GRAPHIC PACKAGING CORP
Form 10-Q
May 03, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2007

or

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

For the transition period from to

COMMISSION FILE NUMBER: 1-13182

Graphic Packaging Corporation

(Exact name of registrant as specified in its charter)

Delaware	**58-2205241**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
814 Livingston Court Marietta, Georgia	**30067**
(Address of principal executive offices)	(Zip Code)

(770) 644-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

As of April 30, 2007, there were 200,928,883 shares of the registrant s Common Stock, par value $0.01 per share, outstanding.

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Information Concerning Forward-Looking Statements

Certain statements of Graphic Packaging Corporation s expectations, including, but not limited to, statements regarding inflationary pressures, cost savings from its continuous improvement programs and manufacturing rationalization, capital spending, and depreciation and amortization in this report constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from the Company s historical experience and its present expectations. These risks and uncertainties include, but are not limited to, inflation of and volatility in raw material and energy costs, the Company s substantial amount of debt, continuing pressure for lower cost products, the Company s ability to implement its business strategies, including productivity initiatives and cost reduction plans, currency movements and other risks of conducting business internationally, and the impact of regulatory and litigation matters, including those that impact the Company s ability to protect and use its intellectual property. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date on which they are made and the Company undertakes no obligation to update such statements. Additional information regarding these and other risks is contained herein in Part II, Item 1A., Risk Factors .

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRAPHIC PACKAGING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

In millions, except share and per share amounts	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current Assets:		
Cash and Equivalents	$ 9.7	$ 7.3
Receivables, Net	248.5	230.9
Inventories	311.8	301.3
Other Current Assets	24.0	24.8
Total Current Assets	594.0	564.3
Property, Plant and Equipment, Net	1,459.4	1,488.7
Goodwill	642.3	642.3
Intangible Assets, Net	146.3	148.5
Deferred Tax Assets	345.6	345.0
Other Assets	42.2	44.8
Total Assets	$ 3,229.8	$ 3,233.6
LIABILITIES		
Current Liabilities:		
Short Term Debt	$ 15.7	$ 12.0
Accounts Payable	211.2	214.4
Other Accrued Liabilities	164.4	193.9
Total Current Liabilities	391.3	420.3
Long Term Debt	1,962.0	1,910.7
Deferred Tax Liabilities	479.8	475.2
Accrued Pension and Postretirement Benefits	209.8	206.7
Other Noncurrent Liabilities	36.7	39.0
Total Liabilities	3,079.6	3,051.9
SHAREHOLDERS EQUITY		
Preferred Stock, par value $.01 per share; 50,000,000 shares authorized; no shares issued or outstanding		

Common Stock, par value $.01 per share; 500,000,000 shares authorized; 200,853,883 and 200,584,591 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively		2.0		2.0
Capital in Excess of Par Value		1,187.6		1,186.8
Accumulated Deficit		(939.8)		(901.1)
Accumulated Other Comprehensive Loss		(99.6)		(106.0)
Total Shareholders Equity		150.2		181.7
Total Liabilities and Shareholders Equity	$	3,229.8	$	3,233.6

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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GRAPHIC PACKAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

In millions, except per share amounts	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net Sales	$ 608.7	$ 580.4
Cost of Sales	545.5	518.4
Selling, General and Administrative	47.8	49.6
Research, Development and Engineering	2.6	3.0
Other Expense, Net	1.1	0.3
Income from Operations	11.7	9.1
Interest Income	0.2	0.2
Interest Expense	(43.4)	(41.5)
Loss before Income Taxes and Equity in Net Earnings of Affiliates	(31.5)	(32.2)
Income Tax Expense	(7.4)	(4.6)
Loss before Equity in Net Earnings of Affiliates	(38.9)	(36.8)
Equity in Net Earnings of Affiliates	0.2	0.1
Net Loss	$ (38.7)	$ (36.7)
Loss Per Share Basic	$ (0.19)	$ (0.18)
Loss Per Share Diluted	$ (0.19)	$ (0.18)
Weighted Average Number of Shares Outstanding Basic	201.3	200.8
Weighted Average Number of Shares Outstanding Diluted	201.3	200.8

