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WAUSAU PAPER CORP.
Form 10-Q
August 09, 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 JUNE 30, 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 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 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 July 29, 2005 was 51,471,251.

WAUSAU PAPER CORP.

AND SUBSIDIARIES

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June 30, 2005 (unaudited) and
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
Wausau Paper Corp. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(all amounts in thousands, except per share data)	2005	2004	2005	2004
NET SALES	\$275,291	\$264,109	\$543,032	\$515,924
Cost of products sold	258,445	235,973	503,051	461,090
GROSS PROFIT	16,846	28,136	39,981	54,834
Selling and administrative expenses	18,376	19,754	35,903	38,638
Restructuring expense	177	0	177	0
OPERATING (LOSS) PROFIT	(1,707)	8,382	3,901	16,196
Interest expense	(2,687)	(2,550)	(5,337)	(5,077)
Other income, net	122	98	237	292
(LOSS) EARNINGS BEFORE INCOME TAXES	(4,272)	5,930	(1,199)	11,411
(Credit) provision for income taxes	(1,581)	2,193	(444)	4,222

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NET (LOSS) EARNINGS	(\$ 2,691)	\$ 3,737	(\$ 755)	\$ 7,189
NET (LOSS) EARNINGS PER SHARE-BASIC	(\$ 0.05)	\$ 0.07	(\$ 0.01)	\$ 0.14
NET (LOSS) EARNINGS PER SHARE-DILUTED	(\$ 0.05)	\$ 0.07	(\$ 0.01)	\$ 0.14
Weighted average shares outstanding-basic	51,589	51,663	51,640	51,640
Weighted average shares outstanding-diluted	51,589	51,929	51,640	51,867
Dividends declared per common share	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17

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)	JUNE 30, 2005	December 31, 2004
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 20,435	\$ 51,914
Receivables, net	107,395	95,731
Inventories	143,494	126,932
Deferred income taxes	13,149	8,592
Other current assets	3,398	4,123
Total current assets	287,871	287,292
Property, plant and equipment, net	536,347	551,160
Other assets	45,812	43,782
TOTAL ASSETS	\$ 870,030	\$ 882,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 89	\$ 115
Accounts payable	85,972	74,558
Accrued and other liabilities	61,961	73,077
Total current liabilities	148,022	147,750
Long-term debt	161,449	161,833
Deferred income taxes	105,226	105,885
Postretirement benefits	58,942	57,303
Pension	28,948	30,996
Other noncurrent liabilities	22,488	21,375
Total liabilities	525,075	525,142
Stockholders' equity	344,955	357,092
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 870,030	\$ 882,234

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)	Six Months Ended June 30,	
	2005	2004
Net cash (used in) provided by operating activities	(\$ 4,498)	\$ 40,085
Cash flows from investing activities:		
Capital expenditures	(15,631)	(9,471)
Proceeds from property, plant and equipment disposals	222	12
Cash used in investing activities	(15,409)	(9,459)
Cash flows from financing activities:		
Payments under capital lease obligation	(47)	(55)
Dividends paid	(8,787)	(8,773)
Payments for purchase of company stock	(2,738)	0
Proceeds from stock option exercise	0	1,279
Cash used in financing activities	(11,572)	(7,549)
Net (decrease) increase in cash and cash equivalents	(31,479)	23,077
Cash and cash equivalents, beginning of period	51,914	36,305
Cash and cash equivalents, end of period	\$20,435	\$ 59,382
Interest-net of amount capitalized	\$ 5,227	\$ 5,330
Income taxes paid	9,102	3,597

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 Paper Corp. 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.

