WAUSAU PAPER CORP.
Form 10-Q
November 09, 2012
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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2012

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 PAPER CORP.

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act). Yes o No x

The number of common shares outstanding at October 31, 2012 was 49,322,921.

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WAUSAU PAPER CORP.

AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(all amounts in thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net sales	**$ 202,249**	$ 212,488	**$ 631,303**	$ 620,055
Cost of sales	**180,706**	187,481	**557,579**	548,073
Gross profit	**21,543**	25,007	**73,724**	71,982
Selling and administrative	**30,185**	14,697	**74,837**	50,045
Operating (loss) profit	**(8,642)**	10,310	**(1,113)**	21,937
Interest expense	**(648)**	(1,640)	**(2,388)**	(5,457)
Loss on early extinguishment of debt				(666)
Other expense, net	**(7)**	(5)	**(17)**	(15)
(Loss) earnings from continuing operations before income taxes	**(9,297)**	8,665	**(3,518)**	15,799
(Credit) provision for income taxes	**(4,144)**	3,312	**(2,006)**	5,809
(Loss) earnings from continuing operations	**(5,153)**	5,353	**(1,512)**	9,990
(Loss) earnings from discontinued operations, net of taxes	**(156)**	(172)	**4,646**	(2,970)
Net (loss) earnings	**$ (5,309)**	$ 5,181	**$ 3,134**	$ 7,020
Net earnings (loss) per share - basic and diluted:				
Continuing operations	**$ (0.10)**	$ 0.11	**$ (0.03)**	$ 0.20
Discontinued operations	**(0.00)**	(0.00)	**0.09**	(0.06)
Net (loss) earnings - basic	**$ (0.11)**	$ 0.11	**$ 0.06**	$ 0.14
Net (loss) earnings - diluted	**$ (0.11)**	$ 0.10	**$ 0.06**	$ 0.14
Weighted average shares outstanding basic	**49,323**	49,171	**49,309**	49,155
Weighted average shares outstanding diluted	**49,323**	49,425	**49,528**	49,386
Dividends declared per common share	**$**	$	**$ 0.06**	$ 0.06
Other comprehensive income (loss)				
Retirement and other post-retirement plans, net of taxes	**$ 5,452**	$ 587	**$ 7,398**	$ (1,037)
Other comprehensive income (loss)	**5,452**	587	**7,398**	(1,037)
Comprehensive income	**$ 143**	$ 5,768	**$ 10,532**	$ 5,983

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(all dollar amounts in thousands)	September 30, 2012 (unaudited)	December 31, 2011 (derived from audited financial statements)
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,421**	$ 26,661
Receivables, net	**78,823**	87,918
Refundable income taxes	**6,524**	161
Inventories	**47,509**	80,525
Spare parts	**27,400**	26,532
Other current assets	**3,372**	4,537
Assets of discontinued operations - current	**444**	
Total current assets	**170,493**	226,334
Property, plant, and equipment, net	**444,267**	369,836
Deferred income taxes	**27,022**	32,607
Other assets	**54,647**	50,053
Total Assets	**$ 696,429**	$ 678,830
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	**$ 69,583**	$ 77,925
Accrued and other liabilities	**42,009**	77,370
Deferred income taxes	**5,220**	
Liabilities of discontinued operations - current	**1,482**	
Total current liabilities	**118,294**	155,295
Long-term debt	**165,000**	127,650
Post-retirement benefits	**99,773**	97,421
Pension	**79,455**	77,824
Other noncurrent liabilities	**29,050**	24,396
Total liabilities	**491,572**	482,586
Stockholders equity	**204,857**	196,244
Total Liabilities and Stockholders Equity	**$ 696,429**	$ 678,830

