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WAUSAU MOSINEE PAPER CORP
Form 10-Q
August 14, 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 JUNE 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 July 31, 2003 was 51,551,891.

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2003	2002	2003	2002
NET SALES	\$ 242,833	\$ 237,820	\$482,659	\$ 463,74
Cost of products sold	217,737	209,349	436,684	409,94
GROSS PROFIT	25,096	28,471	45,975	53,79
Selling and administrative expenses	17,419	16,703	33,663	33,77
OPERATING PROFIT	7,677	11,768	12,312	20,02
Interest expense	(2,570)	(2,773)	(5,071)	(5,53
Other income (expense), net	15	41	1	(1
EARNINGS BEFORE INCOME TAXES	5,122	9,036	7,242	14,47
Provision for income taxes	1,894	3,340	2,679	5,35
NET EARNINGS	\$ 3,228	\$ 5,696	\$ 4,563	\$ 9,12

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NET EARNINGS PER SHARE-BASIC	\$ 0.06	\$ 0.11	\$ 0.09	\$ 0.1
NET EARNINGS PER SHARE-DILUTED	\$ 0.06	\$ 0.11	\$ 0.09	\$ 0.1
Weighted average shares outstanding-basic	51,550,078	51,536,891	51,543,521	51,526,03
Weighted average shares outstanding-diluted	51,650,691	51,727,711	51,627,531	51,684,33

See Notes to Condensed Consolidated Financial Statements.

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Wausau-Mosinee Paper Corporation and Subsidiaries CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	JUNE 30, 2003	December 31, 2002
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 24,304	\$ 23,383
Receivables, net	81,651	70,806
Refundable income taxes	1,577	10,264
Inventories	130,529	119,033
Deferred income taxes	12,439	12,812
Other current assets	3,642	4,100
Total current assets	254,142	240,398
Property, plant and equipment, net	581,405	597,979
Other assets	40,115	35,380
TOTAL ASSETS	\$ 875,662	\$ 873,757

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current maturities of long-term debt	\$ 110	\$ 0
Accounts payable	73,058	63,422
Accrued and other liabilities	55,497	58,578
Total current liabilities	128,665	122,000
Long-term debt	162,593	162,763
Deferred income taxes	110,380	111,377
Postretirement benefits	54,179	52,534
Pension	49,647	51,142
Other noncurrent liabilities	18,277	17,993
Total liabilities	523,741	517,809
Stockholders' equity	351,921	355,948
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 875,662	\$ 873,757

See Notes to Condensed Consolidated Financial Statements.

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

Six Months Ended

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	June 30,	
(Dollars in thousands)	2003	2002
Net cash provided by operating activities	\$27,965	\$26,883
Cash used in investing activities:		
Capital expenditures	(9,975)	(10,429)
Acquisition of business	(8,413)	0
Proceeds on sale of property, plant and equipment	6	165
	(18,382)	(10,264)
Cash used in financing activities:		
Net payments under credit agreements	0	(6,110)
Payments under capital lease obligation	(34)	0
Dividends paid	(8,763)	(8,759)
Proceeds from stock-option exercise	135	325
	(8,662)	(14,544)
Net increase in cash and cash equivalents	921	2,075
Cash and cash equivalents, beginning of period	23,383	12,010
Cash and cash equivalents, end of period	\$24,304	\$14,085

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.

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Note 2. During the second quarter of 2003, the Company's Towel & Tissue Group, reached a settlement of all claims of the parties in the patent litigation. 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 \$8.4 million in cash. The acquisition is being 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,"

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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 such plans had been exercised on that day. For the three months ended June 30, 2003, the provision for incentive plans was \$665,000. For the three months ended June 30, 2002, the credit for incentive plans was \$317,000. For the six months ended June 30, 2003 and 2002, provisions of \$414,000 and \$216,000, respectively, were recognized as stock incentive plan expense.

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As permitted under SFAS No. 123, 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."