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

(all amounts in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net (loss) earnings	(\$ 2,691)	\$ 3,737	(\$ 755)	\$ 7,189
Basic weighted average common shares outstanding	51,589	51,663	51,640	51,640

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Dilutive securities:				
Stock compensation plans	0	266	0	227
Dilutive weighted average common shares outstanding	51,589	51,929	51,640	51,867
Net (loss) earnings per share-basic	(\$ 0.05)	\$ 0.07	(\$ 0.01)	\$ 0.14
Net (loss) earnings per share-diluted	(\$ 0.05)	\$ 0.07	(\$ 0.01)	\$ 0.14

For the three months ended June 30, 2005 and 2004, 1,950,729 and 432,911 shares under stock compensation plans, respectively, were excluded from the diluted EPS calculation because the shares were antidilutive. For the six months ended June 30, 2005 and 2004, 1,950,729 and 449,140 shares, respectively, were excluded from the diluted EPS calculation because the options were antidilutive.

Note 3. Net earnings or loss include provisions, or credits, for stock-based compensation 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. In addition, fixed compensation expense is recognized for certain stock-based compensation plans over the remaining service or vesting period of the grant. For the three months ended June 30, 2005, the credit for stock-based compensation plans on a pretax basis was \$0.8 million. For the three months ended June 30, 2004, the provision for stock-based compensation plans on a pretax basis was \$2.0 million. For the six months ended June 30, 2005, the credit for stock-based compensation plans on a pretax basis was \$2.7 million. For the six months ended June 30, 2004, the provision for stock-based compensation plans on a pretax basis was \$2.2 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."

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Pro forma net (loss) earnings and (loss) 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 June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net (loss) earnings, as reported	(\$ 2,691)	\$ 3,737	(\$ 755)	\$ 7,189
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	(518)	1,269	(1,714)	1,365
Deduct: Total stock-based compensation (expense) credit determined under fair-value based method for all awards, net of related tax effects	379	(1,345)	1,429	(1,485)
Proforma	(\$ 2,830)	\$ 3,661	(\$ 1,040)	\$ 7,069
(Loss) earnings per share - basic:				
As reported	(\$ 0.05)	\$ 0.07	(\$ 0.01)	\$ 0.14

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Pro forma	(\$ 0.05)	\$ 0.07	(\$ 0.02)	\$ 0.14
(Loss) earnings per share - diluted:				
As reported	(\$ 0.05)	\$ 0.07	(\$ 0.01)	\$ 0.14
Pro forma	(\$ 0.05)	\$ 0.07	(\$ 0.02)	\$ 0.14

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 SFAS 123R. The Company plans to adopt SFAS 123R in the first quarter of 2006 and is currently evaluating which method of adoption will be utilized.

Note 4. Accounts receivable consisted of the following:

(all dollar amounts in thousands)	JUNE 30, 2005	December 31, 2004
Trade	\$107,950	\$ 95,787
Other	1,566	1,778
	109,516	97,565
Less: allowances for doubtful accounts	(2,121)	(1,834)
	\$107,395	\$ 95,731

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

(all dollar amounts in thousands)	JUNE 30, 2005	December 31, 2004
Raw materials	\$ 40,084	\$ 38,247
Work in process and finished goods	105,557	89,992
Supplies	29,104	28,731
Inventories at cost	174,745	156,970
Less: LIFO reserve	(31,251)	(30,038)
	\$143,494	\$ 126,932

Note 6. The accumulated depreciation on fixed assets was \$714.7 million as of June 30, 2005, and \$685.9 million as of December 31, 2004. The provision for depreciation, amortization and depletion for the three months ended June 30, 2005 and June 30, 2004 was \$18.8 million and \$14.9 million, respectively. The provision for depreciation, amortization and depletion for the six months ended June 30, 2005 and June 30, 2004 was \$34.1 million and \$29.9 million, respectively. Quarter-over-quarter and year-over-year increases in depreciation expense are primarily the result of accelerated depreciation recorded in the three months ended June 30, 2005 in connection with the closure of Printing & Writing's sulfite pulp mill located in Brokaw, Wisconsin. See Note 8 for additional pulp mill closure information.

