Mueller Water Products, Inc.
Form 10-Q
May 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007.

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

Commission File Number 333-131536

MUELLER WATER PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3547095**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

1200 Abernathy Road
Atlanta, GA 30328

(Address of principal executive offices)

(770) 206-4200

(Registrant s telephone number, including area code)

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

Large Accelerated Filer o   Accelerated Filer o   Non-accelerated Filer x

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

There were 114,766,327 shares of common stock of the Registrant outstanding as of May 1, 2007, composed of 28,921,407 shares of Series A common stock and 85,844,920 shares of Series B common stock.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2007 (dollars in millions)	September 30, 2006
Assets		
Cash and cash equivalents	$ 69.2	$ 81.4
Receivables, net of allowance for doubtful accounts of $4.9 million and $4.8 million at March 31, 2007 and September 30, 2006, respectively	274.3	322.9
Inventories	510.8	454.6
Deferred income taxes	42.3	42.6
Prepaid expenses	35.7	33.7
Total current assets	932.3	935.2
Property, plant and equipment, net	343.7	337.0
Deferred financing fees and other long-term assets	13.7	16.8
Identifiable intangible assets, net	834.0	835.4
Goodwill	865.6	865.5
Total assets	$ 2,989.3	$ 2,989.9
Liabilities		
Current portion of long-term debt	$ 8.9	$ 9.0
Accounts payable	115.4	129.9
Accrued expenses and other current liabilities	89.0	116.3
Total current liabilities	213.3	255.2
Long-term debt	1,119.5	1,118.3
Accrued pension liability, net	45.7	43.7
Accumulated postretirement benefits obligation	44.7	46.3
Deferred income taxes	284.1	278.5
Other long-term liabilities	20.9	20.9
Total liabilities	1,728.2	1,762.9
Shareholders Equity		
Common stock, $0.01 par value per share:		
Class A 400,000,000 shares authorized. 28,916,736 and 28,750,000 shares issued at March 31, 2007 and September 30, 2006, respectively	0.3	0.3
Class B 200,000,000 shares authorized and 85,844,920 shares issued at March 31, 2007 and September 30, 2006	0.8	0.8
Capital in excess of par value	1,418.7	1,417.5
Accumulated deficit	(138.1)	(173.0)
Accumulated other comprehensive loss	(20.6)	(18.6)
Total shareholders equity	1,261.1	1,227.0
Total liabilities and shareholders equity	$ 2,989.3	$ 2,989.9

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

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

	Three months ended March 31, 2007	2006
	(dollars in millions)	
Net sales	$ 459.7	$ 434.9
Cost of sales	341.9	340.3
Gross profit	117.8	94.6
Operating expenses:		
Selling, general and administrative	64.9	60.8
Related party corporate charges		2.0
Facility rationalization, restructuring and related costs		4.3
Total operating expenses	64.9	67.1
Income from operations	52.9	27.5
Interest expense, net of interest income	21.1	30.1
Income (loss) before income taxes	31.8	(2.6)
Income tax expense (benefit)	13.9	(0.8)
Net income (loss)	$ 17.9	$ (1.8)
Basic and diluted income (loss) per share	$ 0.16	$ (0.02)

	Six months ended March 31, 2007	2006
	(dollars in millions)	
Net sales	$ 871.6	$ 915.3
Cost of sales	646.1	777.2
Gross profit	225.5	138.1
Operating expenses:		
Selling, general and administrative	122.0	117.9
Related party corporate charges	1.6	3.8
Facility rationalization, restructuring and related costs		28.4
Total operating expenses	123.6	150.1
Income (loss) from operations	101.9	(12.0)
Interest expense, net of interest income	41.5	62.3
Income (loss) before income taxes	60.4	(74.3)
Income tax expense (benefit)	25.5	(23.7)
Net income (loss)	$ 34.9	$ (50.6)
Basic and diluted income (loss) per share	$ 0.30	$ (0.59)