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(all dollar amounts in thousands)	**Nine Months Ended September 30, 2012**	**2011**
Net cash provided by operating activities	**$ 31,344**	$ 32,208
Cash flows from investing activities:		
Capital expenditures	**(110,346)**	(63,071)
Grants received for capital expenditures	**236**	610
Proceeds from sale of business	**20,837**	
Proceeds from sale of assets	**4,777**	1,781
Net cash used in investing activities	**(84,496)**	(60,680)
Cash flows from financing activities:		
Net borrowings of commercial paper	**6,350**	20,535
Borrowings under credit agreement	**3,000**	33,000
Payments under credit agreement	**(3,000)**	(33,000)
Issuances of notes payable	**50,000**	50,000
Payments under note payable obligations		(35,000)
Payments under industrial development bond agreement	**(19,000)**	
Payment of premium on early extinguishment of debt		(708)
Dividends paid	**(4,438)**	(4,430)
Net cash provided by financing activities	**32,912**	30,397
Net (decrease) increase in cash and cash equivalents	**(20,240)**	1,925
Cash and cash equivalents, beginning of period	**26,661**	2,003
Cash and cash equivalents, end of period	**$ 6,421**	$ 3,928

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1. Basis of Presentation

The unaudited condensed consolidated financial statements include the results of Wausau Paper Corp. and our consolidated subsidiaries. All significant intercompany transactions have been eliminated. The accompanying condensed consolidated 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 consolidated financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2011, for our accounting policies and other disclosures, which are pertinent to these statements.

The results of operations of the Paper segment s Brokaw, Wisconsin paper mill have been reported as discontinued operations in the Condensed Consolidated Statements of Comprehensive Income for all periods presented. The corresponding assets and liabilities of the discontinued operation in the Condensed Consolidated Balance Sheets have been reclassified at September 30, 2012 in accordance with authoritative literature on discontinued operations. The assets and liabilities of the discontinued operation were not retroactively reclassified in the December 31, 2011 Condensed Consolidated Balance Sheet, and as a result, the balances are not comparable between periods. Also, in accordance with the authoritative literature, we have elected to not separately disclose the cash flows related to the discontinued operation. See Note 3 for further information regarding discontinued operations.

Note 2. New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05), which amends Accounting Standards Codification (ASC) 220, Comprehensive Income . This guidance requires the presentation of total comprehensive income, total net income and the components of net income and comprehensive income either in a single continuous statement or in two separate but consecutive statements. The requirements do not change how earnings per share is calculated or presented. We adopted ASU 2011-05 in the first quarter of 2012, and have presented comprehensive income as a single continuous statement in our Condensed Consolidated Statements of Comprehensive Income.

On January 1, 2012, we adopted FASB ASU 2011-04, an amendment to ASC 820, Fair Value Measurements . The amendments in ASU 2011-04 generally represent clarifications of fair value measurement, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements. Adopting these amendments had no effect on the condensed consolidated financial statements.

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The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The FASB s guidance classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than quoted market prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 Unobservable inputs based on the reporting entity s own assumptions.

A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Note 3. Discontinued Operations and Other

In December 2011, we announced that our Board of Directors had approved the sale of our premium Print & Color brands, and the closure of our Brokaw, Wisconsin paper mill. The sale of the premium Print & Color brands, select paper inventory, and certain manufacturing equipment to Neenah Paper, Inc. closed on January 31, 2012. We permanently ceased papermaking operations at the mill on February 10, 2012. During the third quarter of 2012, we completed the sale and disposal of the remaining long-lived assets of the Brokaw mill, generating proceeds of $4.8 million and a pre-tax gain of approximately $0.2 million. For the nine months ended September 30, 2012, we recorded impairment charges related to the long-lived assets of the Brokaw mill of $2.1 million, which are included in earnings from discontinued operations in the Condensed Consolidated Statements of Comprehensive Income. No impairment charges related to the long-lived assets of the Brokaw mill were incurred during the third quarter of 2012. At March 31, 2012, we determined that the Brokaw mill was a component of the entity and is presented as discontinued operations in accordance with FASB ASC Subtopic 205-20, Discontinued Operations.

