BUCKEYE TECHNOLOGIES INC
Form 10-Q
February 06, 2001

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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 December 31, 2000

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 February 5, 2001, there were outstanding 34,526,940 Common Shares of the Registrant.

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BUCKEYE TECHNOLOGIES INC.

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

	Three Months Ended December 31	
	2000	1999
Net sales.....	$175,803	$183,702
Cost of goods sold.....	132,431	136,066
Gross margin.....	43,372	47,636
Selling, research and administrative expenses.....	12,427	13,570
Operating income.....	30,945	34,066

Net interest expense and amortization of debt costs....	11,294	11,349
Other.....	401	1,172
Income before income taxes.....	19,250	21,545
Income taxes.....	5,932	7,307
Net income.....	$ 13,318	$ 14,238
Basic earnings per share.....	$ 0.38	$ 0.40
Diluted earnings per share.....	$ 0.38	$ 0.40
Weighted average shares for basic earnings per share	34,755	35,171
Effect of dilutive stock options	702	711
Adjusted weighted average shares for diluted earnings per share	35,457	35,882

See accompanying notes.

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

	December 31 2000
Assets	
Current assets:	
Cash and cash equivalents.....	$ 8,653
Accounts receivable - net.....	109,131
Inventories.....	123,111
Deferred income taxes and other.....	13,108
Total current assets.....	254,003
Property, plant and equipment.....	793,205
Less accumulated depreciation.....	(217,941)
	575,264
Goodwill, net.....	138,075
Intellectual property and other, net.....	43,835
Total assets.....	$1,011,177

Liabilities and stockholders' equity Current liabilities:	
Accounts payable	$ 30,480
Accrued expenses	54,551
Current portion of long-term debt	27,000
Total current liabilities	112,031
Long-term debt	588,854
Accrued postretirement benefit obligation	18,244
Deferred income taxes	58,865
Other liabilities	1,572
Stockholders' equity	231,611
Total liabilities and stockholders' equity	$1,011,177

See accompanying notes.

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

	Six Months December
	2000
Operating activities	
Net income	$28,854
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	21,649
Amortization	3,759
Deferred income taxes and other	1,883
Changes in operating assets and liabilities:	
Accounts receivable	(9,136)
Inventories	(16,288)
Other assets	350
Accounts payable and other current liabilities	(22,222)
Net cash provided by operating activities	22,786
Investing activities	
Acquisition of businesses	(36,388)
Purchases of property, plant and equipment	(68,094)
Net cash used in investing activities	(104,482)

Financing activities	
Purchase of treasury shares	(5,526)
Proceeds from sale of equity interests	300
Net borrowings under revolving line of credit	102,728
Net payments on long term debt	(20,000)
Other	177
Net cash provided by financing activities	10,533
Effect of foreign currency rate fluctuations on cash	(638)
Increase (decrease) in cash and cash equivalents	(3,604)
Cash and cash equivalents at beginning of period	403
Cash and cash equivalents at end of period	$8,653

See accompanying notes.

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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 six months ended December 31, 2000 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 December 31, 1999 have been reclassified to conform with the financial statements for the period ended December 31, 2000.

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 periods presented.

Pro forma results of operations	Six Months Ended December 31	
	2000	1999
Net sales	$355,342	$358,504
Net income	28,812	26,417
Basic earnings per share	0.83	0.75
Diluted earnings per share	0.80	0.73

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.

NOTE C -- INVENTORIES

The components of inventory consist of the following:

	December 31 2000	June 30 2000
	(In thousands)	
Raw materials.....	$ 36,150	$ 26,527
Finished goods.....	64,967	59,255
Storeroom and other supplies.....	21,994	21,456
	$123,111	$107,238

NOTE D -- COMPREHENSIVE INCOME

The components of comprehensive income consist of the following:

	Three Months Ended December 31		Six
	2000	1999	2000
	(In thousands)		(I
Net income.....	$13,318	$14,238	$28,8
Foreign currency translation adjustments - net..	6,304	(7,075)	(8,1
Comprehensive income.....	$19,622	$ 7,163	$20,6

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 Euro and the US Dollar.

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

Results of Operations

Net sales for the three months ended December 31, 2000 were $175.8 million compared to $183.7 million for the same period in the prior fiscal year, a decrease of $7.9 million or 4.3%. Net sales for the six-month period ended December 31, 2000 were $354.7 million compared to $337.1 million for the same period in the prior fiscal year, an increase of $17.6 million or 5.2%. The decrease for the three month period is mainly due to lower shipment volumes. The increase for the six month period is mainly due to the acquisition of Walkisoft.

