note 4 - Goodwill

Effective at the beginning of 2002, the Company ceased the amortization of goodwill in accordance with SFAS No. 142. A reconciliation of reported net income and earnings per share to pro forma net income and earnings per share that would have resulted if SFAS No. 142 had been adopted at the beginning of 2000 is as follows:

<i>(In thousands, except per share data)</i>	2002	2001	2000
Net income	\$ 77,992	\$ 66,955	\$ 92,690
Goodwill amortization, net of tax	—	3,849	4,593
Pro forma net income	<b>\$ 77,992</b>	<b>\$ 70,804</b>	<b>\$ 97,283</b>
Pro forma earnings per share:			
Basic	\$ 2.29	\$ 2.12	\$ 2.83
Diluted	\$ 2.11	\$ 1.90	\$ 2.55
Earnings per share, as reported:			
Basic	\$ 2.29	\$ 2.00	\$ 2.70
Diluted	\$ 2.11	\$ 1.80	\$ 2.43

The changes in the carrying amount of goodwill during the year ended December 28, 2002 were as follows:

<i>(In thousands)</i>	Standard Products Division	Industrial Products Division	Total
Balance at December 29, 2001	\$ 90,249	\$ 8,500	\$ 98,749
Goodwill acquired during the year	<b>4,610</b>	<b>2,192</b>	<b>6,802</b>
Balance at December 28, 2002	<b>\$ 94,859</b>	<b>\$ 10,692</b>	<b>\$ 105,551</b>

Goodwill is subject to impairment testing as required under SFAS No. 142. As of December 28, 2002, the Company was not required to recognize any goodwill impairment. There can be no assurance that goodwill impairment will not occur in the future.

# Notes to Consolidated Financial Statements

## Note 5 - Long-Term Debt

<i>(In thousands)</i>	2002	2001
Line-of-credit at floating rate, matures November 2003	\$ —	\$ 30,000
2001 Series IRBs with interest at 6.63%, due 2021	10,000	10,000
1997 Series IRBs with interest at 7.39%, due through 2014	6,625	10,125
1997 Series IRBs with interest at 3.2%, due through 2003	200	545
Other, including capitalized lease obligations	1,341	303
	<b>18,166</b>	50,973
Less current portion of long-term debt	(4,161)	(3,996)
Long-term debt	<b>\$ 14,005</b>	\$ 46,977

The Company has a Credit Agreement (the Agreement) with a syndicate of five banks establishing an unsecured \$200 million revolving credit facility (the Credit Facility) which matures in November 2003. Borrowings under the Credit Facility bear interest, at the Company's option, at (i) LIBOR plus a variable premium or (ii) the larger of Prime, or the Federal Funds rate plus .50 percent. LIBOR advances may be based upon the one, two, three, or six-month LIBOR. The variable premium over LIBOR is based on certain financial ratios, and can range from 25 to 40 basis points. At December 28, 2002, the premium was 25 basis points. Additionally, a facility fee is payable quarterly on the total commitment and varies from 12.5 to 22.5 basis points based upon the Company's capitalization ratio. When funded debt is 50 percent or more of the commitment, a utilization fee is payable quarterly on the average loan balance outstanding and varies from 0 to 20 basis points based upon the capitalization ratio. Availability of funds under the Credit Facility is reduced by the amount of certain outstanding letters of credit, which totaled approximately \$6.6 million at December 28, 2002.

Borrowings under the above Agreement require the Company, among other things, to maintain certain minimum levels of net worth and meet certain minimum financial ratios. The Company is in compliance with all debt covenants.

On February 13, 2001, the Company, through a wholly owned subsidiary, issued \$10 million of 2001 Series IRBs. The Company entered into an interest rate swap agreement, which fixes the interest rate at 6.63 percent for seven years. Subsequent to the seven-year period, the rate will convert to LIBOR plus .90 percent. The IRBs call for quarterly interest payments through March 1, 2011 and for quarterly principal payments of \$250 thousand plus interest from June 1, 2011 to March 1, 2021.

Aggregate annual maturities of the Company's debt are \$4.2 million, \$2.7 million, \$0.3 million, \$0.4 million, and \$0.3 million for the years 2003 through 2007 respectively, and \$10.3 million thereafter. Interest paid in 2002, 2001, and 2000 was \$1.6 million, \$5.5 million, and \$10.6 million, respectively. During 2001 and 2000, the Company capitalized interest of \$1.4 million and \$1.2 million, respectively, related to its major capital improvement programs. No interest was capitalized in 2002.

The Company has guarantees which are letters of credit issued by the Company generally to guarantee the payment of insurance deductibles and retiree health benefits. 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 be required to make under its guarantees at December 28, 2002 is \$6.6 million.

