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WAUSAU MOSINEE PAPER CORP
Form 10-Q
November 09, 2004

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, 2004

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)

100 PAPER PLACE
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, 2004 was 51,685,251.

WAUSAU-MOSINEE PAPER CORPORATION

AND SUBSIDIARIES

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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 September 30, | |
|---|-------------------------------------|------------|------------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| NET SALES | \$ 262,428 | \$ 249,529 | \$ 778,352 | \$ 778,352 |
| Cost of products sold | 229,983 | 221,090 | 691,073 | 691,073 |
| GROSS PROFIT | 32,445 | 28,439 | 87,279 | 87,279 |
| Selling and administrative expenses | 17,158 | 16,426 | 55,796 | 55,796 |
| OPERATING PROFIT | 15,287 | 12,013 | 31,483 | 31,483 |
| Interest expense | (2,608) | (2,537) | (7,685) | (7,685) |
| Other income (expense), net | 191 | 18 | 483 | 483 |
| EARNINGS BEFORE INCOME TAXES | 12,870 | 9,494 | 24,281 | 24,281 |
| Provision for income taxes | 4,762 | 3,513 | 8,984 | 8,984 |

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| | | | | |
|---|------------|------------|------------|----|
| NET EARNINGS | \$ 8,108 | \$ 5,981 | \$ 15,297 | |
| NET EARNINGS PER SHARE-BASIC | \$ 0.16 | \$ 0.12 | \$ 0.30 | |
| NET EARNINGS PER SHARE-DILUTED | \$ 0.16 | \$ 0.12 | \$ 0.29 | |
| Weighted average shares outstanding-basic | 51,680,686 | 51,552,250 | 51,653,843 | 51 |
| Weighted average shares outstanding-diluted | 51,980,190 | 51,664,539 | 51,904,856 | 51 |
| Dividends declared per common share | \$ 0 | \$ 0 | \$ 0.17 | \$ |

See Notes to Condensed Consolidated Financial Statements.

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Wausau-Mosinee Paper Corporation and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

| (Dollars in thousands) | SEPTEMBER 30, 2004 | December 31, 2003 |
|--|-----------------------|----------------------|
| ASSETS | (UNAUDITED) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 55,035 | \$ 36,305 |
| Receivables, net | 97,812 | 81,300 |
| Refundable income taxes | 2,400 | 1,668 |
| Inventories | 115,340 | 115,835 |
| Deferred income taxes | 12,312 | 12,616 |
| Other current assets | 2,711 | 3,694 |
| Total current assets | 285,610 | 251,418 |
| Property, plant and equipment, net | 541,528 | 565,722 |
| Other assets | 41,917 | 40,960 |
| TOTAL ASSETS | \$869,055 | \$858,100 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 114 | \$ 112 |
| Accounts payable | 68,744 | 55,368 |
| Accrued and other liabilities | 54,860 | 59,524 |
| Total current liabilities | 123,718 | 115,004 |
| Long-term debt | 161,544 | 162,174 |
| Deferred income taxes | 115,012 | 115,879 |
| Postretirement benefits | 57,062 | 54,197 |
| Pension | 32,578 | 40,829 |
| Other noncurrent liabilities | 20,595 | 19,701 |
| Total liabilities | 510,509 | 507,784 |
| Stockholders' equity | 358,546 | 350,316 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$869,055 | \$858,100 |

See Notes to Condensed Consolidated Financial Statements.

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

| (Dollars in thousands) | Nine Months Ended September 30, | |
|--|------------------------------------|----------|
| | 2004 | 2003 |
| Net cash provided by operating activities | \$47,102 | \$27,864 |
| Cash provided by (used in) investing activities: | | |
| Capital expenditures | (16,579) | (16,794) |
| Acquisition of business | 0 | (8,511) |
| Proceeds on sale of property, plant and equipment | 43 | 11 |
| | (16,536) | (25,294) |
| Cash provided by (used in) financing activities: | | |
| Payments under capital lease obligation | (83) | (71) |
| Dividends paid | (13,166) | (13,144) |
| Proceeds from stock option exercise | 1,413 | 167 |
| | (11,836) | (13,048) |
| Net increase (decrease) in cash and cash equivalents | 18,730 | (10,478) |
| Cash and cash equivalents, beginning of period | 36,305 | 23,383 |
| Cash and cash equivalents, end of period | \$55,035 | \$12,905 |
| Interest-net of amount capitalized | \$10,568 | \$10,505 |
| Income taxes paid | 7,701 | 4,129 |

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

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the year ended December 31, 2003, for the Company's accounting policies, which are pertinent to these statements.