Operating income for the three months ended December 31, 2000 was $30.9 million compared to $34.1 million for the same period in the prior fiscal year, a decrease of $3.2 million or 9.4%. The decrease is due primarily to the increased cost of cotton fibers and start-up costs related to folding nonwovens materials. Operating income for the six months ended December 31, 2000 was $65.8 million compared to $64.1 million for the same period in the prior fiscal year, an increase of $1.7 million or 2.7%. The increase is primarily due to higher prices on fluff pulp sales.

Net interest expense and amortization of debt costs were $11.3 million for both the three months ended December 31, 2000 and the three months ended December 31, 1999. Net interest expense and amortization of debt costs were $22.6 million for the six months ended December 31, 2000 compared to $20.6 million for the same period of the prior fiscal year. This increase was primarily due to higher debt levels.

Other expenses for the quarter ended December 31, 2000 were $0.4 million compared to $1.2 million for the quarter ended December 31, 1999. Other expenses for the six months ended December 31, 2000 were $0.6 million compared to $2.3 million for the six months ended December 31, 1999. The decrease in both periods was due to higher gains from foreign currency transactions offsetting amortization of goodwill and intellectual properties.

The Company's effective tax rate of 30.8% for the three months ended December 31, 2000 is lower than the effective tax rate of 33.9% for the three months ended December 31, 1999 primarily due to a year-to-date adjustment for recently enacted lower tax rates in Germany.

Financial Condition

Cash Flow

Cash provided by operating activities for the six months ended December 31, 2000 was $22.8 million. These funds were used, along with additional borrowings from the credit facility, to construct, purchase, modernize and upgrade production equipment and facilities, to repurchase stock and to make the first $22 million note payment to UPM-Kymmene for the purchase of Walkisoft.

During the six months ended December 31, 2000, the Company repurchased 426,800 shares of common stock, pursuant to a 5,000,000 share repurchase plan. The total number of shares repurchased through this plan through December 31, 2000 is 4,666,800. On January 16, 2001, the Board of Directors authorized the repurchase of an additional one million shares of common stock to bring the total shares authorized to be repurchased to 6,000,000 shares.

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

Liquidity and Capital Resources

In May 2001, the borrowing availability on the Company's existing bank credit facility will be reduced by $75 million. In anticipation of this reduction, the Company is currently working on having a new credit facility in place by early April 2001. With this new credit facility, the Company believes that its cash flow from operations, together with the borrowings available under this 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. At December 31, 2000, the Company had unused borrowing availability of approximately $93 million on its bank credit facility. The Company has also announced the deferral of the second airlaid nonwoven machine at the facility in Cork, Ireland and now estimates capital expenditures for the fiscal year ending June 30, 2001 to total approximately $155 million.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On November 2, 2000, the Company held its Annual Meeting of Stockholders. At the meeting, Red Cavaney and David B. Ferraro were each re-elected as Class I directors to hold office for a three-year term or until their successors are elected and qualified. For Red Cavaney, 32,192,493 votes were cast in favor and 249,014 votes were withheld. For David B. Ferraro, 32,192,493 votes were cast in favor and 249,014 were withheld.

Following the election, the Company's Board of Directors consisted of Mr. Red Cavaney, Mr. R. Howard Cannon, Mr. Robert E. Cannon, Mr. David B.Ferraro, Mr. Henry F. Frigon, Mr. Samuel M. Mencoff, and Mr. Harry J. Phillips, Sr.

On January 12, 2001, after four years of distinguished service on the Company's Board of Directors, Mr. Harry J. Phillips, Sr. passed away.

The stockholders also ratified the appointment of Ernst & Young LLP as the Company's independent auditors. 32,397,465 votes were cast in favor of the ratification, 36,008 were cast against and 8,034 votes abstained.

Item 6. Exhibits and Reports on Form 8-K

1. Exhibit 10.1
   - Amended and Restated Formula Plan for Non-Employee Directors
2. Reports on Form 8-K
   - The Company did not file any reports of Form 8-K during the six months ended December 31, 2000.

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: February 6, 2001

By: /S/ GAYLE L. POWERLSON

Gayle L. Powelson, Senior Vice President and Chief Financial Officer

Date: February 6, 2001