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

GRAPHIC PACKAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

In millions	Three Months Ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (38.7)	$ (36.7)
Noncash Items Included in Net Loss:		
Depreciation and Amortization	53.2	49.8
Deferred Income Taxes	4.3	4.9
Pension, Postemployment and Postretirement Benefits Expense, Net of Contributions	5.8	6.4
Amortization of Deferred Debt Issuance Costs	2.2	2.2
Other, Net	1.9	0.6
Changes in Operating Assets & Liabilities	(61.5)	(70.2)
Net Cash Used in Operating Activities	(32.8)	(43.0)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Spending	(19.8)	(22.7)
Other, Net	(0.8)	1.7
Net Cash Used in Investing Activities	(20.6)	(21.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing under Revolving Credit Facilities	142.9	210.5
Payments on Revolving Credit Facilities	(87.9)	(151.9)
Other, Net	0.8	(0.3)
Net Cash Provided by Financing Activities	55.8	58.3
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(0.2)
Net Increase (Decrease) in Cash and Equivalents	2.4	(5.9)
Cash and Equivalents at Beginning of Period	7.3	12.7
CASH AND EQUIVALENTS AT END OF PERIOD	$ 9.7	$ 6.8

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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GRAPHIC PACKAGING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 ORGANIZATION

Graphic Packaging Corporation (GPC and, together with its subsidiaries, the Company) is a leading provider of paperboard packaging solutions for a wide variety of products to multinational and other consumer products companies. The Company strives to provide its customers with packaging solutions designed to deliver marketing and performance benefits at a competitive cost by capitalizing on its low-cost paperboard mills and converting plants, its proprietary carton designs and packaging machines, and its commitment to customer service.

GPC conducts no significant business and has no independent assets or operations other than its ownership of Graphic Packaging International, Inc. GPC fully and unconditionally guarantees substantially all of the debt of Graphic Packaging International, Inc.

The Company s Condensed Consolidated Financial Statements include all subsidiaries in which the Company has the ability to exercise direct or indirect control over operating and financial policies. Intercompany transactions and balances are eliminated in consolidation.

In the Company s opinion, the accompanying financial statements contain all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods. The Company s year end condensed consolidated balance sheet data was derived from audited financial statements. The Company has condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2006. In addition, the preparation of the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

The Company has reclassified the presentation of certain prior period information to conform to the current presentation format.

NOTE 2 ACCOUNTING POLICIES

For a summary of the Company s significant accounting policies, please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

As described in the Company s significant accounting policies, 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 reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from these estimates, and changes in these estimates are recorded when known. Certain liabilities of approximately $3 million were estimated and recorded in 2003 at the time of the Merger (defined in the Company s Annual Report on Form 10-K for the year ended December 31, 2006). Changes in these estimated amounts are expected to favorably impact results during 2007 although the specific period and amount has not yet been determined.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN No. 48). FIN No. 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on an income tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN No. 48 did not have a material impact on the Company s financial position, results of operations or cash flows.

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As of the date of adoption, the Company s liability for unrecognized income tax benefits totaled $4.1 million, the total of which, if recognized, would affect the annual effective income tax rate. As of March 31, 2007, the Company s unrecognized income tax benefits total $6.8 million. The increase in unrecognized income tax benefits relates to a judgment received in the Swedish tax court during the first quarter of 2007. The Company intends to defend its tax position but is unable to determine the ultimate outcome of this matter at this time.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 1999.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. Accrued interest and penalties were $0.8 million and $1.5 million as of January 1, 2007 and March 31, 2007, respectively.

The Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to March 31, 2008.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements,* (SFAS No. 157) which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157, but does not expect the adoption of SFAS No. 157 to have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued FASB Staff Position AUG AIR-1, *Accounting for Planned Major Maintenance Activities* (FSP AUG AIR-1) which is effective for fiscal years beginning after December 15, 2006. This position statement eliminates the accrue-in-advance method of accounting for planned major maintenance activities. The Company adopted FSP AUG AIR-1 on January 1, 2007 and changed to the direct expensing method allowed by FSP AUG AIR-1 and has retrospectively adjusted its 2006 quarters. The Company s full year 2006 financial statements were not impacted. The adoption of FSP AUG AIR-1 on January 1, 2007 did not have a material impact on the Company s financial position, results of operations or cash flows.