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. 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, 2004, the credit for incentive plans on a pretax basis was \$175,000. For the three months ended September 30, 2003, the provision for incentive plans on a pretax basis was \$577,000. On a pretax basis for the nine months ended September 30, 2004 and 2003, provisions of \$1,992,000 and \$991,000, respectively, were recognized as stock incentive plan expense.

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."

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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 | | Nine Months | |
|---|---------------------|----------|---------------------|-----------|
| | Ended September 30, | | Ended September 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Net earnings, as reported | \$ 8,108 | \$ 5,981 | \$ 15,297 | \$ 10,544 |
| Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects | (110) | 364 | 1,255 | 625 |
| Deduct: Total stock-based compensation (expense) credit determined under fair-value based method for all awards, net of related tax effects | 27 | (417) | (1,458) | (744) |
| Proforma | \$ 8,025 | \$ 5,928 | \$ 15,094 | \$ 10,425 |
| Earnings per share - basic: | | | | |
| As reported | \$ 0.16 | \$ 0.12 | \$ 0.30 | \$ 0.20 |
| Pro forma | \$ 0.16 | \$ 0.11 | \$ 0.29 | \$ 0.20 |
| Earnings per share - diluted: | | | | |
| As reported | \$ 0.16 | \$ 0.12 | \$ 0.29 | \$ 0.20 |
| Pro forma | \$ 0.15 | \$ 0.11 | \$ 0.29 | \$ 0.20 |

Note 5. Basic and diluted earnings per share are recognized as follows:

(Dollars in thousands, except per share data)

| | Three Months | Nine Months |
|--|---------------------|---------------------|
| | Ended September 30, | Ended September 30, |

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| | 2004 | 2003 | 2004 | 2003 |
|---|------------|------------|------------|------------|
| Net earnings | \$ 8,108 | \$ 5,981 | \$ 15,297 | \$ 10,544 |
| Basic weighted average common shares outstanding | 51,680,686 | 51,552,250 | 51,653,843 | 51,546,462 |
| Dilutive securities: | | | | |
| Stock options | 299,504 | 112,289 | 251,013 | 93,436 |
| Dilutive weighted average common shares outstanding | 51,980,190 | 51,664,539 | 51,904,856 | 51,639,898 |
| Net earnings per share-basic | \$ 0.16 | \$ 0.12 | \$ 0.30 | \$ 0.20 |
| Net earnings per share-diluted | \$ 0.16 | \$ 0.12 | \$ 0.29 | \$ 0.20 |

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For the three months ended September 30, 2004, options for 288,586 shares were excluded from the diluted EPS calculation because the options were antidilutive. 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 nine months ended September 30, 2004 and 2003, 395,622 shares and 826,922 shares, respectively, were excluded from the diluted EPS calculation because the options were antidilutive.

Note 6. Accounts receivable consisted of the following:

| (Dollars in thousands) | SEPTEMBER 30, 2004 | December 31, 2003 |
|------------------------|--------------------|-------------------|
| Trade | \$ 98,963 | \$82,142 |
| Other | 1,098 | 1,086 |
| | 100,061 | 83,228 |
| Less: Allowances | (2,249) | (1,928) |
| | \$ 97,812 | \$81,300 |

Note 7. The various components of inventories were as follows:

| (Dollars in thousands) | SEPTEMBER 30, 2004 | December 31, 2003 |
|------------------------------------|--------------------|-------------------|
| Raw Materials | \$ 32,906 | \$ 27,282 |
| Finished Goods and Work in Process | 80,092 | 83,757 |
| Supplies | 27,961 | 27,920 |
| Subtotal | 140,959 | 138,959 |
| Less: LIFO Reserve | (25,619) | (23,124) |
| Net inventories | \$115,340 | \$115,835 |

Note 8. The accumulated depreciation on fixed assets was \$682,102,000 as of September 30, 2004, and \$652,990,000 as of December 31, 2003. The provision for depreciation, amortization and depletion for the nine months ended September 30, 2004 and September 30, 2003 was \$44,852,000 and \$45,693,000, respectively.