## Note 6 - Stockholders' Equity

On November 10, 1994, the Company declared a dividend distribution of one Right for each outstanding share of the Company's common stock. Each Right entitles the holder to purchase one unit consisting of one-thousandth of a share of Series A Junior Participating Preferred Stock at a purchase price of \$160 per unit, subject to adjustment. The Rights will not be exercisable, or transferable apart from the Company's common stock, until 10 days following an announcement that a person or affiliated group has acquired, or obtained the right to acquire, beneficial ownership of 15 percent or more of its common stock other than pursuant to certain offers for all shares of the Company's common stock that have been determined to be fair to, and in the best interest of, the Company's stockholders. The Rights, which do not have voting rights, will be exercisable by all holders (except for a holder or affiliated group beneficially owning 15 percent or more of the Company's

## Notes to Consolidated Financial Statements

common stock, whose Rights will be void) so that each holder of a Right shall have the right to receive, upon the exercise thereof, at the then current exercise price, the number of shares of the Company's common stock having a market value of two times the exercise price of the Rights. All Rights expire on November 10, 2004, and may be redeemed by the Company at a price of \$.01 at any time prior to either their expiration or such time that the Rights become exercisable.

In the event that the Company is acquired in a merger or other business combination, or certain other events occur, provision shall be made so that each holder of a Right (except Rights previously voided) shall have the right to receive, upon exercise thereof at the then current exercise price, the number of shares of common stock of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the Right.

On October 18, 1999, the Company's Board of Directors authorized the repurchase of up to four million shares of the Company's common stock from time-to-time through open market transactions or through privately negotiated transactions. During 2000, this authorization was expanded to purchase up to 10 million shares. During 2002, this authorization was extended through October 2003. 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 purchases will be funded primarily through existing cash and cash from operations. The Company may hold such shares in treasury or use a portion of the repurchased shares for employee benefit plans, as well as for other corporate purposes. Through December 28, 2002, the Company had repurchased approximately 2.4 million shares under this authorization.

Components of accumulated other comprehensive loss are as follows:

<i>(In thousands)</i>	2002	2001
Cumulative foreign currency translation adjustment	\$ (3,226)	\$ (16,390)
Minimum pension liability, net of income tax	(17,117)	(4,370)
Unrealized derivative losses, net of income tax	(790)	(1,278)
Accumulated other comprehensive loss	<u>\$ (21,133)</u>	<u>\$ (22,038)</u>

### Note 7 - Income Taxes

The components of income from continuing operations before income taxes were taxed under the following jurisdictions:

<i>(In thousands)</i>	2002	2001	2000
Domestic	\$ 90,667	\$ 114,984	\$ 148,642
Foreign	(2,200)	(10,579)	(4,561)
Income from continuing operations before income taxes	<u>\$ 88,467</u>	<u>\$ 104,405</u>	<u>\$ 144,081</u>

Income tax expense attributable to continuing operations consists of the following:

<i>(In thousands)</i>	2002	2001	2000
Current tax expense:			
Federal	\$ 6,917	\$ 21,532	\$ 40,387
Foreign	287	595	816
State and local	400	1,118	1,706
Current tax expense	<u>7,604</u>	<u>23,245</u>	<u>42,909</u>
Deferred tax expense:			
Federal	9,215	15,032	7,687
Foreign	137	(54)	—
State and local	334	759	500
Deferred tax expense	<u>9,686</u>	<u>15,737</u>	<u>8,187</u>
Income tax expense	<u>\$ 17,290</u>	<u>\$ 38,982</u>	<u>\$ 51,096</u>

## Notes to Consolidated Financial Statements

U.S. income and foreign withholding taxes are provided on the earnings of foreign subsidiaries that are expected to be remitted to the extent that taxes on the distribution of such earnings would not be offset by foreign tax credits.

The difference between the reported income tax expense and a tax determined by applying the applicable U.S. federal statutory income tax rate to income from continuing operations before income taxes is reconciled as follows:

<i>(In thousands)</i>	2002	2001	2000
Expected income tax expense	\$ 30,964	\$ 36,542	\$ 50,429
State and local income tax, net of federal benefit	594	1,542	1,500
Foreign income taxes	1,330	3,657	2,136
Valuation allowance	(14,928)	(284)	(3,923)
Other, net	(670)	(2,475)	954
Income tax expense	<u>\$ 17,290</u>	<u>\$ 38,982</u>	<u>\$ 51,096</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

<i>(In thousands)</i>	2002	2001
Deferred tax assets:		
Accounts receivable	\$ 1,806	\$ 1,880
Inventories	1,560	1,628
Pension, OPEB, and accrued items	10,531	11,078
Other reserves	7,905	7,365
Net operating loss carryforwards	22,043	31,775
Capital loss carryforwards	2,575	17,500
Foreign tax credits	—	95
Alternative minimum tax credit carryforwards	4,026	4,243
Other	398	3,207
Total deferred tax assets	<u>50,844</u>	<u>78,771</u>
Less valuation allowance	<u>(33,030)</u>	<u>(58,535)</u>
Deferred tax assets, net of valuation allowance	<u>17,814</u>	<u>20,236</u>
Deferred tax liabilities:		
Property, plant, and equipment	70,356	67,396
Other	2,221	1,954
Total deferred tax liabilities	<u>72,577</u>	<u>69,350</u>
Net deferred tax liability	<u>\$ (54,763)</u>	<u>\$ (49,114)</u>

As of December 28, 2002, the Company had recognized domestic net operating loss carryforwards (NOLs) of \$32.7 million, of which \$25.9 million expire in 2005 and \$6.8 million expire in 2006. During 2000, the Company recognized \$3.8 million of NOL tax attributes, reducing the deferred income tax provision in that year. In addition, the Company has alternative minimum tax credit carryforwards of approximately \$4.0 million, which are available to reduce future federal regular income taxes, if any, over an indefinite period.