The sale of the premium Print & Color brands, select paper inventory, and certain manufacturing equipment generated a pre-tax gain of $12.5 million, which is recorded in earnings from discontinued operations in the Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2012. With the sale of the premium Print & Color brands and closure of the Brokaw mill, we have eliminated our material participation in the Print & Color markets in which we have historically competed. We continue to manufacture and convert select Print & Color products for the buyer during a post-closing period which is expected to expire in late 2012. The continuing cash flows from this supply agreement are not a result of participation in an active market, and are not considered direct cash flows under ASC 205-20.

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The following table details the components of assets and liabilities that are classified as discontinued operations in the Condensed Consolidated Balance Sheets:

(all dollar amounts in thousands)		**September 30, 2012**
Receivables	**$**	**429**
Other current assets		**15**
Assets of discontinued operations - current		**444**
Accounts payable		**(203)**
Accrued and other liabilities, net		**(1,279)**
Liabilities of discontinued operations - current		**(1,482)**
Net liabilities of discontinued operations	**$**	**(1,038)**

The following table summarizes certain Condensed Consolidated Statements of Comprehensive Income information for discontinued operations:

(all amounts in thousands, except per share data)		**Three Months Ended September 30, 2012**		**2011**		**Nine Months Ended September 30, 2012**		**2011**
Net sales	**$**		$	53,347	**$**	**45,077**	$	161,841
(Loss) earnings from discontinued operations before income taxes		**(248)**		(279)		**7,374**		(4,584)
(Credit) provision for income taxes		**(92)**		(107)		**2,728**		(1,614)
(Loss) earnings from discontinued operations, net of taxes	**$**	**(156)**	$	(172)	**$**	**4,646**	$	(2,970)
Net (loss) earnings per share basic and diluted	**$**	**(0.00)**	$	(0.00)	**$**	**0.09**	$	(0.06)

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During the third quarter of 2012, we continued to execute restructuring activities related to the closure of the Brokaw mill, and have recognized net pre-tax charges of $0.4 million during the three months ended September 30, 2012, and, exclusive of the gain recorded for the sales transactions, net pre-tax charges of $6.7 million during the nine months ended September 30, 2012. These net charges, which are detailed in the following table, are recorded in earnings from discontinued operations in the Condensed Consolidated Statements of Comprehensive Income.

(all dollar amounts in thousands)	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Impairment of long-lived assets	$	$ 2,075
Inventory and spare parts write-downs		985
Severance and benefit continuation costs	89	1,819
Other associated costs, net	325	1,816
Total	$ 414	$ 6,695

No significant additional pre-tax closure charges are expected to be incurred during the remainder of 2012.

Following is a summary of the liabilities for restructuring expenses through September 30, 2012, related to the closure of the Brokaw mill, all of which are included in liabilities of discontinued operations - current:

(all dollar amounts in thousands)	December 31, 2011	Reserve Provisions	Payments/ Usage	September 30, 2012
Severance and benefit continuation	$ 4,997	$ 1,819	$ (6,650)	**$ 166**
Contract termination and other	570	239	(707)	**102**
Total	$ 5,567	$ 2,058	$ (7,357)	**$ 268**

In the first quarter of 2012, we incurred pre-tax charges of $3.3 million related to a previously terminated natural gas contract for our Paper segment s previously closed Groveton, New Hampshire mill. The charge is included in selling and administrative expenses in the Condensed Consolidated Statements of Comprehensive Income. During the first nine months of 2012, we have made payments related to this natural gas contract of $1.5 million. We will continue to make payments related to the contract over the original contractual term. At September 30, 2012, $2.3 million and $10.1 million are included in current liabilities and noncurrent liabilities, respectively, consisting of contract termination costs associated with the Groveton, New Hampshire mill. At December 31, 2011, $2.3 million and $7.9 million are included in current liabilities and noncurrent liabilities, respectively, related to these contract termination costs.

