

WAUSAU PAPER CORP.
Form 10-Q
August 07, 2014
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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, 2014

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)

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WISCONSIN
(State of incorporation)

39-0690900
(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 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 No

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 July 31, 2014 was 49,970,649.

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AND SUBSIDIARIES

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Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(all amounts in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	\$ 89,214	\$ 87,623	\$ 166,721	\$ 165,817
Cost of sales	77,654	77,810	146,952	144,728
Gross profit	11,560	9,813	19,769	21,089
Selling and administrative	15,058	10,623	27,925	25,708
Operating loss	(3,498)	(810)	(8,156)	(4,619)
Interest expense	(2,411)	(2,540)	(4,579)	(4,868)
Other (expense) income, net	(20)	10	3	(5)
Loss from continuing operations before income taxes	(5,929)	(3,340)	(12,732)	(9,492)
(Credit) provision for income taxes	(2,208)	11,255	(4,565)	8,835
Loss from continuing operations	(3,721)	(14,595)	(8,167)	(18,327)
Loss from discontinued operations, net of taxes	(107)	(40,231)	(561)	(66,104)
Net loss	\$ (3,828)	\$ (54,826)	\$ (8,728)	\$ (84,431)
Net loss per share - basic and diluted:				
Continuing operations	\$ (0.07)	\$ (0.30)	\$ (0.16)	\$ (0.37)
Discontinued operations	(0.00)	(0.81)	(0.01)	(1.34)
Net loss	\$ (0.08)	\$ (1.11)	\$ (0.17)	\$ (1.71)
Weighted average shares outstanding basic	50,021	49,399	49,930	49,381
Weighted average shares outstanding diluted	50,021	49,399	49,930	49,381
Other comprehensive income				
Retirement and other post-retirement plans, net of tax of \$113 and \$13,446 for the three months ended June 30, 2014 and 2013, respectively, and \$226 and \$14,059 for the six months ended June 30, 2014 and 2013, respectively	\$ 188	\$ 21,939	\$ 377	\$ 22,938
Other comprehensive income	188	21,939	377	22,938
Comprehensive loss	\$ (3,640)	\$ (32,887)	\$ (8,351)	\$ (61,493)

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, 2014 (unaudited)	December 31, 2013 (derived from audited financial statements)
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,088	\$ 19,594
Receivables, net	25,325	29,106
Refundable income taxes	1,309	1,927
Inventories	35,595	35,718
Spare parts	11,298	10,607
Other current assets	2,358	2,243
Assets of discontinued operations - current	4,685	8,587
Total current assets	86,658	107,782
Property, plant, and equipment, net	293,247	298,964
Deferred income taxes	24,432	20,470
Other assets	53,926	54,347
Assets of discontinued operations - long-term	487	
Total Assets	\$ 458,750	\$ 481,563
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 23,129	\$ 29,900
Deferred income taxes	10,160	10,118
Accrued and other liabilities	31,822	31,965
Liabilities of discontinued operations - current	475	1,894
Total current liabilities	65,586	73,877
Long-term debt	150,000	150,000
Post-retirement benefits	29,541	30,247
Pension	35,850	38,838
Other noncurrent liabilities	17,719	19,470
Noncurrent liabilities of discontinued operations	866	989
Total liabilities	299,562	313,421
Stockholders' equity	159,188	168,142
Total Liabilities and Stockholders' Equity	\$ 458,750	\$ 481,563

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,	
	2014	2013
Net cash (used in) provided by operating activities	\$ (5,682)	\$ 4,861
Cash flows from investing activities:		
Capital expenditures	(8,982)	(19,465)
Proceeds from sale of business		105,067
Proceeds from sale of assets	2,690	1,098
Net cash (used in) provided by investing activities	(6,292)	86,700
Cash flows from financing activities:		
Net payments of commercial paper		(40,700)
Borrowings under credit agreement		65,000
Payments under credit agreement		(70,500)
Proceeds from stock option exercises	1,450	104
Dividends paid	(2,982)	(2,963)
Net cash used in financing activities	(1,532)	(49,059)
Net (decrease) increase in cash and cash equivalents	(13,506)	42,502
Cash and cash equivalents, beginning of period	19,594	4,044
Cash and cash equivalents, end of period	\$ 6,088	\$ 46,546

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1. Description of the Business

Wausau Paper Corp. manufactures, converts, and sells a complete line of towel and tissue products that are marketed along with soap and dispensing systems for the industrial and commercial away-from-home market. Our products are primarily sold within the United States and Canada.

During 2013, we announced our intent to focus our management efforts and future investments in the industrial and commercial away-from-home towel and tissue market. As a result, we exited our participation in the technical specialty paper business in which we had competed. See Note 4, Discontinued Operations and Other for further information regarding discontinued operations.