As of December 28, 2002, the Company had foreign net operating loss carryforwards (foreign NOLs) available to offset \$35.3 million of foreign subsidiary income. These foreign NOLs have not been recognized, and are available to offset foreign subsidiary income over an indefinite period. The disposition of Mueller Europe S.A. reduced the Company's foreign NOLs by \$27.9 million, which had been entirely reserved by a valuation allowance.

The 1999 sale of a subsidiary resulted in the realization of an ordinary federal tax loss of approximately \$70 million of which \$45 million has been recognized. The Internal Revenue Service agreed to allow this loss as part of the comprehensive closing agreement, which concluded the audit of the years 1993 through 1995. For financial reporting purposes, additional recognition may occur in future periods.

# Notes to Consolidated Financial Statements

During 2002, the Company realized capital gains totaling approximately \$41.4 million, primarily from the sale of Utah Railway Company. Existing capital loss carryforwards, which for financial reporting purposes were entirely reserved by a valuation allowance, were used to offset the 2002 capital gains. The income tax benefit of approximately \$14.9 million generated by eliminating this valuation allowance was recognized as a reduction to income taxes provided for continuing operations in accordance with SFAS No. 109. Income tax expense included in the operation of discontinued operations was \$2.7 million in 2002, \$2.1 million in 2001, and \$3.1 million in 2000.

Income taxes (refunded) paid were approximately \$(0.2) million in 2002, \$28.3 million in 2001, and \$43.6 million in 2000.

## Note 8 - Other Current Liabilities

Included in other current liabilities were accrued discounts and allowances of \$21.2 million at December 28, 2002, and \$22.5 million at December 29, 2001.

## Note 9 - Employee Benefits

The Company sponsors several qualified and nonqualified pension plans and other postretirement benefit plans for certain of its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and the fair value of the plans' assets over the two-year period ending December 28, 2002, and a statement of the plans' funded status as of December 28, 2002 and December 29, 2001:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
<i>(In thousands)</i>				
Change in benefit obligation:				
Obligation at beginning of year	\$ 103,008	\$ 103,417	\$ 8,114	\$ 7,996
Service cost	1,354	1,802	5	13
Interest cost	7,407	7,222	853	702
Participant contributions	295	408	—	—
Actuarial loss	11,000	943	2,527	1,659
Benefit payments	(6,049)	(7,324)	(770)	(1,365)
Curtailments	—	(2,429)	—	(891)
Settlement	—	(122)	—	—
Foreign currency translation adjustment	3,639	(909)	—	—
Obligation at end of year	\$ 120,654	\$ 103,008	\$ 10,729	\$ 8,114
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	\$ 112,563	\$ 126,683	\$ —	\$ —
Actual return on plan assets	(13,086)	(7,523)	—	—
Employer contributions	1,938	1,331	770	1,365
Participant contributions	295	408	—	—
Benefit payments	(6,049)	(7,324)	(770)	(1,365)
Settlement	—	(122)	—	—
Foreign currency translation adjustment	2,590	(890)	—	—
Fair value of plan assets at end of year	\$ 98,251	\$ 112,563	\$ —	\$ —
Funded status:				
Funded (underfunded) status at end of year	\$ (22,403)	\$ 9,555	\$ (10,729)	\$ (8,114)
Unrecognized prior service cost	3,149	4,005	(88)	(96)
Unrecognized (gain) loss	24,688	(10,331)	2,791	386
Net amount recognized	\$ 5,434	\$ 3,229	\$ (8,026)	\$ (7,824)

## Notes to Consolidated Financial Statements

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were \$93.9 million, \$91.8 million, and \$70.2 million, respectively, as of December 28, 2002, and \$43.6 million, \$42.1 million, and \$38.4 million, respectively, as of December 29, 2001.