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Note 9. The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months Ended September 30, 2004 and 2003, are as follows:

| (Dollars in thousands) | Other |
|------------------------|-------|
|------------------------|-------|

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| | Pension Benefits | | Post-retirement Benefits | |
|--------------------------------|------------------|----------|--------------------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | \$ 1,730 | \$ 1,380 | \$ 466 | \$ 503 |
| Interest cost | 2,491 | 2,330 | 1,183 | 1,392 |
| Expected return on plan assets | (2,503) | (2,051) | 0 | 0 |
| Amortization of: | | | | |
| Prior service cost | 549 | 484 | (899) | (90) |
| Actuarial loss | 419 | 188 | 371 | 224 |
| Transition (asset) | (12) | (48) | 0 | 0 |
| Settlement | 30 | 0 | 0 | 0 |
| Net periodic benefit cost | \$ 2,704 | \$ 2,283 | \$ 1,121 | \$ 2,029 |

The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2004 and 2003, are as follows:

(Dollars in thousands)

| | Pension Benefits | | Other Post-retirement Benefits | |
|--------------------------------|------------------|----------|--------------------------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | \$ 5,170 | \$ 4,138 | \$ 1,808 | \$ 1,511 |
| Interest cost | 7,337 | 6,988 | 4,229 | 4,035 |
| Expected return on plan assets | (7,508) | (6,167) | 0 | 0 |
| Amortization of: | | | | |
| Prior service cost | 1,524 | 1,454 | (1,073) | (268) |
| Actuarial loss | 1,258 | 562 | 1,265 | 674 |
| Transition (asset) | (38) | (142) | 0 | 0 |
| Settlement | 30 | 248 | 0 | 0 |
| Net periodic benefit cost | \$ 7,773 | \$ 7,081 | \$ 6,229 | \$ 5,952 |

On December 8, 2003, the President signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that override a benefit that is at least actuarially equivalent to Medicare.

In June 2004, the FASB issued FSP 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The FSP provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. The FSP also requires those employers to provide

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certain disclosures regarding the effect of the federal subsidy provided by the Act. The Company adopted the provisions of the FSP on July 1, 2004. The impact of the adoption of the FSP resulted in a reduction in the accumulated post-retirement benefit obligation of \$5.9 million and a reduction in the net periodic benefit cost for the three-months ended September 30, 2004, of \$250,000.

The company previously disclosed in its consolidated financial statements for the year ended December 31, 2003, that it expected to contribute \$21.2 million to its pension plans in 2004. As of September 30, 2004, the Company expects to contribute \$20.1 million to its pension plans in 2004. Of this total, \$16.8 million of contributions have been made as of September 30, 2004. The Company expects to contribute an additional \$3.3 million by December 31, 2004.

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Note 10. Interim Segment Information

FACTORS USED TO IDENTIFY REPORTABLE SEGMENTS

The Company's operations are classified into three principal reportable segments: Printing & Writing, Specialty Products, and Towel & Tissue, 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

Printing & Writing produces a broad line of premium printing and writing grades at manufacturing facilities in Brokaw, Wisconsin and Groveton, New Hampshire. Printing & Writing 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. Specialty Products produces specialty papers at its manufacturing facilities in Rhinelander, Wisconsin;

Mosinee, Wisconsin; and Jay, Maine. Towel & Tissue produces a complete line of towel and tissue products that are marketed along with soap and dispensing systems for the "away-from-home" market. Towel & Tissue operates a paper mill in Middletown, Ohio, and a converting facility in Harrodsburg, Kentucky.

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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, | |
|------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net sales external customers | | | | |
| Printing & Writing | \$102,590 | \$104,105 | \$303,872 | \$301,940 |
| Specialty Products | 101,351 | 90,191 | 308,053 | 272,350 |
| Towel & Tissue | 58,487 | 55,233 | 166,427 | 157,898 |
| | \$262,428 | \$249,529 | \$778,352 | \$732,188 |
| Operating profit | | | | |
| Printing & Writing | \$ 5,124 | \$ 5,265 | \$ 9,646 | \$ 9,455 |
| Specialty Products | 5,204 | 2,444 | 12,030 | 4,020 |
| Towel & Tissue | 7,855 | 7,619 | 21,287 | 20,022 |
| Total reportable segment | | | | |
| operating profit | 18,183 | 15,328 | 42,963 | 33,497 |
| Corporate & eliminations | (2,896) | (3,315) | (11,480) | (9,172) |
| Interest expense | (2,608) | (2,537) | (7,685) | (7,608) |
| Other income (expense), net | 191 | 18 | 483 | 19 |
| Earnings before income taxes | \$ 12,870 | \$ 9,494 | \$ 24,281 | \$ 16,736 |

(Dollars in thousands)

SEPTEMBER 30, December 31,
2004 2003

Segment Assets

| | | |
|--------------------------|-----------|-----------|
| Printing & Writing | \$281,032 | \$283,711 |
| Specialty Products | 328,160 | 334,079 |
| Towel & Tissue | 165,639 | 165,199 |
| Corporate & Unallocated* | 94,224 | 75,111 |
| | \$869,055 | \$858,100 |