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

MUELLER WATER PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDER S EQUITY
AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED MARCH 31, 2007
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Comprehensive Income	Accumulated Other Comprehensive Loss	Total
	(dollars in millions)					
Balance at September 30, 2006	$ 1.1	$ 1,417.5	$ (173.0)	$	$ (18.6)	$ 1,227.0
Dividend paid, $0.0175 per share		(4.0)				(4.0)
Share-based compensation		5.2				5.2
Comprehensive income						
Net income			34.9	34.9		34.9
Unrealized loss on derivative instruments				(0.8)	(0.8)	(0.8)
Foreign currency translation adjustments				(1.2)	(1.2)	(1.2)
Comprehensive income				$ 32.9		
Balance at March 31, 2007	$ 1.1	$ 1,418.7	$ (138.1)		$ (20.6)	$ 1,261.1

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

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

	Six months ended March 31, 2007	2006
	(dollars in millions)	
Operating Activities		
Net income (loss)	$ 34.9	$ (50.6)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	35.0	34.4
Amortization of intangibles	14.5	13.6
Amortization of deferred financing fees	1.3	2.5
Accretion on debt	5.4	6.6
Share-based compensation expense	5.2	0.3
Impairments of property, plant and equipment		21.3
Provision (credit) for deferred income taxes	6.6	(26.1)
Other, net	2.6	(0.8)
Changes in assets and liabilities, net of the effects of acquisitions:		
Receivables	53.1	23.4
Inventories	(50.8)	62.1
Prepaid expenses and other current assets	(1.5)	1.8
Pension and other long-term liabilities	0.1	3.5
Accrued expenses and other current liabilities	(49.7)	(28.9)
Net cash provided by operating activities	56.7	63.1
Investing Activities		
Additions to property, plant and equipment	(42.5)	(30.9)
Acquisitions of businesses, net of cash acquired	(22.5)	(15.5)
Decrease in amounts due to Walter		(15.6)
Net cash used in investing activities	(65.0)	(62.0)
Financing Activities		
Increase in dollar value of bank checks outstanding	3.9	9.7
Proceeds from short-term borrowings		55.9
Retirement of short-term debt		(55.9)
Proceeds from long-term debt		1,050.0
Retirement of long-term debt	(4.3)	(617.9)
Payment of deferred financing fees		(21.6)
Dividend to shareholders	(4.0)	(444.5)
Dividend to Walter for acquisition costs		(12.0)
Walter contribution of Predecessor Mueller s cash		76.3
Net cash (used in) provided by financing activities	(4.4)	40.0
Effect of exchange rate changes on cash	0.5	
Net (decrease) increase in cash and cash equivalents	(12.2)	41.1
Cash and cash equivalents at beginning of period	81.4	
Cash and cash equivalents at end of period	$ 69.2	$ 41.1

MUELLER WATER PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(UNAUDITED)

Schedule of non-cash investing and financing activities:

On October 3, 2005, the Company s former parent, Walter Industries, Inc., purchased all the outstanding common stock of Predecessor Mueller in the Acquisition (as defined in Note 1. to the Condensed Consolidated Financial Statements).

	(dollars in millions)
Contribution of Predecessor Mueller by Walter	$ 932.9
Less: Cash of Predecessor Mueller received	(76.3)
Total net assets received excluding cash	$ 856.6

Subsequent to the Acquisition, the Company s former parent, Walter Industries, Inc., forgave an intercompany receivable with U.S. Pipe of $443.6 million.

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

MUELLER WATER PRODUCTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED
MARCH 31, 2007 AND MARCH 31, 2006
(UNAUDITED)

Note 1. Organization

The registrant is Mueller Water Products, Inc., a Delaware corporation (Mueller Water or the Company). The Company is the surviving corporation of the merger on February 2, 2006 of Mueller Water Products, LLC (Commission File Number: 333-116590) and Mueller Water Products Co-Issuer, Inc. with and into Mueller Holding Company, Inc., a Delaware corporation. On June 1, 2006, Mueller Water completed its initial public offering of its Series A common stock (NYSE: MWA). On December 14, 2006, Walter Industries, Inc. (Walter), a diversified New York Stock Exchange traded company (NYSE:WLT), distributed all of the Company s outstanding Series B common stock (NYSE: MWA.B) to its shareholders.