The following table provides the amounts recognized in the Consolidated Balance Sheets as of December 28, 2002 and December 29, 2001:

<i>(In thousands)</i>	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Prepaid benefit cost	\$ 8,967	\$ 6,956	\$ –	\$ –
Intangible asset	1,702	–	–	–
Accrued benefit liability	(22,365)	(9,262)	(8,026)	(7,824)
Accumulated other comprehensive loss	17,130	5,535	–	–
Net amount recognized	\$ 5,434	\$ 3,229	\$ (8,026)	\$ (7,824)

The components of net periodic benefit cost (income) are as follows:

<i>(In thousands)</i>	2002	2001	2000
Pension benefits:			
Service cost	\$ 1,354	\$ 1,802	\$ 2,620
Interest cost	7,407	7,222	7,193
Expected return on plan assets	(9,061)	(9,794)	(9,614)
Amortization of prior service cost	856	904	875
Amortization of net gain	(714)	(1,749)	(1,701)
Net periodic benefit income	\$ (158)	\$ (1,615)	\$ (627)
Other benefits:			
Service cost	\$ 5	\$ 13	\$ 16
Interest cost	853	702	621
Amortization of prior service cost	(8)	(8)	(8)
Amortization of net gain	122	–	(25)
Curtailment gain	–	(323)	–
Net periodic benefit cost	\$ 972	\$ 384	\$ 604

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10 percent of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The assumptions used in the measurement of the Company's benefit obligations are as follows:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Weighted average assumptions:				
Discount rate	6.42%	7.25%	6.75%	8.34%
Expected return on plan assets	8.05%	8.10%	N/A	N/A
Rate of compensation increases	4.00%	4.25%	N/A	N/A

Only one pension plan uses the rate of compensation increase in its benefit formula. All other pension plans are based on length of service.

The annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to range from 7.8 to 11.0 percent for 2002, gradually decrease to 6.0 percent for 2011, and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the

# Notes to Consolidated Financial Statements

assumed health care cost trend rates by one percentage point would increase the accumulated postretirement benefit obligation by \$896 thousand and the service and interest cost components of net periodic postretirement benefit costs by \$76 thousand for 2002. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit costs for 2002 by \$817 thousand and \$70 thousand, respectively.

The Company sponsors voluntary employee savings plans that qualify under Section 401(k). Compensation expense for the Company's matching contribution to the 401(k) plans was \$2.0 million in 2002, \$2.1 million in 2001, and \$2.0 million in 2000. The Company's match is a cash contribution.

Participants direct the investment of their account balances by allocating among a range of asset classes including mutual funds (equity, fixed income, and balanced funds), and money market funds. The plans do not offer direct investment in securities issued by the Company.

In October 1992, the Coal Industry Retiree Health Benefit Act of 1992 (the Act) was enacted. The Act mandates a method of providing for postretirement benefits to UMWA current and retired employees, including some retirees who were never employed by the Company. In October 1993, beneficiaries were assigned to the Company and the Company began its mandated contributions to the UMWA Combined Benefit Fund, a multiemployer trust. Beginning in 1994, the Company was required to make contributions for assigned beneficiaries under an additional multiemployer trust created by the Act, the UMWA 1992 Benefit Plan. The ultimate amount of the Company's liability under the Act will vary due to factors which include, among other things, the validity, interpretation, and regulation of the Act, its joint and several obligation, the number of valid beneficiaries assigned, and the extent to which funding for this obligation will be satisfied by transfers of excess assets from the 1950 UMWA pension plan and transfers from the Abandoned Mine Reclamation Fund. Nonetheless, the Company believes it has an adequate reserve for this liability.

The Company maintains a nonqualified, deferred compensation plan, which permits certain management employees to annually elect to defer, on a pretax basis, a portion of their compensation. The deferred benefit to be provided is based on the amount of compensation deferred, Company match, and earnings on the deferrals. During 2001, the Company match was discontinued. Other expenses associated with the plan in 2002 and 2001 were insignificant. Expenses associated with the deferred compensation plan were \$0.2 million in 2000. The Company has invested in certain assets to assist in funding this plan. The fair value of these assets, included in other assets, was \$5.5 million at December 28, 2002 and December 29, 2001.

The Company makes contributions to certain multiemployer defined benefit pension plan trusts that cover union employees based on collective bargaining agreements. Contributions by employees are not required nor are they permitted. Pension expense under the multiemployer defined benefit pension plans was \$0.3 million for 2002, 2001, and 2000.

## Note 10 - Commitments and Contingencies

The Company is subject to environmental standards imposed by federal, state, local, and foreign environmental laws and regulations. It has provided and charged to income \$1.6 million in 2002, \$3.6 million in 2001, and \$2.0 million in 2000 for pending environmental matters. The basis for the provision is updated information and results of ongoing remediation and monitoring programs. Management believes that the outcome of pending environmental matters will not materially affect the financial position or results of operations of the Company.

The Company is involved in certain litigation as a result of claims that arise 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.

The Company is aware of investigations of competition in markets in which it participates, or has participated in the past, in Europe, Canada, and the United States. No charges or allegations have been filed against the Company, which is cooperating with the investigations. The Company does not anticipate any material adverse effect on its business or financial condition as a result of the investigations.

The Company leases certain facilities and equipment under operating leases expiring on various dates through 2008. The lease payments under these agreements aggregate to approximately \$4.0 million in 2003, \$3.7 million in 2004, \$2.4 million in 2005, \$1.9 million in 2006, \$1.5 million in 2007, and \$1.0 million thereafter. Total lease expense amounted to \$10.6 million in 2002, \$8.8 million in 2001, and \$9.0 million in 2000.

