BUCKEYE TECHNOLOGIES INC
Form 10-Q
May 02, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

Commission file number: 33-60032

Buckeye Technologies Inc.
incorporated pursuant to the Laws of Delaware

Internal Revenue Service -- Employer Identification No. 62-1518973

1001 Tillman Street, Memphis, TN 38112
901-320-8100

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No ____

As of May 2, 2001, there were outstanding 34,184,440 Common Shares of the Registrant.

INDEX

BUCKEYE TECHNOLOGIES INC.

ITEM

PART I - FINANCIAL INFORMATION





PART I - FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share data)

| | Quarter Ended March 31 | | Ni |
|---|---|---|---|
| | 2001 | 2000 | 200 |
| Net sales.............................................. | $181,933 | $200,376 | $556, |

| | | | |
|---|---|---|---|
| Cost of goods sold.................................. | 144,259 | 150,740 | 427, |
| Gross margin........................................ | 37,674 | 49,636 | 129, |
| Selling, research and administrative expenses......... | 10,332 | 14,321 | 36, |
| Operating income.................................... | 27,342 | 35,315 | 93, |
| Net interest expense and amortization of debt costs... | 11,677 | 11,207 | 34, |
| Other.............................................. | 1,748 | 1,876 | 2, |
| Income before income taxes........................... | 13,917 | 22,232 | 56, |
| Income taxes........................................ | 4,627 | 7,338 | 18, |
| Net income.......................................... | $9,290 | $14,894 | $38, |
| Basic earnings per share............................. | $0.27 | $0.43 | $1 |
| Diluted earnings per share........................... | $0.27 | $0.42 | $1 |
| Weighted average shares for basic earnings per share | 34,398 | 34,967 | 34, |
| Effect of dilutive stock options | 505 | 806 | |
| Adjusted weighted average shares for diluted earnings per share | 34,903 | 35,773 | 35, |

See accompanying notes.



PART I - FINANCIAL INFORMATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

| | March 31 2001 |
|---|---|
| Assets | |
| Current assets: | |
| Cash and cash equivalents................................. | $ 7,747 |
| Accounts receivable - net................................. | 108,827 |
| Inventories............................................... | 143,194 |
| Deferred income taxes and other........................... | 11,572 |
| Total current assets.............................. | 271,340 |

| | |
|---|---|
| Property, plant and equipment | 819,084 |
| Less accumulated depreciation | (226,833) |
| | 592,251 |
| Goodwill, net | 131,581 |
| Intellectual property and other, net | 42,447 |
| Total assets | $1,037,619 |
| Liabilities and stockholders' equity | |
| Current liabilities: | |
| Accounts payable | $ 32,314 |
| Accrued expenses | 51,457 |
| Current portion of long-term debt | - |
| Total current liabilities | 83,771 |
| Long-term debt | 652,336 |
| Accrued postretirement benefit obligation | 18,577 |
| Deferred income taxes | 59,960 |
| Other liabilities | 838 |
| Stockholders' equity | 222,137 |
| Total liabilities and stockholders' equity | $1,037,619 |

See accompanying notes.



PART I - FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

| | Nine Months March 3 |
|---|---|
| | 2001 |
| Operating activities | |
| Net income | $38,144 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation | 33,177 |
| Amortization | 5,973 |
| Deferred income taxes and other | 5,561 |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 2,648 |
| Inventories | (38,373) |

| | |
|---|---|
| Other assets | 1,825 |
| Accounts payable and other current liabilities | (20,600) |
| Net cash provided by operating activities | 28,355 |
| Investing activities | |
| Acquisition of businesses | (36,388) |
| Purchases of property, plant and equipment | (107,790) |
| Other | (421) |
| Net cash used in investing activities | (144,599) |
| Financing activities | |
| Purchase of treasury shares | (9,826) |
| Proceeds from exercise of stock options | 2,558 |
| Net borrowings under revolving line of credit | 155,902 |
| Net payments on long term debt and other | (35,531) |
| Net cash provided by (used in) financing activities | 113,103 |
| Effect of foreign currency rate fluctuations on cash | (1,369) |
| Increase (decrease) in cash and cash equivalents | (4,510) |
| Cash and cash equivalents at beginning of period | 12,257 |
| Cash and cash equivalents at end of period | $ 7,747 |

See accompanying notes.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A-- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Buckeye Technologies Inc. and its subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended June 30, 2001. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information and a listing of the Company's significant accounting policies, refer to the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2000.

Certain amounts in the financial statements for the period ended March 31, 2000 have been reclassified to be consistent with the presentation of the financial statements for the period ended March 31, 2001. Included in these reclassifications is the effect of the Company's adoption of EITF 00-10: Accounting for Shipping and Handling Fees and Costs, which addresses the income statement classification for such costs. Amounts related to shipping and handling and billed to a customer in a sale transaction have been classified as revenue. Costs incurred for shipping and handling have been classified as costs of goods sold. The adoption of EITF 00-10 had no impact on gross margin as shipping and handling costs had previously been included in net sales.

