

Edgar Filing: BANTA CORP - Form 10-Q

BANTA CORP  
Form 10-Q  
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 30, 2002  
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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 0-6187  
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BANTA CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Wisconsin  
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39-0148550  
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(State or other jurisdiction  
of incorporation or organization)

(IRS Employer  
I.D.Number)

225 Main Street, Menasha, Wisconsin  
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54952  
-----

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (920) 751-7777  
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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 / /

The registrant had outstanding on March 30, 2002, 25,034,476 shares of \$.10  
par value common stock.

BANTA CORPORATION AND SUBSIDIARIES  
Quarterly Report on Form 10-Q  
For the Quarter Ended March 30, 2002

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Item 1 - Financial Statements

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Part 1 Item 1. Financial Statements

BANTA CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	(Dollars in thousands)	
-----	March 30, 2002	December 29
-----	-----	-----
Current Assets		
Cash and cash equivalents	\$ 111,526	\$
Receivables	185,292	2
Inventories	64,564	
Other current assets	21,707	
Total Current Assets	383,089	3
Plant and Equipment	914,513	9
Less accumulated depreciation	(600,331)	(5)
Plant and Equipment, net	314,182	3
Other Assets	25,056	
Goodwill	64,151	
	\$ 786,478	\$ 7
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current liabilities		
Accounts payable	\$ 92,457	\$
Accrued salaries and wages	27,974	
Other accrued liabilities	28,925	
Current maturities of long-term debt	19,509	
Total Current Liabilities	168,865	1
Long-term Debt	130,881	1

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Deferred Income Taxes	21,281	
Other Non-Current Liabilities	44,323	
	-----	-----
Total Liabilities	365,350	3
	=====	=====
Shareholder's Investment		
Preferred stock-\$10 par value; authorized 300,000 shares; none issued	-	
Common stock-\$.10 par value, authorized 75,000,000 shares; 28,178,610 and 27,874,263 shares issued, respectively	2,817	
Amount in excess of par value of stock	11,291	
Accumulated other comprehensive loss	(11,541)	(
Treasury stock, at cost (3,144,400 shares)	(66,814)	(
Retained earnings	485,375	4
	-----	-----
Total Shareholders' Investment	421,128	4
	-----	-----
	\$ 786,478	\$ 7
	=====	=====

See accompanying notes to consolidated financial statements

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BANTA CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

	(Dollars in thousands)	
	Three Months Ended	
	March 30, 2002	March 31,
	-----	-----
Net sales	\$ 332,773	\$ 3
Cost of goods sold	263,881	3
	-----	-----
Gross earnings	68,892	
Selling and administrative expenses	48,415	
	-----	-----
Earnings from operations	20,477	
Interest expense	(3,110)	
Write-off of investment	0	(
Other income(expense), net	(61)	
	-----	-----
Earnings before income taxes	17,306	
Provision for income taxes	6,818	
	-----	-----
Net earnings	\$ 10,488	\$
	=====	=====
Basic earnings per share of common stock	\$ 0.42	\$
	=====	=====
Diluted earnings per share of common stock	\$ 0.41	\$
	=====	=====
Cash dividends per common share	\$ 0.16	\$
	=====	=====

See accompanying notes to consolidated financial statements

BANTA CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	(Dollars in thousands)	
	Three Months Ended	
	March 30, 2002	March 31,
	-----	-----
Cash Flows from Operating Activities		
Net earnings	\$ 10,488	\$
Depreciation and amortization	18,677	
Deferred income taxes	201	
Write-off of investment	0	
Change in assets and liabilities		
Decrease in receivables	30,213	
Decrease in inventories	6,515	
Increase in other current assets	(651)	
Decrease in accounts payable and accrued liabilities	(9,303)	
Increase in other non-current assets	(214)	
Other, net	(437)	
	-----	-----
Cash provided from operating activities	55,489	
	-----	-----
Cash Flows From Investing Activities		
Capital expenditures, net	(6,723)	
Additions to long-term investments	(699)	
	-----	-----
Cash used for investing activities	(7,422)	
	-----	-----
Cash Flows From Financing Activities		
Repayments of short-term debt, net	0	
Repayment of long-term debt	(6,506)	
Dividends paid	(3,966)	
Proceeds from exercise of stock options	7,955	
	-----	-----
Cash used for financing activities	(2,517)	
	-----	-----
Net increase in cash	45,550	
Cash and cash equivalents at the beginning of period	65,976	
	-----	-----
Cash and cash equivalents at the end of the period	\$ 111,526	\$
	-----	-----
Cash payments for:		
Interest, net amount of capitalized	\$ 2,527	\$
Income taxes	4,535	

See accompanying notes to consolidated financial statements

BANTA CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1) Basis of Presentation

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The condensed financial statements included herein have been prepared by the Corporation, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Corporation believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Corporation's latest Annual Report on Form 10-K.