# Notes to Consolidated Financial Statements

## Note 11 -Other Income, Net

<i>(In thousands)</i>	2002	2001	2000
Rent and royalties	\$ 2,364	\$ 686	\$ 791
Interest income	3,111	4,826	7,911
Gain on disposal of properties, net	485	249	413
Minority interest in income of subsidiaries	(150)	26	—
Other income, net	<u>\$ 5,810</u>	<u>\$ 5,787</u>	<u>\$ 9,115</u>

## Note 12 -Stock Options

The Company follows APB No. 25 in accounting for its employee stock options. Under APB No. 25, no compensation expense is recognized because the exercise price of the Company's incentive employee stock options equals the market price of the underlying stock on the date of grant.

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 the grant. Generally, the options vest annually in 20 percent increments over a five-year period beginning one year from the date of the grant. Any unexercised options expire after not more than ten years. No options may be granted after ten years from the date of plan adoption.

Additionally, the Company has granted stock options to key executives as retention incentives and inducements to enter into employment agreements with the Company. Generally, these special grants have terms and conditions similar to those granted under the Company's other stock option plans.

The income tax benefit associated with the exercise of stock options reduced income taxes payable, classified as other current liabilities, by \$13.2 million in 2002, \$0.4 million in 2001, and \$1.4 million in 2000. Such benefits are reflected as additions directly to additional paid-in capital and, therefore, have no effect on the Company earnings.

<i>(Shares in thousands)</i>	Options	Weighted Average Exercise Price
Outstanding at December 25, 1999	5,199	\$ 6.94
Granted	150	24.42
Exercised	(311)	10.07
Expired, cancelled, or surrendered	<u>(16)</u>	24.70
Outstanding at December 30, 2000	5,022	7.22
Granted	76	29.43
Exercised	(120)	17.55
Expired, cancelled, or surrendered	<u>(42)</u>	26.03
Outstanding at December 29, 2001	4,936	7.15
Granted	261	31.79
Exercised	(1,255)	2.80
Expired, cancelled, or surrendered	<u>(21)</u>	30.39
Outstanding at December 28, 2002	<u>3,921</u>	\$ 10.06
Options exercisable at:		
December 30, 2000	4,377	\$ 4.75
December 29, 2001	4,462	5.24
December 28, 2002	<b>3,410</b>	<b>7.24</b>

# Notes to Consolidated Financial Statements

Exercise prices for stock options outstanding at December 28, 2002, ranged from \$2.06 to \$37.04. Of the 3.9 million stock options that are outstanding at year-end, 2.4 million are owned by the Chairman of the Company's Board of Directors, Mr. Harvey L. Karp, and expire one year after Mr. Karp's separation from employment with the Company. Mr. Karp's options have an exercise price of \$2.06 per share. The weighted average remaining life of the remaining 1.5 million shares is 5.9 years, and the weighted average exercise price of these shares is \$22.67. The weighted average fair value per option granted was \$12.49 in 2002, \$13.58 in 2001, and \$12.60 in 2000.

During the year ended December 28, 2002, Mr. Karp exercised options to purchase 1.2 million shares of Company stock. As provided in Mr. Karp's option agreement, the Company withheld the number of shares, at their fair market value, sufficient to cover the minimum withholding taxes incurred by the exercise. These shares withheld have been classified as acquisition of treasury stock in the Company's Consolidated Financial Statements.

As of December 29, 2001, the Company had reserved 3.7 million shares of its common stock for issuance pursuant to certain stock option plans. Additionally, the Company had reserved 15 thousand shares of preferred stock for issuance pursuant to the shareholder rights plan.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value for these options at the date of grant was estimated using the following weighted average assumptions for the years 2002, 2001 and 2000: weighted average expected life of the options of six years; and no dividend payments. The weighted average risk free interest rate used in the model was 3.44 percent for 2002, 4.67 percent for 2001, and 5.00 percent for 2000. The volatility factor of the expected market value of the Company's common stock was 0.344 in 2002, 0.418 in 2001, and 0.479 in 2000.

The pro forma information is determined using the Black-Scholes option valuation model. Option valuation models require highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma information is included in the Summary of Significant Accounting Policies.

## Note 13 – Acquisitions

On September 27, 2002, the Company acquired certain assets of Colonial Engineering, Inc.'s Fort Pierce, Florida operations. These operations manufacture injected molded plastic pressure fittings for plumbing, agricultural, and industrial use including a line of PVC Schedule 40 and 80 and CPVC fittings. These operations generated sales of approximately \$15 million in 2001. The purchase price was approximately \$14.1 million.

On August 21, 2002, the Company acquired 100 percent of the outstanding stock of Overstreet-Hughes, Co., Inc. Overstreet-Hughes, located in Carthage, Tennessee, manufactures precision tubular components and assemblies primarily for the OEM air-conditioning market and had sales in 2001 of approximately \$8 million. Total consideration paid at closing, including assumption of debt, was approximately \$6.3 million. A contingent payment of up to \$2 million will be paid if certain financial targets are achieved.