Note 7. The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2005 and 2004 are as follows:

(all dollar amounts in thousands)	Other Post-retirement
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	Pension Benefits		Benefits	
	2005	2004	2005	2004
Service cost	\$1,815	\$1,720	\$ 628	\$ 671
Interest cost	2,396	2,423	1,185	1,505
Expected return on plan assets	(2,708)	(2,504)	0	0
Amortization of:				
Prior service cost	549	488	(764)	(87)
Actuarial loss	465	420	338	447
Transition (asset)	0	(12)	0	0
Net periodic benefit cost	\$2,517	\$2,535	\$1,387	\$2,536

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The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2005 and 2004 are as follows:

(all dollar amounts in thousands)

	Pension Benefits		Other Post-retirement Benefits	
	2005	2004	2005	2004
Service cost	\$3,625	\$3,440	\$1,257	\$1,342
Interest cost	4,792	4,846	2,370	3,046
Expected return on plan assets	(5,416)	(5,005)	0	0
Amortization of:				
Prior service cost	1,098	975	(1,528)	(174)
Actuarial loss	931	839	676	894
Transition (asset)	0	(26)	0	0
Settlement	305	0	0	0
Net periodic benefit cost	\$5,335	\$5,069	\$2,775	\$5,108

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 June 30, 2005, the Company has made payments of \$6.3 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 June 30, 2005, the Company has contributed \$2.4 million to its post-retirement plans.

Note 8. Pulp Mill Closure

In July 2005, the Company announced plans to permanently close the sulfite pulp mill at its Brokaw, Wisconsin, papermaking facility. The pulp mill closure is expected to be substantially completed by the end of 2005 and will result in the elimination of approximately 60 permanent jobs, or 11% of the facility's total workforce. The related long-lived assets will be abandoned. The cost of products sold for the period ended June 30, 2005, as reflected in the Condensed Consolidated Statements of Operations include \$9.3 million in pre-tax charges for accelerated depreciation and an adjustment of pulp mill inventory to net realizable value. Restructuring expense for the period ended June 30, 2005 reflects a pre-tax charge of \$0.2 million for certain assets disposed as a direct result of the closure. Additional pre-tax closure charges of approximately \$35 million are expected to be recognized over the next 12 months, of which \$23 million is expected to be recorded in the third quarter of 2005, \$11 million in the fourth quarter of 2005 and \$1 million in the first half of 2006.

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The following table sets forth information with respect to pulp mill closure charges:

(all dollar amounts in thousands)

	THREE MONTHS ENDED JUNE 30, 2005	Expected in	
		Third	Fourth
		Quarter 2005	Quarter 2005
Depreciation on equipment to be abandoned	\$3,680	\$22,000	\$7,450
Inventory write-down	5,611	0	0
Employee severance	0	100	50
Other associated costs	177	900	3,500
Total	\$9,468	\$23,000	\$11,000

Note 9. 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, 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 Rhineland, 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.

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RECONCILIATIONS

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

(all dollar amounts in thousands)

	Three Months		Six Months	
	Ended June 30, 2005	2004	Ended June 30, 2005	2004
Net sales external customers				
Specialty Products	\$113,981	\$118,528	\$232,345	\$232,665
Printing & Writing	95,246	88,424	187,850	175,319
Towel & Tissue	66,064	57,157	122,837	107,940

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	\$275,291	\$264,109	\$543,032	\$515,924
Operating (loss) profit				
Specialty Products	\$ 3,829	\$ 4,760	\$ 7,769	\$ 9,743
Printing & Writing	(13,100)	586	(17,669)	1,605
Towel & Tissue	9,922	8,131	17,806	13,432
Corporate & eliminations	(2,358)	(5,095)	(4,005)	(8,584)
(Loss) earnings before income taxes	(\$1,707)	\$ 8,382	\$ 3,901	\$ 16,196

	JUNE 30, 2005	December 31, 2004
Segment assets:		
Specialty Products	\$346,207	\$342,724
Printing & Writing	290,909	281,378
Towel & Tissue	173,503	171,080
Corporate & Unallocated*	59,411	87,052
	\$870,030	\$882,234