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WAUSAU PAPER CORP.
Form 10-Q
November 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 SEPTEMBER 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of common shares outstanding at October 31, 2005 was 51,291,950.

WAUSAU PAPER CORP.

AND SUBSIDIARIES

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FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(all dollar amounts in thousands, except per share data)	Three Months Ended September 30,		Nine Months End September 30,	
	2005	2004	2005	2004
NET SALES	\$285,624	\$262,428	\$828,656	\$778,352
Cost of products sold	277,482	229,983	780,533	691,073
GROSS PROFIT	8,142	32,445	48,123	87,279
Selling and administrative expenses	19,108	17,158	55,011	55,796
Restructuring expense	226	0	403	0
OPERATING (LOSS) PROFIT	(11,192)	15,287	(7,291)	31,483
Interest expense	(2,718)	(2,608)	(8,055)	(7,685)
Other income, net	124	191	361	483

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(LOSS) EARNINGS BEFORE INCOME TAXES	(13,786)	12,870	(14,985)	24,281
(Credit) provision for income taxes	(4,794)	4,762	(5,238)	8,984
NET (LOSS) EARNINGS	(\$ 8,992)	\$ 8,108	(\$ 9,747)	\$15,297
NET (LOSS) EARNINGS PER SHARE-BASIC	(\$ 0.18)	\$ 0.16	(\$ 0.19)	\$ 0.30
NET (LOSS) EARNINGS PER SHARE-DILUTED	(\$ 0.18)	\$ 0.16	(\$ 0.19)	\$ 0.29
Weighted average shares outstanding-basic	51,369	51,681	51,548	51,654
Weighted average shares outstanding-diluted	51,369	51,980	51,548	51,905
Dividends declared per common share	\$ 0	\$ 0	\$ 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)	SEPTEMBER 30, December 31,	
	2005	2004
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 12,285	\$ 51,914
Receivables, net	108,278	95,731
Inventories	141,695	126,932
Deferred income taxes	10,744	8,592
Other current assets	4,536	4,123
Total current assets	277,538	287,292
Property, plant and equipment, net	510,225	551,160
Other assets	46,278	43,782
TOTAL ASSETS	\$834,041	\$882,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 60	\$ 115
Accounts payable	75,344	74,558
Accrued and other liabilities	58,299	73,077
Total current liabilities	133,703	147,750
Long-term debt	161,268	161,833
Deferred income taxes	98,344	105,885
Postretirement benefits	58,599	57,303
Pension	25,173	30,996
Other noncurrent liabilities	23,181	21,375
Total liabilities	500,268	525,142
Stockholders' equity	333,773	357,092
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$834,041	\$882,234

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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,	
	2005	2004
Net cash provided by operating activities	\$ 3,708	\$47,102
Cash flows from investing activities:		
Capital expenditures	(26,606)	(16,579)
Proceeds from property, plant and equipment disposals	1,490	43
Cash used in investing activities	(25,116)	(16,536)
Cash flows from financing activities:		
Payments under capital lease obligation	(76)	(83)
Dividends paid	(13,162)	(13,166)
Payments for purchase of company stock	(4,983)	0
Proceeds from stock option exercise	0	1,413
Cash used in financing activities	(18,221)	(11,836)
Net (decrease) increase in cash and cash equivalents	(39,629)	18,730
Cash and cash equivalents, beginning of period	51,914	36,305
Cash and cash equivalents, end of period	\$ 12,285	\$55,035
Interest-net of amount capitalized	\$ 10,441	\$10,568
Income taxes paid	9,606	7,701

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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004

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Net (loss) earnings	(\$8,992)	\$8,108	(\$9,747)	\$15,297
Basic weighted average common shares outstanding	51,369	51,681	51,548	51,654
Dilutive securities:				
Stock compensation plans	0	299	0	251
Dilutive weighted average common shares outstanding	51,369	51,980	51,548	51,905
Net (loss) earnings per share-basic	(\$ 0.18)	\$ 0.16	(\$ 0.19)	\$ 0.30
Net (loss) earnings per share-diluted	(\$ 0.18)	\$ 0.16	(\$ 0.19)	\$ 0.29

For the three months ended September 30, 2005 and 2004, 1,949,880 shares and 288,586 shares under stock compensation plans, respectively, were excluded from the diluted EPS calculation because the shares were antidilutive. For the nine months ended September 30, 2005 and 2004, 1,949,880 shares and 395,622 shares, respectively, were excluded from the diluted EPS calculation because the options were antidilutive.

Note 3. Net loss or earnings include provisions, or credits, for certain 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 September 30, 2005, the provision for stock-based compensation plans on a pretax basis was \$0.3 million. For the three months ended September 30, 2004, the credit for stock-based compensation plans on a pretax basis was \$0.2 million. For the nine months ended September 30, 2005, the credit for stock-based compensation plans on a pretax basis was \$2.5 million. For the nine months ended September 30, 2004, the provision for stock-based compensation plans on a pretax basis was \$2.0 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 data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net (loss) earnings, as reported	(\$8,992)	\$8,108	(\$ 9,747)	\$15,297
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	163	(110)	(1,551)	1,255
Deduct: Total stock-based compensation (expense) credit determined under fair-value based method for all awards,				

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net of related tax effects	(320)	27	1,109	(1,458)
Proforma	(\$9,149)	\$8,025	(\$10,189)	\$15,094
(Loss) earnings per share - basic:				
As reported	(\$ 0.18)	\$ 0.16	(\$ 0.19)	\$ 0.30
Pro forma	(\$ 0.18)	\$ 0.16	(\$ 0.20)	\$ 0.29
(Loss) earnings per share - diluted:				
As reported	(\$ 0.18)	\$ 0.16	(\$ 0.19)	\$ 0.29
Pro forma	(\$ 0.18)	\$ 0.15	(\$ 0.20)	\$ 0.29

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. As a result, the Company is unable to disclose the impact that adopting this statement will have on its financial position and results of operations when adopted.