The following tables set forth the reclassed amounts for the periods presented:

| | Quarter Ended | | | Ni End |
|---|---|---|---|---|
| | Sep. 30, 2000 | Dec. 31, 2000 | Mar. 31, 2001 | |
| Net sales | $188,604 | $186,001 | $181,933 | |
| Cost of goods sold | 140,306 | 142,629 | 144,259 | |
| Gross margin | $ 48,298 | $ 43,372 | $ 37,674 | |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | Sep. 30, 1999 | Dec. 31, 1999 | Mar. 31, 2000 | June 30, 2000 |
| Net sales | $162,103 | $194,943 | $200,376 | $198,122 |
| Cost of goods sold | 119,883 | 147,307 | 150,740 | 145,981 |
| Gross margin | $ 42,220 | $ 47,636 | $ 49,636 | $ 52,141 |



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| | Year Ended | | |
|---|---|---|---|
| | June 30, 1997 | June 30, 1998 | June 30, 1999 |
| Net sales | $591,389 | $668,490 | $650,295 |
| Cost of goods sold | 444,207 | 500,037 | 491,703 |
| Gross margin | $147,182 | $168,453 | $158,592 |

NOTE B - BUSINESS COMBINATION

On October 1, 1999, the Company acquired essentially all of the assets of Walkisoft, UPM-Kymmene's nonwovens business for $29,501 in cash and $83,963 ($88,000 in notes payable, net of $4,037 discount) in debt payable to UPM-Kymmene. The acquisition of Walkisoft added manufacturing facilities in Steinfurt, Germany and Gaston County, North Carolina, as well as engineering operations in Finland. On August 1, 2000, the Company acquired the cotton cellulose business of Fibra, S.A. (Fibra), located in Americana, Brazil for approximately $36.5 million, including related acquisition costs. The acquisition has been funded using borrowings from the Company's bank credit facility. Both acquisitions were accounted for using the purchase method of accounting. The allocation of the purchase price for Fibra is preliminary as the Company is awaiting a final appraisal.

The consolidated operating results of Walkisoft and Fibra have been included in the consolidated statements of income from the dates of the acquisition. The following unaudited pro forma results of operations assume that the acquisitions occurred at the beginning of the period presented.

| | Nine Months Ended March 31 | |
|---|---|---|
| | 2001 | 2000 |
| | (In thousands, except per share data) | |
| Net sales | $557,168 | $581,611 |
| Net income | 38,102 | 41,198 |
| Basic earnings per share | 1.10 | 1.17 |
| Diluted earnings per share | 1.07 | 1.15 |

The pro forma financial information is presented for information purposes only and is not necessarily indicative of the operating results that would have occurred had the business combination been consummated as of the above dates, nor is it necessarily indicative of future operating results.

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NOTE C-- INVENTORIES

The components of inventory consist of the following:

| | March 31 2001 | June 30 2000 |
|---|---|---|
| | (In thousands) | |
| Raw materials........................... | $51,522 | $ 26,527 |
| Finished goods.......................... | 70,829 | 59,255 |
| Storeroom and other supplies............ | 20,843 | 21,456 |
| | $143,194 | $107,238 |

NOTE D-- COMPREHENSIVE INCOME

The components of comprehensive income (loss) consist of the following:

| | Quarter Ended March 31 | | Nin |
|---|---|---|---|
| | 2001 | 2000 | 2001 |
| | (In thousands) | | (I |
| Net income...................................... | $9,290 | $14,894 | $38, |
| Foreign currency translation adjustments-net...... | (15,096) | (7,333) | (23, |
| Comprehensive income (loss)...................... | $(5,806) | $ 7,561 | $14, |

The Company has increased its foreign assets through various acquisitions. The change in the foreign currency translation adjustment is primarily due to fluctuations in the exchange rate of the US Dollar and the Euro, the Brazilian Real and the Canadian Dollar.

NOTE E - SUBSEQUENT EVENT

On April 16, 2001, the Company entered into a new credit facility (the Credit Facility) providing for borrowings up to $215 million. The new credit facility matures on March 31, 2005. The interest rate applicable to borrowings under the Credit Facility is the agent's prime rate or a LIBOR based rate ranging from LIBOR plus 0.75% to LIBOR plus 1.5%. The Credit Facility is secured by substantially all of the Company's assets located in the United States. The Company has classified certain short-term obligations totaling approximately $35 million as long-term debt based on its intent to refinance the obligations with proceeds from the new credit facility.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net sales for the quarter ended March 31, 2001 were $181.9 million compared to $200.4 million for the same period in the prior fiscal year, a decrease of $18.5 million or 9.2%. Net sales for the nine month period ended March 31, 2001 were $556.5 million compared to $557.4 million for the same period in the prior fiscal year, a decrease of $0.9 million or 0.2%. The decrease for the quarter is mainly due to lower shipment volumes and declining sales prices on fluff pulp. The decrease in both shipment volume and sales prices reflects the impact of the contractual changes in the Fluff Pulp Supply Agreement with The Procter & Gamble Company, as well as cotton shipment volume constraints from continuing raw material shortages.