On April 20, 2000, the Company acquired Micro Gauge, Inc. and a related business, Microgauge Machining Inc. (collectively Micro Gauge), for approximately \$9.1 million. These acquisitions bring to our Industrial Products Division specialized machining capabilities, which were previously outsourced to Micro Gauge. In addition, on June 28, 2000, the Company acquired Propipe Technologies, Inc., a fabricator of gas train manifold systems, for approximately \$6.1 million.

Each of the acquisitions was accounted for using the purchase method of accounting. Therefore, the results of operations of the acquired businesses were included in the Consolidated Financial Statements of the Company from their respective acquisition dates. The purchase price for these acquisitions, which was financed by available cash balances and credit facilities, has been allocated to the assets of the acquired businesses based on their respective fair market values. The Consolidated Financial Statements reflect the preliminary allocation of the Colonial Engineering purchase price since final appraisals of property are not yet complete.

## Notes to Consolidated Financial Statements

The total fair value of assets acquired was \$23.4 million in 2002 and \$19.1 million in 2000. Liabilities assumed in these acquisitions were \$2.5 million in 2002 and \$3.9 million in 2000. The excess of the purchase price over the net assets acquired was \$6.8 million in 2002 and \$7.4 million in 2000.

On September 24, 2002, the Company acquired a 16 percent equity interest in Conbraco Industries, Inc. for \$7.3 million in cash. Conbraco is a manufacturer of flow control products including ball valves, automation products, backflow preventers, butterfly valves, check valves, forged steel products, marine valves, safety relief valves, strainers, and plumbing and heating products for commercial and industrial applications. This investment is stated at cost, and is included in the other assets classification in the Consolidated Balance Sheet.

### Note 14 – Discontinued Operations

On August 28, 2002, the Company completed the sale of its wholly owned subsidiary, Utah Railway Company, to Genessee & Wyoming Inc. Proceeds from the sale were approximately \$55.4 million. The Company recognized a gain of \$21.1 million net of income taxes of \$11.6 million from the sale.

In December 2002, the Company initiated a plan to sell or liquidate its French manufacturing operations, Mueller Europe S. A. A loss of \$13.4 million was recognized to write-down this operation to its net realizable value. This loss is net of a \$15.2 million income tax benefit related to the operation's cumulative losses previously unrecognized for tax purposes. Included in the loss is a provision to expense the cumulative foreign currency translation adjustment of \$2.5 million, which was previously recognized as a component of other comprehensive loss. Major components of this operation included in the Consolidated Balance Sheet at December 28, 2002 include current assets of \$6.3 million and current liabilities of \$6.0 million. The sale or liquidation is expected to be completed during 2003.

Operating results of both businesses, net of applicable income taxes, are included in the Consolidated Statements of Income classified as income (loss) from operation of discontinued operations. The Consolidated Financial Statements and Notes for the years ended December 29, 2001 and December 30, 2000 have been restated, where applicable, to reflect these businesses as discontinued operations.

Operating results of discontinued operations were as follows:

<i>(In thousands)</i>	2002	2001	2000
Net sales:			
Utah Railway Company	\$ 15,394	\$ 23,399	\$ 24,667
Mueller Europe S.A.	49,767	59,940	65,158
	<u>\$ 65,161</u>	<u>\$ 83,339</u>	<u>\$ 89,825</u>
Income (loss) before income taxes:			
Utah Railway Company	\$ 7,482	\$ 5,502	\$ 7,508
Mueller Europe S.A.	(5,682)	(1,915)	(4,676)
	<u>\$ 1,800</u>	<u>\$ 3,587</u>	<u>\$ 2,832</u>
Net income (loss):			
Utah Railway Company	\$ 4,812	\$ 3,465	\$ 4,411
Mueller Europe S.A.	(5,698)	(1,933)	(4,706)
	<u>\$ (886)</u>	<u>\$ 1,532</u>	<u>\$ (295)</u>

### Note 15 - Industry Segments

The Company's reportable segments include its Standard Products Division (SPD) and its Industrial Products Division (IPD). These segments are classified primarily by the markets for their products. Performance of segments is generally evaluated by their operating income.

SPD manufactures copper tube and fittings, plastic fittings, and line sets. These products are manufactured in the U.S. and Europe and are sold primarily to wholesalers.

# Notes to Consolidated Financial Statements

IPD manufactures brass rod, impact extrusions, and forgings as well as a variety of end-products including plumbing brass; automotive components; valves and fittings; and specialty copper, copper-alloy, and aluminum tubing. These products are sold primarily to OEM customers.

Summarized segment and geographic information is shown in the following tables. Geographic sales data indicates the location from which products are shipped. Unallocated expenses include general corporate expenses, plus certain charges or credits not included in segment activity. Certain expenses related primarily to retiree benefits at inactive operations were formerly combined with the operations of Utah Railway Company under a third industry segment, Other Businesses. Following the sale of Utah Railway Company and its classification as discontinued operations, these expenses of inactive operations have been combined into the unallocated expenses classification.