Note 2. Basis of Presentation

The condensed consolidated financial statements include the results of Wausau Paper Corp. and our consolidated subsidiaries. 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 (GAAP). Refer to the notes to consolidated financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2013, for our accounting policies and other disclosures, which are pertinent to these statements.

The results of operations of our former technical specialty paper business are reported as a discontinued operation in the Condensed Consolidated Statements of Comprehensive Loss for all periods presented. The corresponding assets and liabilities of the discontinued operations in the Condensed Consolidated Balance Sheets have been reclassified in accordance with authoritative literature on discontinued operations for all periods presented. Also, in accordance with the authoritative literature, we have elected to not separately disclose the cash flows related to the discontinued operation. See Note 4, Discontinued Operations and Other for further information regarding discontinued operations.

Note 3. New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . This guidance requires unrecognized tax benefits to be presented as a decrease in net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The guidance is to be applied prospectively

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beginning January 1, 2014. The adoption of ASU No. 2013-11 did not have an impact on our results of operations or financial position.

On September 13, 2013, the Internal Revenue Service released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Service Code (IRC) and proposed regulations under Section 168 of the IRC. These regulations generally apply to taxable years beginning on or after January 1, 2014 and affects all taxpayers that acquire, produce, or improve tangible property. We do not expect that the adoption of these regulations will have material impact on our Condensed Consolidated Financial Statements.

On April 10, 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance changes the definition of a discontinued operation to a strategic shift that has or will have a major impact on an entity's operations or financial results. Additionally, there are new disclosure requirements to enhance transparency for reporting purposes. ASU 2014-08 is to be applied prospectively to all disposals that occur in annual periods beginning on or after December 15, 2014. We do not expect the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This standard provides companies with a single model for use in accounting for revenue arising from contracts with customers. The core principle of this model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU No. 2014-09 is effective with annual periods beginning after December 15, 2016, with early adoption not permitted. The guidance allows companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. We do not expect the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

On June 19, 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. For share-based payments with a performance target that could be achieved after the requisite vesting period, the guidance requires the target be treated as a performance condition under FASB ASC Topic 718, Compensation-Stock Compensation, and, as a result, should not be included in the estimation of the grant-date fair value of the award. Instead, ASU No. 2014-12 requires companies to recognize compensation expense for the award when it becomes probable that the performance target will be achieved. ASU No. 2014-12 is effective for annual periods beginning after December 15, 2015, and may be applied either prospectively or retrospectively. We do not expect the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

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Note 4. Discontinued Operations and Other

We determined that as of June 30, 2013, the sale of the specialty paper business and the closure of the Brainerd, Minnesota paper mill (Brainerd), met the criteria for discontinued operations presentation as established in FASB Accounting Standards Codification (ASC) Subtopic 205-20, Discontinued Operations . Therefore, the results of operations of the specialty paper business and Brainerd mill have been reported as discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss for all periods presented. The corresponding assets and liabilities of the discontinued operations have been reclassified in accordance with authoritative literature on discontinued operations for all periods presented. The Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 have not been adjusted to separately disclose cash flows related to discontinued operations.

The sale of the specialty paper business and primarily all related assets and selected liabilities, excluding Brainerd, closed on June 26, 2013. The sale generated a pre-tax impairment charge of \$63.7 million, which is recorded in loss from discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2013. As there were no quoted market prices available for these or similar assets, we used the actual sales price to determine the fair market value of the assets, which is a level 3, unobservable input. Included in the impairment charge is a net pre-tax credit of approximately \$5.9 million related to pension and other postretirement plan settlements, curtailments, and special termination benefits resulting from modifications made to the plans in connection with the transaction. Additionally, pre-tax charges related to severance and benefits, contract termination, and other associated closure costs totaled \$0.1 million and \$4.3 million for the three months ended June 30, 2014 and June 30, 2013, respectively. For the six months ended June 30, 2014 and June 30, 2013, the aforementioned pre-tax closure charges were \$0.7 million and \$4.3 million, respectively.

The agreement to sell the specialty paper business also includes a provision whereby we would receive a contingent payment from the buyer if certain performance thresholds and other events occur. At June 30, 2014, no amounts have been recognized related to this provision, as we are not able to determine whether such events will occur.

In February 2013, we announced the planned closure of Brainerd and the facility permanently closed on March 29, 2013. Pre-tax charges recorded for the six months ended June 30, 2014 were \$0.1 million, related to severance and benefit continuation costs and other associated closure costs; there were not any additional charges recognized for the three months ended June 30, 2014. Pre-tax charges for severance and benefit continuation costs and other associated closure costs totaled \$0.7 million for the three months ended June 30, 2013. For the six months ended June 30, 2013, pre-tax charges included accelerated depreciation on long lived assets of \$35.7

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million; inventory and spare parts write downs of \$6.7 million; and other associated closure costs of \$2.6 million.