NOTE 3 STOCK INCENTIVE PLANS

The Company has eight equity compensation plans. The Company s only active plan as of March 31, 2007 is the Graphic Packaging Corporation 2004 Stock and Incentive Compensation Plan (2004 Plan), pursuant to which the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units and other types of stock-based awards to employees and directors of the Company. Stock options and other awards granted under all of the Company s plans generally vest and expire in accordance with terms established at the time of grant. Compensation costs are recognized on a straight-line basis over the requisite service period of the award.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment* (SFAS No. 123R), using the modified-prospective transition method. The modified-prospective transition method applies to new awards granted, unvested awards as of the date of adoption, and to awards modified, repurchased, or cancelled after the date of adoption. Stock-based compensation expense for all share-based payment awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R.

Stock Options

The Company has not granted any stock options since 2004. During the three months ended March 31, 2007, 228,640 stock options were exercised, 543,926 stock options were cancelled and 1,298,010 were settled in cash and cancelled. The total number of shares subject to options at March 31, 2007 was 12,815,911 at a weighted average exercise price of $7.38.

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Stock Awards, Restricted Stock and Restricted Stock Units

The Company s 2004 Plan permits the grant of stock awards, restricted stock and restricted stock units (RSUs). All restricted stock and RSUs vest and become unrestricted in one to five years from date of grant. Upon vesting, RSUs granted in 2005, 2006 and 2007 are payable 50% in cash and 50% in shares of common stock. All other RSUs are payable in shares of common stock.

Data concerning RSUs granted in the first quarter of 2007 is as follows:

Shares in thousands	**March 31, 2007**
RSUs employees	877
Weighted average price per share	$ 4.63

The value of the RSUs is based on the market value of the Company s common stock on the date of grant. The shares payable in cash are subject to variable accounting and marked to market accordingly. The RSUs payable in cash are recorded as liabilities, whereas the RSUs payable in shares are recorded in Shareholders Equity. At March 31, 2007, the Company had 3,201,498 RSUs outstanding. The unrecognized expense at March 31, 2007 is approximately $7 million and is expected to be recognized over a weighted average period of 2.4 years.

The value of stock awards is based on the market value of the Company s common stock at the date of grant and recorded as a component of Shareholders Equity.

During the three months ended March 31, 2007 and 2006, $0.9 and $1.2 million was charged to compensation expense, respectively.

During the first three months of 2007, the Company also issued 2,370 shares of phantom stock, representing compensation deferred by one of its directors. These shares of phantom stock vest on the date of grant and are payable upon termination of service as a director. The Company also has an obligation to issue 189,844 shares in payment of employee deferred compensation.

NOTE 4 INVENTORIES

Inventories by major class:

In millions	**March 31, 2007**	**December 31, 2006**
Finished goods	$ 159.2	$ 159.4
Work in progress	29.0	22.1
Raw materials	73.8	71.9
Supplies	58.4	56.8
	320.4	310.2
Less, Allowance	8.6	8.9
Total	$ 311.8	$ 301.3

NOTE 5 ENVIRONMENTAL AND LEGAL MATTERS

Environmental Matters

The Company is subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those governing discharges to air, soil and water, the management, treatment and disposal of hazardous substances, solid waste and hazardous wastes, the investigation and remediation of contamination resulting from historical site operations and releases of hazardous substances, and the health and safety of employees.

Compliance initiatives could result in significant costs, which could negatively impact the Company s financial position, results of operations or cash flows. Any failure to comply with such laws and regulations or any permits and authorizations required thereunder could subject the Company to fines, corrective action or other sanctions.

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In addition, some of the Company s current and former facilities are the subject of environmental investigations and remediations resulting from historical operations and the release of hazardous substances or other constituents. Some current and former facilities have a history of industrial usage for which investigation and remediation obligations may be imposed in the future or for which indemnification claims may be asserted against the Company. Also, potential future closures or sales of facilities may necessitate further investigation and may result in future remediation at those facilities.

During the first quarter of 2006, the Company self-reported certain violations of its Title V permit under the federal Clean Air Act for its West Monroe, Louisiana mill to the Louisiana Department of Environmental Quality (the LADEQ). The violations relate to the collection, treatment and reporting of hazardous air pollutants. The Company recorded $0.6 million of expense in the first quarter of 2006 for compliance costs to correct the technical issues causing the Title V permit violations. The Company received a consolidated Compliance Order and notice of potential penalty dated July 5, 2006 from the LADEQ indicating that the Company may be required to pay civil penalties for violations that occurred from 2001 through 2005. Although the Company believes that it is reasonably possible that the LADEQ will assess some penalty, at this time the amount of such penalty is not estimable.