Worldwide sales to one customer from the Standard Products Division totaled \$101.0 million in 2002, \$97.2 million in 2001, and \$113.9 million in 2000, which represented 11 percent in 2002, and 10 percent in 2001 and 2000 of the Company's consolidated net sales. No other customer accounted for more than 10 percent of consolidated net sales.

## Segment Information:

<i>(In thousands)</i>	2002	2001	2000
Net sales:			
Standard Products Division	\$ 679,264	\$ 721,520	\$ 853,849
Industrial Products Division	279,591	251,747	307,240
Elimination of intersegment sales	(5,872)	(4,161)	(3,429)
	<u>\$ 952,983</u>	<u>\$ 969,106</u>	<u>\$ 1,157,660</u>
Depreciation and amortization:			
Standard Products Division	\$ 24,975	\$ 27,588	\$ 23,503
Industrial Products Division	10,539	10,098	8,791
General corporate	1,926	1,775	1,749
	<u>\$ 37,440</u>	<u>\$ 39,461</u>	<u>\$ 34,043</u>
Operating income:			
Standard Products Division	\$ 78,964	\$ 104,603	\$ 124,397
Industrial Products Division	20,353	17,469	30,604
Unallocated expenses	(13,561)	(16,543)	(9,363)
	<u>\$ 85,756</u>	<u>\$ 105,529</u>	<u>\$ 145,638</u>
Expenditures for long-lived assets:			
Standard Products Division	\$ 27,400	\$ 33,902	\$ 43,581
Industrial Products Division	11,558	10,379	34,380
	<u>\$ 38,958</u>	<u>\$ 44,281</u>	<u>\$ 77,961</u>
Segment assets:			
Standard Products Division	\$ 594,516	\$ 604,099	\$ 621,370
Industrial Products Division	171,315	158,659	164,210
General corporate	222,116	153,307	124,696
	<u>\$ 987,947</u>	<u>\$ 916,065</u>	<u>\$ 910,276</u>

## Geographic Information:

<i>(In thousands)</i>	2002	2001	2000
Net sales:			
United States	\$ 870,457	\$ 881,357	\$ 1,057,132
Foreign	82,526	87,749	100,528
	<u>\$ 952,983</u>	<u>\$ 969,106</u>	<u>\$ 1,157,660</u>
Long-lived assets:			
United States	\$ 443,295	\$ 451,231	\$ 455,356
Foreign	44,305	60,921	49,749
	<u>\$ 487,600</u>	<u>\$ 512,152</u>	<u>\$ 505,105</u>

# Notes to Consolidated Financial Statements

## Note 16 - Quarterly Financial Information (Unaudited)

<i>(In thousands, except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2002</b>				
Net sales	\$ 249,053	\$ 260,507	\$ 227,294	\$ 216,129
Gross profit <sup>(1)</sup>	57,247	59,156	50,992	40,807
Income from continuing operations	17,865	18,716	25,822	8,774
Income (loss) from operations of discontinued operations, net of tax	71	(251)	(313)	(393)
Gain (loss) on disposition of discontinued operations, net of tax	—	—	21,123	(13,422)
Net income (loss)	17,936	18,465	46,632	(5,041)
Basic earnings per share:				
From continuing operations	0.54	0.55	0.75	0.25
From discontinued operations	—	(0.01)	(0.01)	(0.01)
From sale of discontinued operations	—	—	0.62	(0.39)
Basic earnings per share	0.54	0.54	1.36	(0.15)
Diluted earnings per share:				
From continuing operations	0.48	0.50	0.70	0.24
From discontinued operations	—	—	—	(0.01)
From sale of discontinued operations	—	—	0.57	(0.37)
Diluted earnings per share	0.48	0.50	1.27	(0.14)
<b>2001</b>				
Net sales	\$ 254,412	\$ 266,028	\$ 236,871	\$ 211,795
Gross profit <sup>(1)</sup>	56,017	63,712	60,994	48,017
Income from continuing operations	15,103	19,899	19,268	11,153
Income (loss) from operations of discontinued operations, net of tax	366	876	(267)	557
Net income	15,469	20,775	19,001	11,710
Basic earnings per share:				
From continuing operations	0.45	0.59	0.58	0.33
From discontinued operations	0.01	0.03	(0.01)	0.02
Basic earnings per share	0.46	0.62	0.57	0.35
Diluted earnings per share:				
From continuing operations	0.41	0.53	0.52	0.30
From discontinued operations	0.01	0.03	(0.01)	0.01
Diluted earnings per share	0.42	0.56	0.51	0.31

<sup>(1)</sup> Gross profit is net sales less cost of goods sold, which excludes depreciation and amortization.

Quarterly results have been reclassified to reflect the operations of Utah Railway Company and Mueller Europe S.A. as discontinued operations.

# Report of Independent Auditors

## **The Stockholders of Mueller Industries, Inc.**

We have audited the accompanying consolidated balance sheets of Mueller Industries, Inc. as of December 28, 2002 and December 29, 2001, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 28, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mueller Industries, Inc. at December 28, 2002 and December 29, 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 28, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 4 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* in 2002.

