

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

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

INDEX

PART I. FINANCIAL INFORMATION

PAGE NO.

Item 1. Financial Statements

1

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

	Condensed Consolidated Statements of Operations, Three Months and Nine Months Ended September 30, 2004 (unaudited) and September 30, 2003 (unaudited)	1
	Condensed Consolidated Balance Sheets, September 30, 2004 (unaudited) and December 31, 2003 (derived from audited financial statements)	2
	Condensed Consolidated Statements of Cash Flows, Nine Months Ended September 30, 2004 (unaudited) and September 30, 2003 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	3-9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10-16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	17
Item 4.	Controls and Procedures	17
PART II. OTHER INFORMATION		
Item 6.	Exhibits	18

i

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months September 30,	
(Dollars in thousands, except per share data)	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

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

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.

1

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.

2

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

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

3

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

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

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."

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		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,

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

	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

5

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.

6

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
------------------------	-------

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

	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

7

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.

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

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.

8

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