

Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

WAUSAU MOSINEE PAPER CORP  
Form 10-Q  
May 10, 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 MARCH 31, 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)

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 April 30, 2004 was 51,654,251.

WAUSAU-MOSINEE PAPER CORPORATION

AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

PAGE NO.

Item 1. Condensed Consolidated Statements of Operations,

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

	Three Months Ended March 31, 2004 (unaudited) and March 31, 2003 (unaudited)	1
	Condensed Consolidated Balance Sheets, March 31, 2004 (unaudited) and December 31, 2003 (derived from audited financial statements)	2
	Condensed Consolidated Statements of Cash Flows, Three Months Ended March 31, 2004 (unaudited) and March 31, 2003 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	3-7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	8-13
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	14
Item 4.	Controls and Procedures	14
PART II. OTHER INFORMATION		
Item 6.	Exhibits and Reports on Form 8-K -i-	15

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2004	2003
NET SALES	\$ 251,815	\$ 239,826
Cost of products sold	225,117	218,947
GROSS PROFIT	26,698	20,879
Selling and administrative expenses	18,884	16,244
OPERATING PROFIT	7,814	4,635
Interest expense	(2,527)	(2,501)
Other income (expense), net	194	(14)
EARNINGS BEFORE INCOME TAXES	5,481	2,120
Provision for income taxes	2,029	785
NET EARNINGS	\$ 3,452	\$ 1,335
NET EARNINGS PER SHARE - BASIC	\$ 0.07	\$ 0.03

Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

NET EARNINGS PER SHARE - DILUTED	\$	0.07	\$	0.03
Weighted average shares outstanding-basic		51,617,395		51,536,891
Weighted average shares outstanding-diluted		51,804,792		51,604,298

See Notes to Condensed Consolidated Financial Statements.

-1-

Wausau-Mosinee Paper Corporation and Subsidiaries  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	MARCH 31, 2004	December 31, 2003
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 43,076	\$ 36,305
Receivables, net	91,762	81,300
Refundable income taxes	289	1,668
Inventories	116,528	115,835
Deferred income taxes	12,594	12,616
Other current assets	3,698	3,694
Total current assets	267,947	251,418
Property, plant and equipment, net	555,708	565,722
Other assets	41,034	40,960
TOTAL ASSETS	\$864,689	\$858,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 112	\$ 112
Accounts payable	62,936	55,368
Accrued and other liabilities	56,937	59,524
Total current liabilities	119,985	115,004
Long-term debt	161,964	162,174
Deferred income taxes	115,469	115,879
Postretirement benefits	55,908	54,197
Pension	35,894	40,829
Other noncurrent liabilities	20,609	19,701
Total liabilities	509,829	507,784
Stockholders' equity	354,860	350,316
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$864,689	\$858,100

See Notes to Condensed Consolidated Financial Statements.

-2-

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

(Dollars in thousands)	Three Months Ended March 31, 2004	2003
------------------------	---	------

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

Net cash provided by operating activities	\$14,031	\$14,508
Cash (used in) investing activities:		
Capital expenditures	(3,937)	(4,669)
Acquisition of business	0	(8,413)
	(3,937)	(13,082)
Cash used in financing activities:		
Net borrowings under credit agreements	0	3,030
Payment under capital lease obligation	(28)	0
Dividends paid	(4,382)	(4,381)
Proceeds from stock option exercises	1,087	0
	(3,323)	(1,351)
Net increase in cash and cash equivalents	6,771	75
Cash and cash equivalents, beginning of period	36,305	23,383
Cash and cash equivalents, end of period	\$43,076	\$23,458
Interest paid-net of amount capitalized	\$ 5,198	\$ 5,112
Income taxes paid	\$ 654	\$ 726

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

-3-

Note 2. Effective March 3, 2003, the Company acquired certain assets of a laminated papers producer for approximately \$8.5 million in cash, of which \$8.4 million was incurred in the first quarter of 2003. The 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 3. 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 March 31, 2004, the provision for incentive plans was \$152,000. For the three months ended March 31, 2003, the credit for incentive plans was \$251,000.

As permitted under SFAS No. 123, "Accounting for Stock-Based

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

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."