On October 3, 2005, through a series of transactions (the Acquisition), Walter, through a wholly-owned subsidiary, acquired all outstanding shares of capital stock of Mueller Water Products, Inc. (Predecessor Mueller), which immediately was converted into Mueller Water Products, LLC, a Delaware limited liability company, and contributed United States Pipe and Foundry Company, LLC (U.S. Pipe) to the acquired company. The results of operations of Predecessor Mueller are included in the Condensed Consolidated Statements of Operations beginning October 3, 2005.

The Company was originally organized as United States Pipe and Foundry Company, Inc. (Inc.) and was a wholly-owned subsidiary of Walter. On September 23, 2005, Inc. was dissolved, United States Pipe and Foundry Company, LLC was organized in the state of Alabama, and the operations of Inc. were conducted under the form of a limited liability company. The Company has three operating segments, which are named after its leading brands in each segment: Mueller Co., U.S. Pipe and Anvil.

The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses for the reporting periods. Actual results could differ from those estimates. All significant intercompany balances and transactions have been eliminated. In the opinion of management, all normal and recurring adjustments that are considered necessary for a fair financial statement presentation have been made. The condensed balance sheet data as of September 30, 2006 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Note 2. Related Party Transactions

Related Party Transactions *The* Company purchases foundry coke from Sloss Industries, Inc., which was an affiliate until December 14, 2006, for an amount that approximates the market value of comparable transactions. Costs included in cost of sales related to purchases from Sloss Industries, Inc. were $4.5 million and $5.4 million for the three months ended March 31, 2007 and 2006, respectively, and $9.0 million and $10.8 million for the six months ended March 31, 2007 and 2006, respectively.

Other services that Sloss Industries, Inc. provides to the Company include the delivery of electrical power to one of the Company s facilities, rail car switching and the leasing of a distribution facility. Charges for such services were immaterial for the three months ended March 31, 2007, $0.4 million for the

three months ended March 31, 2006, and $0.3 million and $0.8 million for the six months ended March 31, 2007 and 2006, respectively.

Related Party Allocations *Certain* costs incurred by Walter such as insurance, executive salaries, professional service fees, human resources, transportation, healthcare and other centralized business functions were allocated to its subsidiaries. Certain costs that were considered directly related to the U.S. Pipe segment were charged to the Company and included in selling, general and administrative expenses. As of December 15, 2006, Walter is no longer considered a related party. These costs were approximately $0.5 million, $0.6 million and $1.0 million for the six months ended March 31, 2007 and the three months and six months ended March 31, 2006, respectively. Costs incurred by Walter that could not be directly attributed to its subsidiaries were allocated based on estimated annual revenues. Such costs were allocated to the Company and are recorded as related party corporate charges in the accompanying Condensed Consolidated Statements of Operations. There were no charges during the three months ended March 31, 2007 and $2.0 million of such charges for the three months ended March 31, 2006. Allocated expenses were $1.6 million and $3.8 million for the six months ended March 31, 2007 and 2006, respectively. While the Company considers the allocation of such costs to be reasonable, the cost of performing such services on its own behalf may vary from historically allocated amounts.

Certain of the Company s employees had been granted Walter restricted stock units and stock options under Walter s share-based compensation plans. In connection with Walter s distribution of all the Company s Series B common stock to its shareholders on December 14, 2006, Walter cancelled these instruments. The Company had no expenses related to this share-based compensation allocated from Walter for the three months ended March 31, 2007 and expensed $0.2 million for the three months ended March 31, 2006, and $0.5 million and $0.2 million for the six months ended March 31, 2007 and 2006, respectively.

Note 3. Acquisitions

Fast Fabricators, Inc.

On January 4, 2007, the Company acquired the assets of Fast Fabricators, Inc., a ductile iron pipe fabricator headquartered in Bloomfield, Connecticut, for $22.5 million in cash, net of cash acquired. In March 2007, the Company accrued an additional amount due of $0.5 million based on the final net asset value, adjusting the purchase price to $23.0 million. This accrued amount was paid in April 2007. The purchase price may increase by up to $1.5 million for an earnout holdback. The earnout holdback will be settled by March 15, 2008, based on the 2007 calendar year EBITDA as defined in the purchase agreement with the seller. The Company has deposited $1.5 million into escrow, which is included in cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheet, for the Earnout Holdback. The Company cannot access these funds until the earnout, if any, has been paid.