In the opinion of management, the aforementioned statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. Results for the three months ended March 30, 2002 are not necessarily indicative of results that may be expected for the year ending December 28, 2002.

### 2) Inventories

The Corporation's inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories include material, labor and manufacturing overhead. Inventory amounts at March 30, 2002 and December 29, 2001 were as follows:

	(Dollars in thousands)	
	March 30, 2002	December 29, 2001
	-----	-----
Raw Materials and Supplies	\$ 35,100	\$ 38,432
Work-In-Process and Finished Goods	29,464	32,647
FIFO value (current cost of all inventories)	\$ 64,564	\$ 71,079
	=====	=====

### 3) Earnings Per Share of Common Stock

Basic earnings per share of common stock is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net earnings by the weighted average number of common shares and common equivalent shares outstanding. The common equivalent shares relate entirely to the assumed exercise of stock options.

The weighted average shares used in the computation of earnings per share were as follows (in millions of shares):

	March 30, 2002	March 31, 2001
	-----	-----
Basic	25.0	24.6
Diluted	25.4	24.7

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### 4) Comprehensive Income

Total comprehensive income, comprised of net income and other comprehensive income (loss) was \$9,861,000 and \$382,000 for the first quarter of 2002 and 2001, respectively. Other comprehensive income (loss) was comprised solely of foreign currency translation adjustments. The Corporation does not provide U.S. income taxes on foreign currency translation adjustments because it does not provide for such taxes on undistributed earnings of

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foreign subsidiaries.

### 5) Segment Information

The Corporation operates in two primary business segments, print and supply-chain management, with other business operations in healthcare products. Summarized segment data for the three months ended March 30, 2002 and March 31, 2001 are as follows:

Dollars in thousands	Printing	Supply-chain Management	Healthcare	Total
2002				
Net sales	\$235,977	\$73,203	\$23,593	\$332,773
Earnings from operations	18,666	4,705	2,585	25,956
2001				
Net sales	\$256,009	\$91,795	\$24,973	\$372,777
Earnings from operations	17,424	5,833	2,537	25,794

The following table presents a reconciliation of segment earnings from operations to the totals contained in the condensed financial statements for the three months ended March 30, 2002 and March 31, 2001.

Dollars in thousands	2002	2001
Reportable segment earnings	\$25,956	\$25,794
Unallocated corporate expenses	(5,479)	(5,213)
Interest expense	(3,110)	(4,011)
Write-off of investment	0	(12,500)
Other income (expense)	(61)	162
	-----	-----
Earnings before income taxes	\$17,306	\$4,232
	=====	=====

### 6) Write-off of Investment

XYAN.com, Inc. ("Xyan") filed for bankruptcy under Chapter 11 on March 31, 2001 as a result of the inability to obtain additional financing for its continued operation, coupled with the unfavorable operating results due to the economic downturn in its market. In response to Xyan's filing for bankruptcy, the Corporation wrote-off the cost of its minority interest in Xyan in March 2001. This write-off resulted in a non-operating charge of \$12.5 million (\$7.5 million or \$.30 per diluted share, after tax).

### 7) Accounting Pronouncement

On June 30, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 establishes accounting and reporting standards associated with goodwill, reflected simply as "Goodwill" on the balance sheet.

Following adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill and intangibles with indefinite lives are subject to at least annual assessment for impairment by applying a fair-value-based test. The Corporation adopted SFAS No. 142 on December 30, 2001 and will be required to analyze its

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goodwill for impairment issues during the first six months of 2002, and on an annual basis thereafter.

The following table reflects adjustments to the Corporation's earnings had SFAS No. 142 been adopted on December 31, 2000:

Thousands except for earnings-per share amounts	March 30, 2002 -----	March 31, 2001 -----
Reported net earnings	\$ 10,488	\$ 2,632
Add back: Goodwill amortization	-	457
	----	----
Adjusted net earnings	\$ 10,488 =====	\$ 3,089 =====
Basic earnings per share:		
Reported net earnings	\$ 0.42	\$ 0.11
Goodwill amortization	-	0.02
	----	----
Adjusted net earnings	\$ 0.42 =====	\$ 0.13 =====
Diluted earnings per share		
Reported net earnings	\$ 0.41	\$ 0.11
Goodwill amortization	-	0.02
	-	----
Adjusted net earnings	\$ 0.41 =====	\$ 0.13 =====

Item 2.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### RESULTS OF OPERATIONS

##### Net Sales

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Net sales for the first quarter of 2002 were \$332.8 million, 10.7% lower than the \$372.8 million in the prior year quarter.