Note 4. Accounts receivable consisted of the following:

(all dollar amounts in thousands)	SEPTEMBER 30, 2005	December 31, 2004
Trade	\$108,664	\$ 95,787
Other	1,806	1,778
	110,470	97,565
Less: allowances for doubtful accounts	(2,192)	(1,834)
	\$108,278	\$ 95,731

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

(all dollar amounts in thousands)	SEPTEMBER 30, 2005	December 31, 2004
Raw materials	\$ 38,935	\$ 38,247
Work in process and finished goods	107,173	89,992
Supplies	29,336	28,731
Inventories at cost	175,444	156,970
Less: LIFO reserve	(33,749)	(30,038)
	\$141,695	\$126,932

Note 6. The accumulated depreciation on fixed assets was \$748.3 million as of September 30, 2005, and \$685.9 million as of December 31, 2004. The provision for depreciation, amortization and depletion for the three months ended September 30, 2005 and September 30, 2004 was \$36.2 million and \$14.9 million, respectively. The provision for depreciation, amortization and depletion for the nine months ended September 30, 2005 and September 30, 2004 was \$70.2 million and \$44.9 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 and nine months ended September 30, 2005, of \$22.1 million and \$25.8 million, respectively, 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.

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

(all dollar amounts in thousands)

	Pension Benefits		Other Post-retirement Benefits	
	2005	2004	2005	2004
	Service cost	\$ 1,813	\$ 1,730	\$ 628
Interest cost	2,396	2,491	1,185	1,183
Expected return on plan assets	(2,708)	(2,503)	0	0
Amortization of:				
Prior service cost	549	549	(763)	(899)
Actuarial loss	465	419	338	371
Transition (asset)	0	(12)	0	0
Settlement	12	30	0	0
Net periodic benefit cost	\$ 2,527	\$ 2,704	\$ 1,388	\$ 1,121

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

(all dollar amounts in thousands)

	Pension Benefits		Other Post-retirement Benefits	
	2005	2004	2005	2004
	Service cost	\$ 5,438	\$ 5,170	\$ 1,885
Interest cost	7,188	7,337	3,555	4,229
Expected return on plan assets	(8,124)	(7,508)	0	0
Amortization of:				
Prior service cost	1,647	1,524	(2,291)	(1,073)
Actuarial loss	1,396	1,258	1,014	1,265
Transition (asset)	0	(38)	0	0
Settlement	317	30	0	0
Net periodic benefit cost	\$ 7,862	\$ 7,773	\$ 4,163	\$ 6,229

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 September 30, 2005, the Company has made payments of \$11.9 million to its pension plans. The Company previously reported that it expected to contribute \$4.1 million directly to post-retirement plans. As of September 30, 2005, the Company has contributed \$3.8 million to its post-retirement plans and now expects to contribute, in total, approximately \$5.2 million to post-retirement plans for 2005.

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

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long-lived assets will be abandoned. The cost of products sold for the three month and nine month periods ended September 30, 2005, as reflected in the Condensed Consolidated Statements of Operations include \$20.6 million and \$29.9 million, respectively, in pre-tax charges for accelerated depreciation, an adjustment of pulp mill inventory to net realizable value, and a third quarter revision to the original pulp mill inventory value based upon additional usage of inventories. Pre-tax restructuring expense related to certain assets disposed as a direct result of the closure and other associated costs were \$0.2 million and \$0.4 million for the three months and nine months ended September 30, 2005, respectively. Additional pre-tax closure charges of approximately \$12.1 million are expected to be recognized over the next three quarters, with \$11.5 million in the fourth quarter of 2005, and \$0.6 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 SEPTEMBER 30, 2005	NINE MONTHS ENDED SEPTEMBER 30, 2005	Expected in Fourth Quarter 2005
Depreciation on equipment to be abandoned	\$22,078	\$25,758	\$7,400
Inventory write-down	(1,757)	3,854	0
Severance and benefit continuation	383	383	600
Other associated costs	104	281	3,500
Total	\$20,808	\$30,276	\$11,500

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 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

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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 Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net sales external customers				
Specialty Products	\$115,461	\$114,580	\$347,806	\$347,245
Printing & Writing	100,549	89,361	288,399	264,680
Towel & Tissue	69,614	58,487	192,451	166,427
	\$285,624	\$262,428	\$828,656	\$778,352
Operating (loss) profit				
Specialty Products	\$ 4,260	\$ 6,330	\$ 12,029	\$16,073
Printing & Writing	(23,103)	3,998	(40,772)	5,603
Towel & Tissue	10,776	7,855	28,582	21,287
Corporate & eliminations	(3,125)	(2,896)	(7,130)	(11,480)
(Loss) earnings before income taxes	(\$ 11,192)	\$ 15,287	(\$ 7,291)	\$31,483

	SEPTEMBER 30, 2005	December 31, 2004
Segment assets:		
Specialty Products	\$337,423	\$342,724
Printing & Writing	271,496	281,378
Towel & Tissue	174,852	171,080
Corporate & Unallocated*	50,270	87,052
	\$834,041	\$882,234