The estimated fair values of the assets acquired and liabilities assumed are as follows (dollars in millions):

Current assets	$ 10.5
Identified intangibles	13.1
Goodwill	0.5
Plant, property, and equipment and other noncurrent assets	1.8
Accounts payable and accrued liabilities	(2.9)
Net assets acquired	$ 23.0

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Acquisition of Predecessor Mueller by Walter Industries

On October 3, 2005, pursuant to the agreement dated June 17, 2005, Walter acquired all of the outstanding common stock of Predecessor Mueller for $944.0 million and assumed $1.05 billion of indebtedness. Predecessor Mueller was converted into a limited liability company on October 3, 2005 and was merged with and into the Company on February 2, 2006. In conjunction with the acquisition, U.S. Pipe was contributed in a series of transactions to Mueller Group, LLC (Mueller Group or Group), a wholly-owned subsidiary of the Company, on October 3, 2005. On February 23, 2006, Walter received $10.5 million based on the final closing cash and working capital, adjusting the purchase price to $933.5 million.

Walter s acquisition of Predecessor Mueller has been accounted for as a business combination with U.S. Pipe considered the acquirer for accounting purposes. The total purchase price is comprised of (dollars in millions):

Acquisition of the outstanding common stock of Predecessor Mueller	$ 918.1
Acquisition-related transaction costs	15.4
Total purchase price	$ 933.5

Acquisition-related transaction costs include investment banking, legal and accounting fees and other external costs directly related to the Acquisition.

The excess of the purchase price over the net tangible and identifiable intangible assets is recorded as goodwill. Based on current fair values, the purchase price was allocated as follows (dollars in millions):

Receivables, net	$ 177.4
Inventory	373.2
Property, plant and equipment	214.2
Identifiable intangible assets	856.9
Goodwill	801.7
Net other assets	350.7
Net deferred tax liabilities	(267.9)
Debt	(1,572.7)
Total purchase price allocation	$ 933.5

Note 4. Facility Rationalization, Restructuring and Related Costs

On October 26, 2005 Walter announced plans to close U.S. Pipe s Chattanooga, Tennessee plant and transfer the valve and hydrant production of that plant to Mueller Co. s Chattanooga, Tennessee and Albertville, Alabama plants. The plant closed in 2006, resulting in the termination of approximately 340 employees. Exit costs totaled $49.9 million of which approximately $28.6 million was related to severance and fixed asset write-offs and qualified as restructuring and impairment charges. The remaining exit costs of $21.3 million were comprised of an inventory write-down totaling $11.4 million, a $9.0 million write-off of unabsorbed overhead costs and $0.9 million of other related costs, which were recognized in cost of sales during the year ended September 30, 2006. The Company paid $0.1 million and $0.4 million of the above-mentioned severance in the three and six months ended March 31, 2007, respectively.

On January 26, 2006, the Company announced the closure of the Henry Pratt valve manufacturing facility in Dixon, Illinois, which is included in the Company s Mueller Co. segment. The eventual closure of the facility is expected to occur in fiscal year 2007, resulting in the termination of approximately 100 employees. Total estimated costs related to this closure are $3.7 million, including termination benefits of $1.0 million and property impairment charges of $1.7 million, which were recorded as adjustments to goodwill in the year ended September 30, 2006. These restructuring costs were recorded to goodwill as the overall plan to close the facility was identified prior to the Acquisition. The remaining estimated costs of $1.0 million are for the transfer and installation of equipment and temporary outsourcing of manufacturing and will be expensed when incurred. The Company paid $0.1 million and $0.5 million of the above-mentioned severance in the three and six months ended March 31, 2007, respectively.

