

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

WAUSAU MOSINEE PAPER CORP  
Form 10-Q  
May 10, 2005

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, 2005

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 April 29, 2005 was 51,695,251.

WAUSAU-MOSINEE PAPER CORPORATION

AND SUBSIDIARIES

INDEX

PAGE NO.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements  
Condensed Consolidated Statements of  
Operations, Three Months Ended  
March 31, 2005 (unaudited) and  
March 31, 2004 (unaudited)

1

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

	Condensed Consolidated Balance Sheets, March 31, 2005 (unaudited) and December 31, 2004 (derived from audited financial statements)	2
	Condensed Consolidated Statements of Cash Flows, Three Months Ended March 31, 2005 (unaudited) and March 31, 2004 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	3-8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9-14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	15
Item 4.	Controls and Procedures	15
PART II. OTHER INFORMATION		
Item 6.	Exhibits i	16

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(all amounts in thousands, except per share data)	Three Months Ended March 31,	
	2005	2004
NET SALES	\$ 267,741	\$ 251,815
Cost of products sold	244,606	225,117
GROSS PROFIT	23,135	26,698
Selling and administrative expenses	17,527	18,884
OPERATING PROFIT	5,608	7,814
Interest expense	(2,650)	(2,527)
Other income (expense), net	115	194
EARNINGS BEFORE INCOME TAXES	3,073	5,481
Provision for income taxes	1,137	2,029
NET EARNINGS	\$ 1,936	\$ 3,452
NET EARNINGS PER SHARE - BASIC	\$ 0.04	\$ 0.07

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

NET EARNINGS PER SHARE - DILUTED	\$ 0.04	\$ 0.07
Weighted average shares outstanding-basic	51,690	51,617
Weighted average shares outstanding-diluted	51,991	51,805

See Notes to Condensed Consolidated Financial Statements.

1

### Wausau-Mosinee Paper Corporation and Subsidiaries CONDENSED CONSOLIDATED BALANCE SHEETS

(all dollar amounts in thousands)	MARCH 31, 2005	December 31, 2004
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 21,741	\$ 51,914
Receivables, net	106,332	95,731
Inventories	136,166	126,932
Deferred income taxes	12,453	8,592
Other current assets	3,884	4,123
Total current assets	280,576	287,292
Property, plant and equipment, net	544,519	551,160
Other assets	44,336	43,782
TOTAL ASSETS	\$ 869,431	\$ 882,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 108	\$ 115
Accounts payable	73,843	74,558
Accrued and other liabilities	53,482	73,077
Total current liabilities	127,433	147,750
Long-term debt	161,630	161,833
Deferred income taxes	109,568	105,885
Postretirement benefits	58,806	57,303
Pension	30,865	30,996
Other noncurrent liabilities	22,083	21,375
Total liabilities	510,385	525,142
Stockholders' equity	359,046	357,092
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 869,431	\$ 882,234

See Notes to Condensed Consolidated Financial Statements.

2

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

Three Months Ended  
March 31,

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

(all dollar amounts in thousands)	2005	2004
Net cash (used in) provided by operating activities	(\$ 17,118)	\$ 14,031
Cash flows from investing activities:		
Capital expenditures	(8,633)	(3,937)
Cash flows from financing activities:		
Payment under capital lease obligation	(28)	(28)
Dividends paid	(4,394)	(4,382)
Proceeds from stock option exercises	0	1,087
Cash used in financing activities	(4,422)	(3,323)
Net (decrease) increase in cash and cash equivalents	(30,173)	6,771
Cash and cash equivalents, beginning of period	51,914	36,305
Cash and cash equivalents, end of period	\$ 21,741	\$ 43,076
Interest paid-net of amount capitalized	\$ 5,268	\$ 5,198
Income taxes paid	\$ 6,578	\$ 654

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, 2004, for the Company's accounting policies and other disclosures, which are pertinent to these statements.

3

Note 2. Basic and diluted earnings per share are reconciled as follows:

(all amounts in thousands, except per share data)	Three Months Ended March 31,	
	2005	2004
Net earnings	\$ 1,936	\$ 3,452
Basic weighted average common shares outstanding	51,690	51,617
Dilutive securities:		
Stock compensation plans	301	187
Diluted weighted average common shares outstanding	51,991	51,805
Net earnings per share-basic	\$ 0.04	\$ 0.07
Net earnings per share-diluted	\$ 0.04	\$ 0.07

For the three months ended March 31, 2005, options for 567,911 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the three months ended March 31, 2004, options for

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

465,368 shares were excluded from the diluted EPS calculation because the options were antidilutive.

