

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<br>Sheets, March 31, 2005 (unaudited)<br>and December 31, 2004 (derived from<br>audited financial statements) | 2    |
|                            | Condensed Consolidated Statements<br>of Cash Flows, Three Months Ended<br>March 31, 2005 (unaudited) and<br>March 31, 2004 (unaudited)       | 3    |
|                            | Notes to Condensed Consolidated<br>Financial Statements (unaudited)  | 3-8  |
| Item 2.                    | Management's Discussion and<br>Analysis of Financial Condition<br>and Results of Operations  | 9-14 |
| Item 3.                    | Quantitative and Qualitative Disclosures<br>About Market Risk  | 15   |
| Item 4.                    | Controls and Procedures  | 15   |
| PART II. OTHER INFORMATION |  |      |
| Item 6.                    | Exhibits<br>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<br>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,<br>2005 | December 31,<br>2004 |
|---|-------------------|----------------------|
| <b>ASSETS</b>                                     |                   |                      |
| <b>Current assets:</b>                            |                   |                      |
| 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               |
| <b>TOTAL ASSETS</b>                               | <b>\$ 869,431</b> | <b>\$ 882,234</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>       |                   |                      |
| <b>Current liabilities:</b>                       |                   |                      |
| 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              |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 869,431</b> | <b>\$ 882,234</b>    |

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<br>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<br>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,<br>2005 | December 31,<br>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,<br>2005 | December 31,<br>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<br>Post-retirement<br>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<br>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 |