The Company has established reserves for those facilities or issues where liability is probable and the costs are reasonably estimable. Except for the Title V permit issue described above, for which it is too early in the investigation and regulatory process to make a determination, the Company believes that the amounts accrued for all of its loss contingencies, and the reasonably possible loss beyond the amounts accrued, are not material to the Company s financial position, results of operations or cash flows. Except for the compliance costs described above relating to the West Monroe, Louisiana mill, the Company cannot estimate with certainty other future corrective compliance, investigation or remediation costs, all of which the Company currently considers to be remote. Costs relating to historical usage or indemnification claims that the Company considers to be reasonably possible are not quantifiable at this time. The Company will continue to monitor environmental issues at each of its facilities and will revise its accruals, estimates and disclosures relating to past, present and future operations, as additional information is obtained.

Legal Matters

The Company is a party to a number of lawsuits arising in the ordinary conduct of its business. Although the timing and outcome of these lawsuits cannot be predicted with certainty, the Company does not believe that disposition of these lawsuits will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

NOTE 6 BUSINESS SEGMENT INFORMATION

The Company reports its results in two business segments: paperboard packaging and containerboard/other. These segments are evaluated by the chief operating decision maker based primarily on income from operations. The Company s reportable segments are based upon strategic business units that offer different products. The paperboard packaging business segment includes the production and sale of paperboard for its beverage multiple packaging and consumer products packaging businesses from its West Monroe, Louisiana, Macon, Georgia, Kalamazoo, Michigan and Norrköping, Sweden mills; carton converting facilities in the United States, Europe, Brazil and Canada; and the design, manufacture and installation of packaging machinery related to the assembly of cartons. The containerboard/other business segment primarily includes the production and sale of linerboard, corrugating medium and kraft paper from paperboard mills in the U.S.

Business segment information is as follows:

In millions	Three Months Ended March 31, 2007	2006
NET SALES:		
Paperboard Packaging	$ 586.4	$ 560.3
Containerboard/Other	22.3	20.1
Total	$ 608.7	$ 580.4
INCOME (LOSS) FROM OPERATIONS:		
Paperboard Packaging	$ 25.3	$ 22.7
Containerboard/Other	(3.7)	(4.7)
Corporate	(9.9)	(8.9)
Total	$ 11.7	$ 9.1

NOTE 7 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company maintains defined benefit pension plans for its U.S. employees. Benefits are based on years of service and average compensation levels over a period of years. The Company s funding policies with respect to its U.S. pension plans are to contribute funds to trusts as necessary to at least meet the minimum funding requirements of the U.S. Internal Revenue Code. Plan assets are invested in equities and fixed income securities.

The Company also sponsors three postretirement health care plans that provide medical and life insurance coverage to eligible salaried and hourly retired U.S. employees and their dependents. One of the salaried plans closed to new employees who began employment after December 31, 1993 and the other salaried plan closed to new employees who began after June 15, 1999.

Pension and Postretirement Expense

The pension and postretirement expenses related to the U.S. plans consisted of the following:

	Pension Benefits		Postretirement Benefits	
	Three Months Ended March 31,			
In millions	2007	2006	2007	2006
Service Cost	$ 3.4	$ 4.0	$ 0.3	$ 0.3
Interest Cost	8.7	8.1	0.6	0.6
Expected Return on Plan Assets	(9.0)	(8.0)		
Amortizations:				
Prior Service Cost	0.7	0.5		
Actuarial Loss	0.6	1.3		
Net Periodic Cost	$ 4.4	$ 5.9	$ 0.9	$ 0.9

The Company made contributions of $0.7 million to its U.S. pension plans during the first three months of 2006. No contributions were made in the first three months of 2007. The Company expects to make contributions of approximately $28 million for the full year 2007. During 2006, the Company made $25.9 million of contributions to its U.S. pension plans.

The Company made postretirement benefit payments of $0.1 million and $1.0 million during the first three months of 2007 and 2006. The Company estimates its postretirement benefit payments for the full year 2007 to be approximately $3 million. During 2006, the Company made postretirement benefit payments of $2.7 million.