On November 18, 2006, the Company announced the relocation of pipe nipple and merchant coupling production in the Canvil manufacturing facility in Ontario, Canada to the Beck facility in Pennsylvania, both of which are included in the Company s Anvil segment. The consolidation of these product lines in the Beck Facility was completed during the quarter ended March 31, 2007, resulting in the termination of approximately 60 employees. Termination benefits of $1.8 million were recorded as adjustments to goodwill in the year ended September 30, 2006. These restructuring costs were recorded to goodwill as the overall plan to close the facility was identified prior to the Acquisition. In the current fiscal year, the Company revised its severance estimate, and decreased the goodwill balance and accrued severance by $0.4 million. The Company paid $0.5 million of the above-mentioned severance in the three and six months ended March 31, 2007.

Activity in accrued restructuring and other severance for the three and six months ended March 31, 2007 was as follows (dollars in millions):

	For the three months ended March 31, 2007	**For the six months ended March 31, 2007**
Beginning balance	$ 4.2	$ 5.3
Adjustments to accruals allocated to goodwill for plant closures identified prior to the Acquisition		(0.4)
Restructuring and other severance payments	(1.2)	(1.9)
Ending balance	$ 3.0	$ 3.0

Note 5. Share-Based Compensation Plans

Certain of the Company s employees had been granted Walter restricted stock units and stock options under Walter s share-based compensation plans. The Company has expensed $0.5 million related to the share-based compensation costs allocated from Walter for the six months ended March 31, 2007. In connection with Walter s distribution of all the Company s Series B common stock to its shareholders on December 14, 2006, Walter cancelled these outstanding instruments and the Company replaced them with restricted stock units and options to acquire shares of the Company s Series A common stock. These equity awards were designed to provide intrinsic value and terms equal to the Walter cancelled instruments as follows:

	Number of instruments (millions)	**Range of exercise prices**	**Weighted average exercise price**	**Total compensation (dollars in millions)**
Restricted stock units	0.4		$ 14.95	$ 5.7
Traditional stock options	0.5	$ 2.05 20.56	13.45	0.6
	0.9			$ 6.3

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The Company also granted stock options and restricted stock units separately during the six months ended March 31, 2007 as follows:

	Number of instruments (millions)	Range of exercise prices	Weighted average fair value per instrument	Total compensation (dollars in millions)
Restricted stock units	0.4		$ 15.09	$ 6.7
Traditional stock options	0.4	$ 14.19-15.09	5.76	2.3
Employee stock purchase plan options	0.1		3.65	0.3
	0.9			$ 9.3

As of March 31, 2007, there was approximately $28.1 million of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2006 Stock Incentive Plan, including the Walter replacement instruments described above. The Company expensed $2.7 million and $5.2 million related to share-based compensation for the three and six months ended March 31, 2007, respectively.

Note 6. Borrowing Arrangements

Long-Term Debt *Long-term* debt consists of the following obligations:

	March 31, 2007 (dollars in millions)	September 30, 2006
2005 Mueller Credit Agreement	$ 789.7	$ 793.8
Senior subordinated notes	214.2	215.1
Senior discount notes	122.6	116.3
Capital lease obligations	1.9	2.1
	1,128.4	1,127.3
Less current portion	(8.9)	(9.0)
	$ 1,119.5	$ 1,118.3

2005 Mueller Credit Agreement: On October 3, 2005, Group entered into a credit agreement (the 2005 Mueller Credit Agreement) consisting of a $145 million senior secured revolving credit facility maturing in October 2010 (the 2005 Mueller Revolving Credit Facility) and a $1,050 million senior secured term loan maturing in October 2012 (the 2005 Mueller Term Loan). The commitment fee on the unused portion of the 2005 Mueller Revolving Credit Facility is 0.375% and the interest rate is a floating interest rate of 1.75% over LIBOR. The 2005 Mueller Term Loan carries a floating interest rate of 2.0% over LIBOR.

Senior Subordinated Notes: In April 2004, Group issued $315.0 million principal face amount of senior subordinated notes due 2012. The notes were recorded at fair value in connection with the Acquisition, resulting in an effective interest rate of 9.2%.

Senior Discount Notes: In April 2004, Predecessor Mueller issued $223.0 million principal face amount of senior discount notes due 2014. The notes were recorded at fair value in connection with the Acquisition, resulting in an effective interest rate of 12.1%.

Tender Offer *On* May 1, 2007, the Company announced a cash tender offer to repurchase all of the outstanding Senior Subordinated Notes and Senior Discount Notes and consent solicitation to amend the related indentures in connection with the proposed refinancing of the 2005 Mueller Credit Agreement and issuance of $350 million of new Senior Subordinated Notes.