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, 2005, the credit for incentive plans on a pretax basis was \$1.9 million. For the three months ended March 31, 2004, the provision for incentive plans on a pretax basis was \$0.2 million.

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:

(all dollar amounts in thousands, except per share amounts)	Three Months Ended March 31,	
	2005	2004
Net earnings:		
As reported	\$1,936	\$3,452
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	(1,196)	96
Deduct: Total stock-based compensation (expense) credit determined under fair-value based method for all awards, net of related tax effects	1,050	(140)
Pro forma	\$1,790	\$3,408
Net earnings per share - basic:		
As reported	\$0.04	\$0.07
Pro forma	\$0.03	\$0.07
Net earnings per share - diluted:		
As reported	\$0.04	\$0.07
Pro forma	\$0.03	\$0.07

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which was to be effective for the Company on July 1, 2005. On April 14, 2005, the Securities and Exchange Commission ("SEC") announced the adoption of a rule that defers the effective date of 123R. As a result, the effective date for the Company is now January 1, 2006.

Note 4. Accounts receivable consisted of the following:

(all dollar amounts in thousands)	MARCH 31, 2005	December 31, 2004
Trade	\$106,215	\$ 95,787
Other	2,178	1,778
	108,393	97,565
Less: allowances for doubtful accounts	(2,061)	(1,834)
	\$106,332	\$ 95,731

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

5

Note 5. The various components of inventories were as follows:

(all dollar amounts in thousands)	MARCH 31, 2005	December 31, 2004
Raw materials	\$ 40,457	\$ 38,247
Work in process and finished goods	96,984	89,992
Supplies	29,987	28,731
Inventories at cost	167,428	156,970
Less: LIFO reserve	(31,262)	(30,038)
	\$136,166	\$ 126,932

Note 6. The accumulated depreciation on fixed assets was \$698.7 million as of March 31, 2005, and \$685.9 million as of December 31, 2004. The provision for depreciation, amortization and depletion for the three months ended March 31, 2005 and March 31, 2004 was \$15.3 million and \$15.0 million, respectively.

Note 7. The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2005 and 2004 are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2005	2004	2005	2004
Service cost	\$1,810	\$1,720	\$ 629	\$ 671
Interest cost	2,396	2,423	1,185	1,541
Expected return on plan assets	(2,708)	(2,501)	0	0
Amortization of:				
Prior service cost	549	487	(764)	(87)
Actuarial loss	466	419	338	447
Transition (asset)	0	(14)	0	0
Settlement	305	0	0	0
Net periodic benefit cost	\$2,818	\$2,534	\$1,388	\$2,572

The company previously disclosed in its consolidated financial statements for the year ended December 31, 2004, that although it does not have a minimum funding requirement for defined benefit pension plans in 2005, it may elect to make contributions of up to \$16.0 million to pension plans. As of March 31, 2005, the Company has made payments of \$2.2 million to its pension plans. In addition, as previously reported, the Company expects to contribute \$4.1 million directly to post-retirement plans. As of March 31, 2005, the Company has contributed \$0.9 million to its post-retirement plans.

6

Note 8. Interim Segment Information

The Company has reclassified certain prior-year interim segment information to conform to the 2005 presentation. The reclassification is the result of a change in the management of two converting facilities from the Printing & Writing segment to the Specialty Products segment.

FACTORS USED TO IDENTIFY REPORTABLE SEGMENTS

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

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

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

Specialty Products produces specialty papers at its manufacturing facilities in Rhinelander, Wisconsin; Mosinee, Wisconsin; and Jay, Maine. Specialty Products also includes two converting facilities that produce laminated roll wrap and related specialty finishing and packaging products. Printing & Writing produces a broad line of premium printing and writing grades at manufacturing facilities in Brokaw, Wisconsin; Groveton, New Hampshire; and Brainerd, Minnesota. Printing & Writing also includes a converting facility which converts printing and writing grades. 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.

7

### RECONCILIATIONS

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

(all dollar amounts in thousands)	Three Months Ended March 31,	
	2005	2004
Net sales external customers:		
Specialty Products	\$118,364	\$114,137
Printing & Writing	92,604	86,895
Towel & Tissue	56,773	50,783
	\$267,741	\$251,815
Operating profit (loss):		
Specialty Products	\$ 3,940	\$ 4,983
Printing & Writing	(4,569)	1,019
Towel & Tissue	7,884	5,301
Corporate & eliminations	(1,647)	(3,489)
	\$ 5,608	\$ 7,814
	MARCH 31, December 31,	
	2005 2004	
Specialty Products	\$344,857	\$342,724
Printing & Writing	292,290	281,378
Towel & Tissue	172,023	171,080
Corporate & Unallocated*	60,261	87,052
	\$869,431	\$882,234