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NOTE 8 DEBT

Long-Term Debt consisted of the following:

In millions	March 31, 2007	December 31, 2006
Senior Notes with interest payable semi-annually at 8.5%, payable in 2011	$ 425.0	$ 425.0
Senior Subordinated Notes with interest payable semi-annually at 9.5%, payable in 2013	425.0	425.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (7.44% at March 31, 2007 and 7.47% at December 31, 2006) payable through 2010	1,055.0	1,055.0
Senior Secured Revolving Facility with interest payable at various dates at floating rates (8.35% at March 31, 2007 and 10.25% at December 31, 2006) payable in 2009	55.0	3.6
Other	2.4	2.4
	1,962.4	1,911.0
Less, current portion	0.4	0.3
Total	$ 1,962.0	$ 1,910.7

At March 31, 2007, the Company and its U.S. and international subsidiaries had the following commitments, amounts outstanding and amounts available under revolving credit facilities:

In millions	Total Amount of Commitments	Total Amount Outstanding	Total Amount Available [a]
Revolving Credit Facility	$ 325.0	$ 55.0	$ 255.6
International Facilities	18.0	13.0	5.0
Total	$ 343.0	$ 68.0	$ 260.6

Note:

(a) In accordance with its debt agreements, the Company s availability under its Revolving Credit Facility has been reduced by the amount of standby letters of credit issued of $14.4 million as of March 31, 2007. These letters of credit are used as security against its self-insurance obligations and workers compensation obligations. These letters of credit expire at various dates through 2007 unless extended.

The Senior Secured Credit Agreement, as amended in October 2005, which governs the Term Loan Facility and the Revolving Credit Facility, imposes restrictions on the Company s ability to make capital expenditures and both the Senior Secured Credit Agreement and the indentures governing the Senior Notes and Senior Subordinated Notes (the Notes) limit the Company s ability to incur additional indebtedness. Such restrictions, together with the highly leveraged nature of the Company, could limit the Company s ability to respond to market conditions, meet its capital spending program, provide for unexpected capital investments or take advantage of business opportunities. The covenants contained in the Senior Secured Credit Agreement, as amended, among other things, restrict the ability of the Company to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make dividend and other restricted payments, create liens, make equity or debt investments, make acquisitions, modify terms of indentures under which the Notes are issued, engage in mergers or consolidations, change the business conducted by the Company and its subsidiaries, make capital expenditures and engage in certain transactions with affiliates.

The financial covenants contained in the Senior Secured Credit Agreement, as amended, among other things, specify the following requirements for each of the following test periods:

Four Fiscal Quarters Ending	**Maximum Consolidated Debt to Credit Agreement EBITDA Leverage Ratio [(a)]**	**Minimum Credit Agreement EBITDA to Consolidated Interest Expense Ratio [(a)]**
2007		
March 31, 2007	6.50 to 1.00	1.75 to 1.00
June 30, 2007	6.50 to 1.00	1.75 to 1.00
September 30, 2007	6.50 to 1.00	1.75 to 1.00
December 31, 2007	6.00 to 1.00	1.85 to 1.00

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2008		
March 31, 2008	6.00 to 1.00	1.85 to 1.00
June 30, 2008	6.00 to 1.00	1.85 to 1.00
September 30, 2008	6.00 to 1.00	1.85 to 1.00
December 31, 2008	5.50 to 1.00	2.00 to 1.00
2009		
March 31, 2009 and thereafter	4.50 to 1.00	2.90 to 1.00

Note:

(a) Credit Agreement EBITDA is calculated in accordance with the definitions contained in the Company s Senior Secured Credit Agreement, as amended. Credit Agreement EBITDA is defined as consolidated net income before consolidated interest expense, non-cash expenses and charges, total income tax expense, depreciation expense, expense associated with amortization of intangibles and other assets, non-cash provisions for reserves for discontinued operations, extraordinary, unusual or non-recurring gains or losses or charges or credits, gain or loss associated with sale or write-down of assets not in the ordinary course of business, and any income or loss accounted for by the equity method of accounting.

At March 31, 2007, the Company was in compliance with the financial covenants in the Secured Credit Agreement, as amended, and the ratios were as follows:

Consolidated Debt to Credit Agreement EBITDA Leverage Ratio	6.01 to 1.00
Credit Agreement EBITDA to Consolidated Interest Expense Ratio	2.00 to 1.00

The Company s management believes that presentation of Credit Agreement EBITDA provides useful information to investors because borrowings under the Senior Secured Credit Agreement are a key source of the Company s liquidity, and the Company s ability to borrow under the Senior Secured Credit Agreement is dependent on, among other things, its compliance with the financial ratio covenants. Failure to comply with these financial ratio covenants would result in a violation of the Senior Secured Credit Agreement and, absent a waiver or amendment from the lenders under such agreement, permit the acceleration of all outstanding borrowings under the Senior Secured Credit Agreement.