Note 7. Derivative Financial Instruments

Interest Rate Swaps *The* Company uses interest rate swap contracts with a cumulative total notional amount of $425.0 million to hedge against cash-flow variability arising from changes in LIBOR rates in conjunction with its LIBOR-indexed variable rate borrowings. The Company recorded an unrealized loss from its swap contracts, net of tax, of $0.1 million at March 31, 2007 in accumulated other comprehensive income. These swaps have a fair value of $0.2 million at March 31, 2007, which is included in other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet, and are accounted for as effective hedges.

Forward Foreign Currency Exchange Contracts *The* Company uses Canadian dollar forward exchange contracts with a cumulative notional amount of $26.7 million to hedge against cash-flow variability arising from changes in the Canadian dollar-U.S. dollar exchange rate in connection with anticipated transactions, primarily inventory purchases denominated in Canadian dollars. These contracts are accounted for as effective hedges. The Company recorded an unrealized gain of $0.2 million, net of tax, from its forward exchange contracts at March 31, 2007. These forwards have a fair value of $0.3 million at March 31, 2007, which is included in deferred financing fees and other long-term assets in the accompanying Condensed Consolidated Balance Sheet.

The Company has also entered into Canadian dollar forward exchange contracts reducing the Company s exposure to currency fluctuations from its Canadian-denominated intercompany loans. The instruments have a cumulative notional amount of $32.8 million. With these instruments, the Company sells Canadian dollars for U.S. dollars at a weighted average rate of $0.864. Gains and losses on these instruments are included in selling, general and administrative expenses in the accompanying Condensed Consolidated Statement of Operations. The Company recorded a net loss of $0.2 million and a net gain of $0.8 million for the three months and six months ended March 31, 2007, respectively. The Company entered into three Canadian dollar forward exchange contracts with a cumulative notional amount of $2.4 million to hedge against cash flow variability in connection with certain intercompany transactions that are not accounted for as effective hedges during the quarter ended March 31, 2007. These instruments have a weighted average translation rate of $0.819, expire in April and May 2007, and resulted in a loss of $0.1 million in the three and six month periods ended March 31, 2007 that is included in selling, general and administrative expenses in the accompanying Condensed Consolidated Statement of Operations.

Natural Gas Swaps *The* Company uses natural gas swap contracts with a cumulative total notional amount of approximately 499,000 mmbtu to hedge against cash-flow variability arising from changes in natural gas prices on the NYMEX exchange in conjunction with its anticipated purchases of natural gas. These contracts fix the Company s purchase price for natural gas at prices ranging from $6.67 to $7.56 per mmbtu for a total purchased volume of 499,000 mmbtu through September 30, 2007. The Company recorded an unrealized gain from its swap contracts, net of tax, of $0.2 million at March 31, 2007 in accumulated other comprehensive income. These swaps have a fair value of $0.3 million at March 31, 2007, which is included in deferred financing fees and other long-term assets in the accompanying Condensed Consolidated Balance Sheet, and are accounted for as effective hedges.

Note 8. Pension and Other Post-employment Benefits

The components of net periodic benefit cost for pension and post-employment benefits for the three months and six months ended March 31, 2007 and 2006 are as follows:

	Pension Benefits For the three months ended March 31,		Other Benefits For the three months ended March 31,	
	2007	2006	2007	2006
	(dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 1.6	$ 1.9	$ 0.1	$ 0.2
Interest cost	5.1	4.7	0.3	0.3
Expected return on plan assets	(5.9)	(4.9)		
Amortization of prior service cost (credit)	0.1	0.2	(0.6)	(0.6)
Amortization of net loss (gain)	0.5	1.8	(0.4)	(0.2)
Curtailment settlement loss (gain)		4.9		(1.1)
Net periodic benefit cost (credit)	$ 1.4	$ 8.6	$ (0.6)	$ (1.4)

	Pension Benefits For the six months ended March 31,		Other Benefits For the six months ended March 31,	
	2007	2006	2007	2006
	(dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 3.2			