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WAUSAU MOSINEE PAPER CORP
Form 10-Q
November 13, 2003

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended SEPTEMBER 30, 2003

OR

☐ 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: 1-13923

WAUSAU-MOSINEE PAPER CORPORATION
(Exact name of registrant as specified in charter)

WISCONSIN 39-0690900
(State of incorporation) (I.R.S. Employer Identification
Number)

1244 KRONENWETTER DRIVE
MOSINEE, WISCONSIN 54455-9099
(Address of principal executive office)

Registrant's telephone number, including area code: 715-693-4470

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 report), and (2) has been subject to such
filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

The number of common shares outstanding at October 31, 2003 was 51,554,891.

WAUSAU-MOSINEE PAPER CORPORATION

AND SUBSIDIARIES

INDEX

PART I.

FINANCIAL INFORMATION

PAGE NO.

Item 1.

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Financial Statements

Condensed Consolidated Statements of

Operations, Three Months and Nine Months Ended

September 30, 2003 (unaudited) and
September 30, 2002 (unaudited) 1

Condensed Consolidated Balance
Sheets, September 30, 2003 (unaudited)
and December 31, 2002 (derived from
audited financial statements) 2

Condensed Consolidated Statements
of Cash Flows, Nine Months
Ended September 30, 2003 (unaudited)
and September 30, 2002 (unaudited) 3

Notes to Condensed Consolidated
Financial Statements (unaudited) 3-8

Item 2. Management's Discussion and
Analysis of Financial Condition
and Results of Operations 9-15

Item 3. Quantitative and Qualitative Disclosures About Market Risk 15

Item 4. Controls and Procedures 15

PART II. OTHER INFORMATION

Item 5. Other Information 16

Item 6. Exhibits and Reports on Form 8-K
i 16

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Wausau-Mosinee Paper Corporation and Subsidiaries CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
NET SALES	\$ 249,529	\$ 251,149	\$ 732,188	\$ 714,8
Cost of products sold	221,090	223,003	657,774	632,9
GROSS PROFIT	28,439	28,146	74,414	81,9
Selling and administrative expenses	16,426	13,466	50,089	47,2
OPERATING PROFIT	12,013	14,680	24,325	34,7
Interest expense	(2,537)	(2,679)	(7,608)	(8,2

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Other income	18	31	19	
EARNINGS BEFORE INCOME TAXES	9,494	12,032	16,736	26,5
Provision for income taxes	3,513	4,455	6,192	9,8
NET EARNINGS	\$ 5,981	\$ 7,577	\$ 10,544	\$ 16,7
NET EARNINGS PER SHARE-BASIC	\$ 0.12	\$ 0.15	\$ 0.20	\$ 0.
NET EARNINGS PER SHARE-DILUTED	\$ 0.12	\$ 0.15	\$ 0.20	\$ 0.
Weighted average shares outstanding-basic	51,552,250	51,536,891	51,546,462	51,529,6
Weighted average shares outstanding-diluted	51,664,539	51,597,637	51,639,898	51,655,4

See Notes to Condensed Consolidated Financial Statements.

1

Wausau-Mosinee Paper Corporation and Subsidiaries CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	SEPTEMBER 30, December 31, 2003 2002 (UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,905	\$ 23,383
Receivables, net	89,261	70,806
Refundable income taxes	5,357	10,264
Inventories	121,256	119,033
Deferred income taxes	11,589	12,812
Other current assets	3,465	4,100
Total current assets	243,833	240,398
Property, plant and equipment, net	575,483	597,979
Other assets	39,558	35,380
TOTAL ASSETS	\$858,874	\$873,757
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 111	\$ 0
Accounts payable	60,678	63,422
Accrued and other liabilities	52,272	58,578
Total current liabilities	113,061	122,000
Long-term debt	162,374	162,763
Deferred income taxes	114,747	111,377
Postretirement benefits	54,424	52,534
Pension	37,311	51,142
Other noncurrent liabilities	19,020	17,993
Total liabilities	500,937	517,809
Stockholders' equity	357,937	355,948
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$858,874	\$873,757

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See Notes to Condensed Consolidated Financial Statements.