The calculations of the components of the Company s financial covenant ratios are listed below:

In millions		**Twelve Months Ended March 31, 2007**
Net Loss	$	(102.5)
Income Tax Expense		23.0
Interest Expense, Net		173.5
Depreciation and Amortization		199.4
Dividends Received, Net of Earnings of Equity Affiliates		1.2
Pension, Postemployment and Postretirement Benefits Expense		29.8
Merger Related Expenses		0.2
Write-Down of Assets		4.3
Credit Agreement EBITDA	$	328.9

In millions		**Twelve Months Ended March 31, 2007**
Interest Expense, Net	$	173.5
Amortization of Deferred Debt Issuance Costs		(8.8)
Credit Agreement Interest Expense Adjustments [(a)]		0.1
Consolidated Interest Expense [(b)]	$	164.8

In millions		**As of March 31, 2007**
Short Term Debt	$	15.7
Long Term Debt		1,962.0
Total Debt	$	1,977.7

Notes:

(a) Credit agreement interest expense adjustments include the discount from the financing of receivables.

(b) Consolidated Interest Expense is calculated in accordance with the definitions contained in the Company s Senior Secured Credit Agreement. Consolidated Interest Expense is defined as consolidated interest expense minus consolidated interest income plus any discount from the financing of receivables.

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The Senior Secured Credit Agreement, as amended, requires adjustment to the pricing for the Senior Secured Term Loan Facility by increasing the applicable margin by 0.25% if, and for so long as, the Company s indebtedness under the Senior Secured Credit Agreement, as amended, is rated less than B+ by Standard & Poor s Ratings Group (a division of The McGraw Hill Companies Inc.) or less than B1 by Moody s Investors Service, Inc.

The Senior Notes are rated B- by Standard & Poor s and B2 by Moody s Investor Services. The Senior Subordinated Notes are rated B- by Standard & Poor s and B3 by Moody s Investor Services. The Company s indebtedness under the Senior Secured Credit Agreement, as amended, is rated B+ by Standard & Poor s and Ba2 by Moody s Investor Services. As of March 31, 2007, both Standard & Poor s and Moody s Investor services ratings on the Company remain on negative outlook.

If the negative impact of inflationary pressures on key inputs continues, or depressed selling prices, lower sales volumes, increased operating costs or other factors have a negative impact on the Company s ability to increase its profitability, the Company may not be able to maintain its compliance with the financial covenants in its Senior Secured Credit Agreement, as amended. The Company s ability to comply in future periods with the financial covenants in the Senior Secured Credit Agreement, as amended, will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of which are beyond the Company s control and will be substantially dependent on the selling prices for the Company s products, raw material and energy costs, and the Company s ability to successfully implement its overall business strategies, and meet its profitability objective. If a violation of any of the covenants occurred, the Company would attempt to obtain a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The Senior Secured Credit Agreement and the indentures governing the Senior Subordinated Notes and the Senior Notes have covenants as well as certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions. If an event of default occurs, the lenders are entitled to declare all amounts owed to be due and payable immediately. The Senior Secured Credit Agreement, as amended, is collateralized by substantially all of the Company s domestic assets.

NOTE 9 COMPREHENSIVE INCOME (LOSS)

The following table shows the components of Comprehensive Income (Loss), net of related tax effects:

In millions	**Three Months Ended March 31, 2007**	**2006**
Net Loss	$ (38.7)	$ (36.7)
Other Comprehensive (Loss) Income:		
Derivative Instruments Gain (Loss)	4.1	(5.5)
Currency Translation Adjustments	0.8	2.7
Amortization of Prior Service Cost	0.7	
Amortization of Net Actuarial Loss	0.8	
Comprehensive Loss	$ (32.3)	$ (39.5)

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This management s discussion and analysis of financial conditions and results of operations is intended to provide investors with an understanding of the Company s past performance, its financial condition and its prospects. The following will be discussed and analyzed:

Ø Overview of Business

Ø Overview of 2007 Results

Ø Results of Operations

Ø Financial Condition, Liquidity and Capital Resources