Operating income for the quarter ended March 31, 2001 was $27.3 million compared to $35.3 million for the same period in the prior fiscal year, a decrease of $8.0 million or 22.7%. Operating income for the nine months ended March 31, 2001 was $93.2 million compared to $99.4 million for the same period in the prior fiscal year, a decrease of $6.2 million or 6.2%. The decrease for both periods is due primarily to lower sales, higher energy and caustic chemical costs and increased cost of cotton fibers. The lower sales and higher manufacturing costs were somewhat mitigated by a reduction of about $4.0 million in sales, research and administrative expenses for the quarter and the nine month period. More than half of the reduction was due to decreases in expenses under the Company's incentive plans.

Net interest expense and amortization of debt costs were $11.7 million for the quarter and $34.2 million for the nine months ended March 31, 2001. This is a $0.5 million and $2.5 million increase, respectively, compared to the same period of the prior fiscal year. This increase was due to higher debt levels.

Other expenses for the quarter ended March 31, 2001 were $1.7 million compared to $1.9 million for the quarter ended March 31, 2000. Other expenses for the nine months ended March 31, 2001 were $2.3 million compared to $4.2 million for the nine months ended March 31, 2000. The decrease in both periods was due to more favorable results from foreign currency transactions offsetting increases in the amortization of goodwill and intellectual properties.

## Financial Condition

### Cash Flow

Cash provided by operating activities for the nine months ended March 31, 2001 was $28.4 million. Cash flows during the quarter were impacted by increases in inventory levels of $38.4 million, primarily due to the purchase of cotton linter raw materials from overseas locations. The cash provided by operating activities was used, along with additional borrowings from the credit facility, to construct, purchase, modernize and upgrade production equipment and facilities. The funds were also used to repurchase stock, to make the first $22 million payment to UPM-Kymmene for the purchase of Walkisoft and to make additional debt payments of approximately $16 million. During the nine months ended March 31, 2001, the Company repurchased 769,300 shares of common stock, pursuant to a 6,000,000 share repurchase plan. The total number of shares repurchased through this plan through March 31, 2001 is 5,009,300.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### Liquidity and Capital Resources

The Company entered into a new credit facility (the Credit Facility) on April 16, 2001, providing for borrowings up to $215 million. The new credit facility matures on March 31, 2005. The interest rate applicable to borrowings under the Credit Facility is the agent's prime rate or a LIBOR based rate ranging from LIBOR plus 0.75% to LIBOR plus 1.5%. The Credit Facility is secured by substantially all of the Company's assets located in the United States. The Company has classified certain short-term obligations totaling approximately $35 million as long-term debt based on its intent to refinance the obligations with proceeds from the new credit facility. Based on the Company's outstanding borrowings at March 31, 2001, the Company would have had unused borrowing availability of approximately $40 million on its new bank credit facility. The Company estimates capital expenditures will total approximately $150 million for the fiscal year ending June 30, 2001 and approximately $60 million for the fiscal year ending June 30, 2002. The Company believes that its cash flow from operations, together with the borrowings available under its new credit facility, will be sufficient to fund capital expenditures (including the completion of the construction of the airlaid nonwovens machine at the Gaston County, North Carolina plant and environmental expenditures), meet operating expenses, fund authorized common stock repurchases, and service all debt requirements for the foreseeable future.



## PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

1. Exhibit 10.1
   - Credit Agreement dated as of April 16, 2001 among the Registrant, Fleet National Bank; Fleet Securities, Inc.; Toronto Dominion (Texas) Inc.; Bank of America, N.A.; First Union National Bank; and the other lenders party thereto.

2. Reports on Form 8-K
   During the quarter ended March 31, 2001, the following reports were filed on Form 8-K:
   - Report dated January 5, 2001, announcing the conference call regarding operating results for the second quarter ended December 31, 2000.
   - Report dated March 26, 2001, announcing the conference call regarding operating results for the third quarter ended March 31, 2001.



Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Buckeye Technologies Inc.

By: /S/ DAVID B. FERRARO

David B. Ferraro, Director, President, and Chief Operating Officer

Date: May 2, 2001

By: /S/ GAYLE L. POWELSON
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Gayle L. Powelson, Senior Vice President and Chief Financial Officer
Date: May 2, 2001