In June 2014, we sold a portion of the group of assets held for sale associated with Brainerd and realized proceeds on the sale of \$2.6 million. There was no gain or loss recognized on the sale of the assets. At June 30, 2014, there was \$4.7 million in current assets of discontinued operations, comprised primarily of approximately \$4.1 million in remaining held for sale assets of Brainerd, which continue to be actively marketed for sale. Also at June 30, 2014, there were \$0.5 million in current liabilities and \$0.9 million in other noncurrent liabilities that are primarily related to contract termination costs and are classified as discontinued operations in the Condensed Consolidated Balance Sheets. At December 31, 2013, there was \$8.6 million in current assets of discontinued operations, comprised primarily of \$6.7 million related to assets held for sale of Brainerd. Also at December 31, 2013, there were \$1.9 million in current liabilities and \$1.0 million in other noncurrent liabilities that are primarily related to contract termination costs and were classified as discontinued operations in the Condensed Consolidated Balance Sheets.

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

(all amounts in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	\$ 21	\$ 98,099	\$ 379	\$ 208,112
Earnings (Loss) from discontinued operations before income taxes	35	(65,604)	(1,198)	(106,445)
Provision (credit) for income taxes	142	(25,373)	(637)	(40,341)
Loss from discontinued operations, net of taxes	\$ (107)	\$ (40,231)	\$ (561)	\$ (66,104)
Net loss per share basic and diluted	\$ (0.00)	\$ (0.81)	\$ (0.01)	\$ (1.34)

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The following table summarizes the components of costs included in loss from discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss associated with the sale of the specialty paper business and closure of Brainerd.

(all dollar amounts in thousands)	Three Months Ended		Six Months	
	2014	June 30, 2013	2014	Ended June 30, 2013
Impairment of long-lived assets	\$	\$ 63,712	\$	\$ 63,712
Accelerated depreciation on long-lived assets				35,716
Inventory and spare parts write-downs				6,712
Severance and benefit continuation costs	(6)	1,009	171	2,378
Other associated costs, net	16	3,962	664	4,494
Total	\$ 10	\$ 68,683	\$ 835	\$ 113,012

Following is a summary of the liabilities for restructuring expenses through June 30, 2014, related to the closure of Brainerd and the sale of the specialty paper business all of which were included in liabilities of discontinued operations:

(all dollar amounts in thousands)	December 31, 2013	Reserve/ Provisions	Payments/ Usage	June 30, 2014
Severance and benefit continuation	\$ 434	\$ 171	\$ (395)	\$ 210
Contract termination	2,901	31		2,932
Other	33	633	(666)	
Total	\$ 3,368	\$ 835	\$ (1,061)	\$ 3,142

In addition, the Company maintains a natural gas contract for our previously closed Groveton, New Hampshire mill. The liabilities and charges associated with this natural gas contract are recorded in continuing operations. At June 30, 2014, \$1.1 million and \$7.6 million are included in current liabilities and noncurrent liabilities, respectively. During the first six months of 2014 and 2013, we made payments related to this natural gas contract of approximately \$0.4 million and \$0.8 million, respectively. At December 31, 2013, \$0.8 million and \$7.8 million were included in current liabilities and noncurrent liabilities, respectively. There were associated charges of \$0.4 million and \$0.5 million, respectively, within selling and administrative expenses for the three and six months ended June 30, 2014. For the three and six months ending June 30, 2013, recognized within selling and administrative expenses were associated charges of \$0.1 million and \$0.3 million, respectively. In the second quarter of 2013, we recognized a net credit of approximately \$1.7 million. We will continue to make payments related to the contract over the original contractual term.

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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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic weighted average common shares outstanding	50,021	49,399	49,930	49,381
Dilutive securities:				
Stock compensation plans				
Diluted weighted average common shares outstanding	50,021	49,399	49,930	49,381
Loss from continuing operations, net of tax	\$ (3,721)	\$ (14,595)	\$ (8,167)	\$ (18,327)
Loss from discontinued operations, net of tax	(107)	(40,231)	(561)	(66,104)
Net loss	\$ (3,828)	\$ (54,826)	\$ (8,728)	\$ (84,431)
Loss from continuing operations, net of tax, per share basic and diluted	\$ (0.07)	\$ (0.30)	\$ (0.16)	\$ (0.37)
Loss from discontinued operations, net of tax, per share basic and diluted	(0.00)			