*Ernst & Young LLP*

Memphis, Tennessee  
January 31, 2003

# Directors and Officers

## Board of Directors

**Harvey L. Karp**  
*Chairman of the Board,  
Mueller Industries, Inc.*

**Gennaro J. Fulvio**<sup>(1)(2)(3)</sup>  
*Member, Fulvio & Associates*

**Gary S. Gladstein**<sup>(1)(2)</sup>  
*Senior Consultant,  
Soros Fund Management LLC*

**Terry Hermanson**<sup>(1)</sup>  
*President,  
Mr. Christmas Incorporated*

**Robert B. Hodes**<sup>(1)(3)</sup>  
*Counsel, Willkie Farr & Gallagher*

**William D. O'Hagan**  
*President and Chief Executive Officer,  
Mueller Industries, Inc.*

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating Committee

## Executive Officers

**Harvey L. Karp**  
*Chairman of the Board*

**William D. O'Hagan**  
*President and Chief Executive Officer*

**Lee R. Nyman**  
*Senior Vice President  
Manufacturing/Engineering*

**Kent A. McKee**  
*Vice President and Chief Financial  
Officer*

**Roy C. Harris**  
*Vice President and  
Chief Information Officer*

**John P. Fonzo**  
*Vice President,  
General Counsel and Secretary*

## Other Officers and Management

**James E. Browne**  
*Assistant Secretary*

**Richard W. Corman**  
*Corporate Controller*

**Robert J. Pasquarelli**  
*Vice President*

**Standard Products Division**  
**Michael L. Beasley**  
*Director of Information Systems*

**Gregory L. Christopher**  
*Vice President, Sales*

**Daniel R. Corbin**  
*Vice President, Manufacturing—Plastics*

**W. Christopher Crosby**  
*Vice President, Supply Chain  
Management*

**Robert L. Fleeman**  
*Vice President, Export Sales*

**John B. Hansen**  
*Vice President, Marketing*

**Tommy L. Jamison**  
*Vice President, Manufacturing—  
Copper Fittings*

**Normand P. Lebel**  
*General Manager, Copper Tube*

**Robert R. Nelson**  
*Vice President, Sales—Pressure Plastic  
Fittings*

**Brian D. Pitt**  
*Vice President, Sales—Copper Tube*

**William F. Shea**  
*Manager Service Operations*

**Peter D. Berkman**  
*President—B&K Industries*

**Patrick W. Donovan**  
*Vice President and General  
Manager—European Operations*

## Industrial Products Division

**James H. Rourke**  
*Group Vice President and  
General Manager—Rod*

**Lance K. Alton**  
*General Manager—Forgings,  
Impacts, Micro Gauge*

**John R. Brower**  
*General Manager—Precision Tube*

**Mark T. Lang**  
*General Manager—Gas Products*

**Douglas J. Murdock**  
*General Manager—Refrigeration  
Products*

**David G. Rice**  
*Division Controller*

# Stockholder Information

## Annual Meeting

The annual meeting of stockholders will be held at the Company's headquarters at 8285 Tournament Drive, Suite 150, Memphis, TN 38125, 10:00 a.m. local time, May 1, 2003.

## Common Stock

Mueller common stock is traded on the NYSE – Symbol MLI.

## Form 10-K

The Company's Annual Report on Form 10-K is available on the Company's website at [www.muellerindustries.com](http://www.muellerindustries.com) or upon written request:

c/o Mueller Industries, Inc.  
8285 Tournament Drive, Suite 150  
Memphis, TN 38125  
Attention: Investor Relations

## Independent Auditors

Ernst & Young LLP  
Memphis, Tennessee

## Transfer Agent and Registrar

Continental Stock Transfer & Trust Co.  
17 Battery Place  
New York, NY 10004

## Stockholder Inquiries

To notify the Company of address changes or lost certificates, stockholders can call Continental Stock Transfer & Trust Co. at (212) 509-4000.

# Capital Stock Information

The high, low, and closing prices of Mueller's common stock on the New York Stock Exchange for each fiscal quarter of 2002 and 2001 were as follows:

	High	Low	Close
<b>2002</b>			
Fourth quarter	\$ 29.70	\$ 24.29	\$ 27.33
Third quarter	31.60	23.84	25.51
Second quarter	36.12	31.15	31.75
First quarter	35.43	30.44	34.99
<b>2001</b>			
Fourth quarter	\$ 33.73	\$ 27.94	\$ 33.53
Third quarter	35.15	26.50	28.70
Second quarter	34.87	28.38	32.91
First quarter	32.11	25.05	30.04

As of March 7, 2003, the number of holders of record of Mueller's common stock was approximately 2,200. On March 7, 2003, the closing price for Mueller's common stock on the New York Stock Exchange was \$23.69.

The Company has paid no cash dividends on its common stock and presently does not anticipate paying cash dividends in the near future.



Mueller Industries, Inc.  
8285 Tournament Drive, Suite 150  
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