2

Wausau-Mosinee Paper Corporation and Subsidiaries CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Nine Months Ended September 30, 2003	2002
Net cash provided by operating activities	\$27,864	\$49,021
Cash used in investing activities:		
Capital expenditures	(16,794)	(15,573)
Acquisition of business	(8,511)	0
Proceeds on sale of property, plant and equipment	11	185
	(25,294)	(15,388)
Cash used in financing activities:		
Net payments under credit agreements	0	(16,025)
Payments under capital lease obligation	(71)	0
Dividends paid	(13,144)	(13,140)
Proceeds from stock-option exercise	167	325
	(13,048)	(28,840)
Net increase (decrease) in cash and cash equivalents	(10,478)	4,793
Cash and cash equivalents, beginning of period	23,383	12,010
Cash and cash equivalents, end of period	\$12,905	\$16,803

Noncash investing and financing activities: A capital lease obligation of \$336 was recorded in the second quarter of 2003 when the Company entered into a lease for new equipment.

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The condensed consolidated financial statements include the results of Wausau-Mosinee Paper Corporation and our consolidated subsidiaries. All significant intercompany transactions have been eliminated. The accompanying condensed financial statements, in the opinion of management, reflect all adjustments, which are normal, and recurring in nature and which are necessary for a fair statement of the results for the periods presented. Results for the interim period are not necessarily indicative of future results. In all regards, the financial statements have been presented in accordance with accounting principles generally accepted in the United States of America. Refer to notes to the financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2002, for the Company's accounting policies, which are pertinent to these statements.

3

Note 2. During the second quarter of 2003, the Company's Towel & Tissue Group, reached a settlement of all claims of the parties in a patent litigation matter. As a result of the settlement, the Company recognized \$4.2 million in pre-tax income (reduction of cost of sales) as a fee for licensing certain patented dispenser technologies.

Note 3. Effective March 3, 2003, the Company acquired certain assets of a laminated papers producer for approximately \$8.5 million in cash. The

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acquisition was accounted for as a purchase business combination and, accordingly, the purchase price has been allocated using the fair values of the acquired receivables, inventory, machinery and equipment, and identifiable intangible assets. No goodwill was recorded as a result of this acquisition. The pro forma disclosures required under Statement of Financial Accounting Standard (SFAS) No. 141 "Business Combinations" have not been presented, as the impact of this acquisition does not materially impact the results of operations.

Note 4. SFAS No. 143, "Accounting for Asset Retirement Obligations," establishes accounting and reporting standards associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company adopted SFAS No. 143 on January 1, 2003. There was no significant impact on the financial statements as a result of the adoption.

Note 5. Net earnings include provisions, or credits, for stock incentive plans calculated by using the average price of the Company's stock at the close of each calendar quarter as if all grants under such plans had been exercised on that day. For the three months ended September 30, 2003, the provision for incentive plans was \$577,000. For the three months ended September 30, 2002, the credit for incentive plans was \$1,384,000. For the nine months ended September 30, 2003 and 2002, a provision of \$991,000 and a credit of \$1,168,000, respectively, were recognized as stock incentive plan expense/income.

As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," the Company continues to measure compensation cost for stock-option plans using the "intrinsic value based method" prescribed under APB No. 25, "Accounting for Stock Issued to Employees."

4

Pro forma net earnings and earnings per share had the Company elected to adopt the fair-value based method" of SFAS No. 123 are as follows:

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net earnings, as reported	\$ 5,981	\$ 7,577	\$ 10,544	\$ 16,701
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	364	(872)	625	(736)
Deduct: Total stock-based compensation expense (credit) determined under fair-value based method for all awards, net of related tax effects	417	(766)	744	(565)
Proforma	\$ 5,928	\$ 7,471	\$ 10,425	\$ 16,530
Earnings per share - basic:				
As reported	\$ 0.12	\$ 0.15	\$ 0.20	\$ 0.32
Pro forma	\$ 0.11	\$ 0.14	\$ 0.20	\$ 0.32
Earnings per share - diluted:				
As reported	\$ 0.12	\$ 0.15	\$ 0.20	\$ 0.32
Pro forma	\$ 0.11	\$ 0.14	\$ 0.20	\$ 0.32

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Note 6. Basic and diluted earnings per share are recognized as follows:

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net earnings	\$ 5,981	\$ 7,577	\$ 10,544	\$ 16,7
Basic weighted average common shares outstanding	51,552,250	51,536,891	51,546,462	51,529,6
Dilutive securities:				
Stock options	112,289	60,746	93,436	125,7
Dilutive weighted average common shares outstanding	51,664,539	51,597,637	51,639,898	51,655,4
Net earnings per share-basic	\$ 0.12	\$ 0.15	\$ 0.20	\$ 0.
Net earnings per share-diluted	\$ 0.12	\$ 0.15	\$ 0.20	\$ 0.