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Note 4. Earnings Per Share (EPS)

The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares:

(all amounts in thousands, except per share data)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Basic weighted average common shares outstanding	**49,323**	49,171	**49,309**	49,155
Dilutive securities:				
Stock compensation plans		254	**219**	231
Diluted weighted average common shares outstanding	**49,323**	49,425	**49,528**	49,386
(Loss) earnings from continuing operations, net of tax	**$ (5,153)**	$ 5,353	**$ (1,512)**	$ 9,990
(Loss) earnings from discontinued operations, net of tax	**(156)**	(172)	**4,646**	(2,970)
Net (loss) earnings	**$ (5,309)**	$ 5,181	**$ 3,134**	$ 7,020
(Loss) earnings from continuing operations, net of tax, per share basic and diluted	**$ (0.10)**	$ 0.11	**$ (0.03)**	$ 0.20
(Loss) earnings from discontinued operations, net of tax, per share basic and diluted	**(0.00)**	(0.00)	**0.09**	(0.06)
Net (loss) earnings per share basic	**$ (0.11)**	$ 0.11	**$ 0.06**	$ 0.14
Net (loss) earnings per share diluted	**$ (0.11)**	$ 0.10	**$ 0.06**	$ 0.14

Stock options for which the exercise price exceeds the average market price over the applicable period have an antidilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS. Due to the net loss for the three months ended September 30, 2012, stock-based grants for 1,801,659 shares were considered to be antidilutive. For the three months ended September 30, 2011, stock-based grants for 1,818,636 shares were excluded from the diluted EPS calculation because the shares were antidilutive. For the nine months ended September 30, 2012 and 2011, stock-based grants for 1,151,222 shares and 1,914,740 shares, respectively, were excluded from the diluted EPS calculation because the shares were antidilutive.

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Note 5. Receivables

Receivables at September 30, 2012 exclude discontinued operations. The receivables related to discontinued operations were not retroactively reclassified and are included in the following table at December 31, 2011.

(all dollar amounts in thousands)	September 30, 2012	December 31, 2011
Trade	**$ 79,140**	$ 87,152
Other	**569**	1,719
	79,709	88,871
Less: allowances for doubtful accounts	**(886)**	(953)
	$ 78,823	$ 87,918

Note 6. Inventories

The various components of inventories were as follows:

(all dollar amounts in thousands)	September 30, 2012	December 31, 2011
Raw materials	**$ 34,936**	$ 32,069
Work in process and finished goods	**51,291**	100,044
Supplies	**5,182**	4,166
Inventories at cost	**91,409**	136,279
Less: LIFO reserve	**(43,900)**	(55,754)
	$ 47,509	$ 80,525

Note 7. Property, Plant, and Equipment

The various components of property, plant, and equipment were as follows:

	September 30, 2012	December 31, 2011
Property, plant, and equipment		
Buildings	**$ 92,439**	$ 121,625
Machinery and equipment	**804,807**	992,244

	897,246	1,113,869
Less: accumulated depreciation	**(625,054)**	(820,815)
Net depreciated value	**272,192**	293,054
Land	**3,943**	6,776
Timber and timberlands, net of depletion	**48**	48
Construction in progress	**168,084**	69,958
	$ 444,267	$ 369,836

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Excluding discontinued operations, the provision for depreciation, amortization, and depletion for the three months ended September 30, 2012 and 2011 was $11.6 million and $12.3 million, respectively. Excluding discontinued operations, the provision for depreciation, amortization, and depletion for the nine months ended September 30, 2012 and 2011 was $34.4 million and $37.4 million, respectively.

During the three and nine months ended September 30, 2012, interest capitalized on projects with a construction period exceeding one year totaled $1.4 million and $3.5 million, respectively. Interest capitalized on projects with a construction period exceeding one year during the three and nine months ended September 30, 2011, totaled $0.2 million and $0.4 million, respectively.

