



## Walter Industries, Inc.

### Important U.S. Federal Income Tax Information for Shareholders of Walter Industries, Inc. Concerning the Mueller Water Products, Inc. Share Distribution

December 2006

On December 14, 2006, Walter Industries, Inc. (“Walter”) distributed all of the outstanding shares of Mueller Water Products, Inc. (“Mueller”) that it owned to Walter shareholders of record as of the close of business on December 6, 2006. In the distribution (the “Spin-Off”), you received 1.6524432 shares of Mueller Series B common stock for every one (1) Walter common share you owned. You received cash for any fractional share of Mueller stock that was distributed to you and sold on your behalf.

This letter explains certain U.S. federal income tax consequences of the Spin-Off and describes how to allocate your tax basis between your shares of Walter common stock and the shares of Mueller Series B common stock you received in the Spin-Off.

**Tax Treatment of the Spin-Off.** Walter has received a ruling from the Internal Revenue Service to the effect that the Spin-Off qualifies as a tax-free distribution for U.S. federal income tax purposes. Therefore, you will not recognize gain or loss for U.S. federal income tax purposes on receipt of the Mueller shares in the Spin-Off. If, however, you received cash for any fractional share distributed, but not delivered to you, you will recognize gain or loss as described below. Non-U.S. shareholders should consult their tax advisors for local tax consequences of the Spin-Off to them.

**Fractional Shares.** Only whole shares of Mueller Series B common stock have been delivered to shareholders. The Walter disbursing agent did not deliver any fractional shares of Mueller stock to you in connection with the Spin-Off. Instead, the disbursing agent, on behalf of the shareholders, aggregated all shares of Mueller Series B common stock representing the fractional share interests and sold those shares in the public market on December 14, 2006. Shareholders entitled to a fractional share received a check in an amount equal to their pro rata share of the total net proceeds of that sale (approximately \$14.71 per share). The taxable gain or loss that you recognize with respect to any cash you received is equal to the difference between the amount of cash you received and your tax basis (determined as described below) in the fractional share of Mueller stock.

**Tax Basis.** Your tax basis in the Walter shares you owned immediately before the Spin-Off must be allocated between your Walter shares and the shares of Mueller common stock you received in the Spin-Off (including any fractional share for which you received cash). This allocation is based on the relative fair market values of your Walter shares and your Mueller shares. U.S. federal tax law does not specifically identify how you should determine the fair market values of the respective shares after the Spin-Off. There are several possible methods of measuring these values, including: (i) the opening trading prices of the shares on the first regular trading day after the Spin-off (December 15, 2006); (ii) the average of the high and low trading prices of the shares on the first regular trading day after the Spin-off (December 15, 2006); and (iii) the closing trading prices of the on the first regular trading day after the Spin-off (December 15, 2006). You and your tax advisor may find the attached Exhibit 1 helpful in allocating your cost basis between Walter shares and Mueller shares after the Spin-off.

If you acquired your Walter shares at different times and at different prices, you will need to calculate your tax basis in each block of Walter shares and then allocate a portion of that basis to the Mueller shares you received. Walter suggests you retain this letter to support your determination of your basis in your Walter shares and your Mueller Series B shares.

**Example:** This example assumes you choose to use the opening trading prices as the method of determining the fair market values for the respective shares. Using this method, after the Spin-off the fair market value per share of Walter was \$25.25 and the fair market value per share of Mueller was \$15.00, as shown in Table 1 in Exhibit 1. Therefore, the fair market value of Mueller relative to one share of Walter was \$24.78 ( $\$15.00 \times 1.6524432$ ). Your basis would be apportioned 50.47% to the Walter shares and 49.53% to your Mueller shares, as shown in Table 2 in Exhibit 1. This calculation may be illustrated as follows:

- Assume you owned 100 Walter common shares with a tax basis of \$20.00 per share (total tax basis of \$2,000).
- You were entitled to receive 165.24432 shares of Mueller Series B common stock in the Spin-Off. Because no fractional shares were delivered, you received 165 shares of Mueller and cash for the 0.24432 fractional share component (approximately \$3.59 ( $\$14.71 \times .24432$ )).
- Your total tax basis in your 100 Walter shares would be allocated \$1,009.40 to the Walter shares (50.47% of \$2,000), or \$10.09 per share, and \$990.60 to the 165.24432 Mueller shares (49.53% of \$2,000), or \$5.99 per share.
- The basis allocated to the 0.24432 fractional share of Mueller for which you received approximately \$3.59 in cash is \$1.46 ( $\$5.99 \times .24432$ ) resulting in gain to you of approximately \$2.13 per share.
- The tax basis in your 165 Mueller shares you received is \$988.35 (165 shares  $\times$  \$5.99 per share).

If you own Walter shares with a different basis for alternative minimum tax (“AMT”) purposes than your basis for regular tax purposes, you would need to allocate your AMT basis between your Walter shares and your Mueller shares in the same manner as described above.

**Consult Your Tax Advisor:** The information regarding the U.S. federal income tax consequences of the Spin-Off presented in this letter is for general reference only and does not constitute tax advice. The letter does not purport to cover all U.S. federal income tax consequences that may apply to all categories of shareholders. All shareholders should consult their own tax advisors regarding the federal, foreign, state and local tax consequences of the Spin-Off to their particular circumstances. This document is not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.

**Exhibit 1**  
**Information for Use in Determining the Fair Market Values**  
**of Walter and Mueller Series B Common Stock after the Spin-Off**

The Spin-Off occurred on December 14, 2006. The first regular trading day for the Walter common stock and the Mueller Series B common stock after the Spin-Off was December 15, 2006.

U.S. federal tax law does not specifically identify how you should determine the fair market values of the Walter shares and the Mueller Series B shares after the Spin-Off. There are several possible methods of measuring these values, including:

- 1) The opening trading prices of the Walter shares and the Mueller Series B shares on the first regular trading day after the Spin-Off;
- 2) The average of the high and low trading prices of the Walter shares and the Mueller Series B shares on the first regular trading day after the Spin-Off; or
- 3) The closing trading prices of the Walter shares and the Mueller Series B shares on the first regular trading day after the Spin-Off.

You and your tax advisor may find the information in the following tables useful in allocating your cost basis between the Walter shares and the Mueller Series B shares after the Spin-Off. Table 1 sets forth the market prices for each of the valuation methods described above. Table 2 sets forth the percentages you can use to allocate current cost basis between your existing Walter shares and your newly acquired Mueller Series B shares.

**Table 1  
Trading Prices**

Common Shares	Opening Trading Price	Avg High-Low	Closing Trading Price
Walter	\$25.25	\$26.18	\$26.53
Mueller Series B (value per share)	\$15.00	\$14.68	\$14.87
Mueller Series B (relative value*)	\$24.78	\$24.25	\$24.57

\*based on 1.6524432 distribution ratio

**Table 2  
Basis Allocation Percentages**

Common Share	Opening Trading Price	Avg High-Low	Closing Trading Price
Walter	50.47%	51.91%	51.92%
Mueller Series B	49.53%	48.09%	48.08%