For the three months ended September 30, 2003, options for 842,255 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the three months ended September 30, 2002, options for 764,255 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the nine months ended September 30, 2003 and 2002, 826,922 shares and 666,454 shares, respectively, were excluded from the diluted EPS calculation because the options were antidilutive.

Note 7. Accounts receivable consisted of the following:

(Dollars in thousands)	SEPTEMBER 30, 2003	December 31, 2002
Trade	\$89,937	\$71,655
Other	1,506	1,527
	91,443	73,182
Less: Allowances	2,182	2,376
	\$89,261	\$70,806

6

Note 8. The various components of inventories were as follows:

(Dollars in thousands)	SEPTEMBER 30, 2003	December 31, 2002
Raw Materials	\$ 34,931	\$ 33,989
Finished Goods and Work in Process	83,964	79,200
Supplies	28,135	27,463
Subtotal	147,030	140,652
Less: LIFO Reserve	25,774	21,619
Net inventories	\$121,256	\$119,033

Note 9. The accumulated depreciation on fixed assets was \$649,387,000 as of September 30, 2003, and \$613,840,000 as of December 31, 2002. The provision for depreciation, amortization and depletion for the nine

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months ended September 30, 2003 and September 30, 2002 was \$45,693,000 and \$45,290,000, respectively.

Note 10. Interim Segment Information

FACTORS USED TO IDENTIFY REPORTABLE SEGMENTS

The Company's operations are classified into three principal reportable segments: the Printing & Writing Group, the Specialty Paper Group, and the Towel & Tissue Group, each providing different products. Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies.

PRODUCTS FROM WHICH REVENUE IS DERIVED

The Printing & Writing Group produces a broad line of premium printing and writing grades at manufacturing facilities in Brokaw, Wisconsin and Groveton, New Hampshire. The Printing & Writing Group also includes converting facilities, which produce wax-laminated roll wrap and related specialty finishing and packaging products, and a converting facility, which converts printing and writing grades. The Specialty Paper Group produces specialty papers at its manufacturing facilities in Rhinelander, Wisconsin; Mosinee, Wisconsin; and Jay, Maine. The Towel & Tissue Group produces a complete line of towel and tissue products that are marketed along with soap and dispensing systems for the "away-from-home" market. The Towel & Tissue Group operates a paper mill in Middletown, Ohio, and a converting facility in Harrodsburg, Kentucky.

7

RECONCILIATIONS

The following are reconciliations to corresponding totals in the accompanying consolidated financial statements:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net sales external customers				
Printing & Writing	\$104,105	\$ 103,161	\$301,940	\$295,258
Specialty Paper	90,191	90,672	272,350	262,348
Towel & Tissue	55,233	57,316	157,898	157,291
	\$249,529	\$ 251,149	\$732,188	\$714,897
Net sales intersegment				
Printing & Writing	\$ 1,850	\$ 1,669	\$ 5,323	\$ 5,274
Specialty Paper	0	70	0	220
Towel & Tissue	0	0	0	0
	\$ 1,850	\$ 1,739	\$ 5,323	\$ 5,494
Operating profit (loss)				
Printing & Writing	\$ 5,265	\$ 5,951	\$ 9,455	\$ 23,279
Specialty Paper	2,444	59	4,020	(3,725)
Towel & Tissue	7,619	9,193	20,022	21,011
Total reportable segment				
operating profit	15,328	15,203	33,497	40,565
Corporate & eliminations	(3,315)	(523)	(9,172)	(5,861)
Interest expense	(2,537)	(2,679)	(7,608)	(8,215)
Other income	18	31	19	17
Earnings before income taxes	\$ 9,494	\$ 12,032	\$ 16,736	\$ 26,506

(Dollars in thousands)

SEPTEMBER 30, December 31,
2003 2002

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Segment Assets

Printing & Writing	\$293,497	\$284,652
Specialty Paper	343,374	347,380
Towel & Tissue	167,773	170,854
Corporate & Unallocated*	54,230	70,871
	\$858,874	\$873,757