Note 8. Debt

A summary of total debt is as follows:

(all dollar amounts in thousands)		**September 30, 2012**		**December 31, 2011**
Unsecured private placement notes	**$**	**150,000**	$	100,000
Industrial development bonds				19,000
Commercial paper placement agreement		**15,000**		8,650
Total long-term debt	**$**	**165,000**	$	127,650

On March 31, 2010, we entered into a note purchase and private-shelf agreement. This agreement provided for the April 9, 2010, issuance of $50 million of unsecured senior notes having an interest rate of 5.69% with a maturity date of April 9, 2017, and also established a three-year private shelf facility under which up to $125 million of additional promissory notes may be issued at terms agreed upon by the parties at the time of issuance. On April 4, 2011, we issued an additional aggregate principal amount of $50 million of our senior notes under the terms of this note purchase and private-shelf agreement. The notes bear interest at 4.68% and mature on April 4, 2018. On August 22, 2011, the private-shelf agreement was amended to expand the total amount available under the private-shelf agreement to $150 million. On April 9, 2012, we issued an additional aggregate principal amount of $50 million of our senior notes under this note purchase and private-shelf agreement. The notes bear interest at 4.00% and mature on June 30, 2016. At September 30, 2012, $150 million was currently outstanding under the note purchase and private-shelf agreement.

We have estimated the fair value of our long-term debt in accordance with FASB authoritative guidance. The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Fair value information for long-term debt is within Level 2 of the fair value hierarchy and is based on current market interest rates and estimates of current market conditions for instruments with similar terms and maturities. At September 30, 2012, the estimated fair value of long-term debt is approximately $179 million which compares to the carrying value of $165 million. At December 31, 2011, the estimated fair value of long-term debt was approximately $138 million which compares to the carrying value of $128 million.

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During the second quarter of 2012, we settled our obligations related to the $19 million of industrial development bonds. There were no prepayment penalties or additional costs associated with the retirement of these obligations.

On June 23, 2010, we entered into a $125 million revolving-credit agreement with five financial institutions that will expire on June 23, 2014. At September 30, 2012, there were no outstanding borrowings under the revolving-credit agreement.

In addition, at September 30, 2012, we had $15.0 million of commercial paper outstanding under an existing unrated commercial paper placement agreement with a bank. The agreement requires unused credit availability under our revolving-credit agreement equal to the amount of outstanding commercial paper. At September 30, 2012, the amount of commercial paper outstanding has been classified as long-term on our Condensed Consolidated Balance Sheets as we have the ability and intent to refinance the obligations under our revolving-credit agreement.

During the second quarter of 2011, we settled our obligations related to the $35 million unsecured private placement notes scheduled to expire in August 2011. The settlement of these obligations resulted in the recognition of a loss on early extinguishment of debt of $0.7 million in the nine months ended September 30, 2011, which reflects the premiums paid to retire the unsecured private placement notes, net of unamortized premiums and issuance costs.

We are subject to certain financial and other covenants under the revolving-credit agreement and the note purchase and private-shelf agreement. At September 30, 2012, we were in compliance with all required covenants and expect to remain in full compliance throughout the remainder of 2012.

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Note 9. Pension and Other Post-retirement Benefit Plans

Inclusive of discontinued operations, the components of net periodic benefit cost recognized in the Condensed Consolidated Statements of Comprehensive Income for the three months ended September 30, 2012 and 2011 are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2012	**2011**	**2012**	**2011**
Service cost	**$ 576**	$ 717	**$ 508**	$ 377
Interest cost	**2,653**	2,952	**1,039**	1,093
Expected return on plan assets	**(3,566)**	(3,697)		
Amortization of:				
Prior service cost (benefit)	**273**	408	**(770)**	(860)
Actuarial loss	**1,380**	808	**788**	545
Settlements	**12,077**			
Net periodic benefit cost	**$**			