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 March 31,	
	2004	2003
Net earnings, as reported	\$3,452	\$1,335
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	96	(158)
Deduct: Total stock-based compensation (expense) credit determined under fair-value based method for all awards, net of related tax effects	(140)	133
Proforma	\$3,408	\$1,310
Earnings per share - basic:		
As reported	\$0.07	\$0.03
Pro forma	\$0.07	\$0.03
Earnings per share - diluted:		
As reported	\$0.07	\$0.03
Pro forma	\$0.07	\$0.03

-4-

Note 4. Basic and diluted earnings per share are recognized as follows:

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2004	2003
Net earnings	\$ 3,452	\$ 1,335
Basic weighted average common shares outstanding	51,617,395	51,536,891
Dilutive securities:		
Stock option plans	187,397	67,407
Diluted weighted average common shares outstanding	51,804,792	51,604,298
Net earnings per share-basic	\$ 0.07	\$ 0.03
Net earnings per share-diluted	\$ 0.07	\$ 0.03

For the three months ended March 31, 2004, options for 465,368 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the three months ended March 31, 2003, options for 881,255 shares were excluded from the diluted EPS calculation because the options were antidilutive.

Note 5. Accounts receivable consisted of the following:

(Dollars in thousands)	MARCH 31, 2004	December 31, 2003
Trade	\$92,423	\$82,142
Other	1,378	1,086
	93,801	83,228

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

Less: Allowances	(2,039)	(1,928)
	\$91,762	\$81,300

Note 6. The various components of inventories were as follows:

(Dollars in thousands)	MARCH 31, 2004	December 31, 2003
Raw Materials	\$ 30,183	\$ 27,282
Finished Goods and Work in Process	81,833	83,757
Supplies	28,072	27,920
Subtotal	140,088	138,959
Less: LIFO Reserve	(23,560)	(23,124)
Net inventories	\$116,528	\$115,835

-5-

Note 7. The accumulated depreciation on fixed assets was \$664.1 million as of March 31, 2004, and \$653.0 million as of December 31, 2003. The provision for depreciation, amortization and depletion was \$15.0 million for the three month periods ended March 31, 2004 and March 31, 2003.

Note 8. The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003, are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2004	2003	2004	2003
Service cost	\$ 1,720	\$ 1,379	\$ 671	\$ 504
Interest cost	2,423	2,329	1,541	1,162
Expected return on plan assets	(2,501)	(2,060)	0	0
Amortization of:				
Prior service cost	487	485	(87)	(89)
Actuarial loss	419	187	447	225
Transition (asset)	(14)	(47)	0	0
Net periodic benefit cost	\$ 2,534	\$ 2,273	\$ 2,572	\$1,802

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 March 31, 2004, \$3.1 million of contributions have been made. The Company expects to contribute an additional \$18.1 million in 2004 for a total of \$21.2 million.

Note 9. 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

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,

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

which produce wax-laminated roll wrap and related specialty finishing and packaging products, and a converting facility, which converts printing and writing grades. Specialty Paper 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.

-6-

Towel & Tissue operates a paper mill in Middletown, Ohio, and a converting facility in Harrodsburg, Kentucky.

### RECONCILIATIONS

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

(Dollars in thousands)	Three Months Ended March 31,	
	2004	2003
Net sales external customers		
Printing & Writing	\$100,101	\$ 98,377
Specialty Paper	100,931	92,458
Towel & Tissue	50,783	48,991
	\$251,815	\$239,826
Operating profit (loss)		
Printing & Writing	\$ 2,551	\$ 1,486
Specialty Paper	3,451	1,512
Towel & Tissue	5,301	4,031
Total reportable segment operating profit	11,303	7,029
Corporate & eliminations	(3,489)	(2,394)
Interest expense	(2,527)	(2,501)
Other income (expense)	194	(14)
Earnings before income taxes	\$ 5,481	\$ 2,120
(Dollars in thousands-unaudited)		
	MARCH 31, 2004	December 31, 2003
Segment Assets		
Printing & Writing	\$287,628	\$283,711
Specialty Paper	334,049	334,079
Towel & Tissue	162,824	165,199
Corporate & Unallocated*	80,188	75,111
	\$864,689	\$858,100