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

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net earnings, as reported	\$ 3,228	\$ 5,696	\$ 4,563	\$ 9,124
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	419	(200)	261	136
Deduct: Total stock-based compensation expense (credit) determined under fair-value based method for all awards, net of related tax effects	460	(138)	327	201
Proforma	\$ 3,187	\$ 5,634	\$ 4,497	\$ 9,059
Earnings per share - basic:				
As reported	\$ 0.06	\$ 0.11	\$ 0.09	\$ 0.18
Pro forma	\$ 0.06	\$ 0.11	\$ 0.09	\$ 0.18
Earnings per share - diluted:				
As reported	\$ 0.06	\$ 0.11	\$ 0.09	\$ 0.18
Pro forma	\$ 0.06	\$ 0.11	\$ 0.09	\$ 0.18

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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 June 30,		Six Months Ended June	
	2003	2002	2003	2002
Net earnings	\$ 3,228	\$ 5,696	\$ 4,563	\$ 9,124

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Basic weighted average common shares outstanding	51,550,078	51,536,891	51,543,521	51,5
Dilutive securities:				
Stock options	100,613	190,820	84,010	1
Dilutive weighted average common shares outstanding	51,650,691	51,727,711	51,627,531	51,6
Net earnings per share-basic	\$ 0.06	\$ 0.11	\$ 0.09	\$
Net earnings per share-diluted	\$ 0.06	\$ 0.11	\$ 0.09	\$

For the three months ended June 30, 2003, options for 757,255 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the three months ended June 30, 2002, options for 491,251 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the six months ended June 30, 2003 and 2002, 819,255 shares and 615,053 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)	JUNE 30, 2003	December 31, 2002
Trade	\$82,602	\$71,655
Other	1,397	1,527
	83,999	73,182
Less: Allowances	2,348	2,376
	\$81,651	\$70,806

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

(Dollars in thousands)	JUNE 30, 2003	December 31, 2002
Raw Materials	\$ 38,023	\$ 33,989
Finished Goods and Work in Process	91,359	79,200
Supplies	28,030	27,463
Subtotal	157,412	140,652
Less: LIFO Reserve	26,883	21,619
Net inventories	\$ 130,529	\$ 119,033

Note 9. The accumulated depreciation on fixed assets was \$639,510,000 as of June 30, 2003 and \$613,840,000 as of December 31, 2002. The provision for depreciation, amortization and depletion for the six months ended June 30, 2003 and June 30, 2002 was \$30,558,000 and \$30,345,000, 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.

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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.

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RECONCILIATIONS

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

(Dollars in thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
Net sales external customers				
Printing & Writing	\$ 99,458	\$ 95,790	\$197,835	\$192,097
Specialty Paper	89,701	88,756	182,159	171,676
Towel & Tissue	53,674	53,274	102,665	99,975
	\$ 242,833	\$ 237,820	\$482,659	\$463,748
Net sales intersegment				
Printing & Writing	\$ 1,995	\$ 1,761	\$ 3,473	\$ 3,605
Specialty Paper	0	67	0	150
Towel & Tissue	0	0	0	0
	\$ 1,995	\$ 1,828	\$ 3,473	\$ 3,755
Operating profit (loss)				
Printing & Writing	\$ 2,704	\$ 10,524	\$ 4,190	\$ 17,328
Specialty Paper	64	(2,854)	1,576	(3,784)
Towel & Tissue	8,372	6,260	12,403	11,818
Total reportable segment operating profit	11,140	13,930	18,169	25,362
Corporate & eliminations	(3,463)	(2,162)	(5,857)	(5,338)
Interest expense	(2,570)	(2,773)	(5,071)	(5,536)
Other income/expense	15	41	1	(14)
Earnings before income taxes	\$ 5,122	\$ 9,036	\$ 7,242	\$ 14,474

(Dollars in thousands)

	JUNE 30, 2003	December 31, 2002
Segment Assets		
Printing & Writing	\$291,585	\$284,652
Specialty Paper	346,359	347,380
Towel & Tissue	175,027	170,854
Corporate & Unallocated*	62,691	70,871
	\$875,662	\$873,757