First quarter sales for the print segment of \$236.0 million were 7.8% below the prior year's \$256.0 million. This decrease is primarily the result of:

- o Paper prices being approximately 15% lower as compared to the prior year first quarter, which resulted in an approximate reduction in print segment revenue of \$10 million to \$12 million.
- o Advertising spending and corresponding page counts being down 15% in the first quarter compared to 2001. This reduction in spending reduced revenue in the Corporation's Publications and Direct Marketing groups.

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Supply-chain management sales of \$73.2 million for the 2002 first quarter were 20% lower than the prior period's \$91.8 million. This reduction in revenue was primarily the result of lower demand from the Corporation's major technology customers.

Healthcare sales of \$23.6 million for the 2002 first quarter were comparable to the prior year first quarter.

##### Earnings

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Operating earnings of \$20.5 million for the 2002 first quarter were down

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slightly from the \$20.6 million in the prior year first quarter. Following adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Amortization for the prior period first quarter was approximately \$750,000, which reduced earnings per share by 1.8 cents.

Print segment earnings from operations were \$18.7 million, an increase of \$1.2 million over the prior year first quarter. This was achieved despite a 7.8% decrease in revenues and reflects an improved operating margin, which increased from 6.8% in the 2001 first quarter to 7.9% in the 2002 first quarter. The improvement in operating margin was primarily the result of:

- o Impact of ongoing cost controls initiated in 2001
- o Continuous improvement in reducing paper trim waste
- o Improved utilization of press equipment, especially in the Corporation's Book group

Earnings from operations for the supply-chain management segment were \$4.7 million, a decrease of \$1.1 million from the prior year first quarter. Despite lower revenues in 2002, operating margins remained consistent from first quarter 2001 to first quarter 2002 at 6.4%.

Healthcare segment earnings from operations of \$2.6 million were comparable to the prior year first quarter.

### Interest Expense

Interest expense for the first quarter of 2002 was \$3.1 million, a reduction of 22% compared to interest expense of \$4.0 million in the prior year first quarter. The Corporation's improved balance sheet has resulted in no short-term debt outstanding in the first quarter of 2002, compared to \$35.2 million in short-term debt at the end of first quarter 2001. The reduction in interest expense is the result of this reduction in short-term debt.

### Income Taxes

The Corporation's effective first quarter income tax rate for 2002 of 39.4% was slightly above the 2001 first quarter rate of 37.8%. The 2001 tax rate was lower due to the impact of the investment write-off in the 2001 first quarter. Without giving effect to the investment write-off, the effective income tax rate for the first quarter of 2001 was 39.4%.

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## FINANCIAL CONDITION

### Liquidity and Capital Resources

The Corporation's net working capital (current assets less current liabilities) increased by approximately \$25.4 million during the first quarter of 2002. Although working capital increased, the Corporation actually reduced levels of accounts receivable, inventories and accounts payable during the first quarter of 2002 due to continued focus on improving its balance sheet.

Capital expenditures were \$6.7 million during the first quarter of 2002, a decrease of \$8.8 million from the amount expended during the prior year first quarter. Capital requirements for the full year are expected to be approximately \$70 million and will be funded by a combination of cash provided from operations and borrowings. During the first quarter of 2002, the Corporation repurchased no shares of common stock.

Long-term debt as a percentage of total capitalization at March 30, 2002 was comparable to the percentage at December 29, 2001.

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Given cash and cash equivalents on hand as well as borrowing capacity currently in place, the Corporation believes it has sufficient liquidity to fund its operations for the foreseeable future.

### FUTURE OUTLOOK

Projections for the Corporation's first half are for earnings to be comparable with the prior year period. Projections for the full-year 2002 are for mid-single digit growth in sales and earnings, reflecting the outlook for a gradually improving economy.

### CRITICAL ACCOUNTING POLICIES

The Corporation's accounting policies are more fully described in Note 1 to the consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 29, 2001. As disclosed in Note 1, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and footnotes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of the Corporation's consolidated financial statements include estimates as to the recovery of receivables and realizability of inventories, property, plant and equipment. Significant assumptions are also used in the determination of liabilities related to pension and post-retirement benefits. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and in some cases, actuarial techniques. The Corporation re-evaluates these significant factors as facts and circumstances dictate. Historically, actual results have not differed significantly from those determined using the estimates described above.

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The Corporation believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

- o Revenue Recognition. Revenues are recognized on products shipped to unaffiliated customers when the risk of loss transfers or when services are performed. The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," provides guidance on the application of accounting principles generally accepted in the United States to selected revenue recognition issues. In addition, revenues in the supply-chain management segment are recognized in accordance with EITF Issue No. 99-19, which provides guidance on whether revenue should be recorded gross as a principal or net as an agent. Each major contract is evaluated based on various criteria, with management judgment required to assess the importance of each criterion in reaching the final decision.
- o Goodwill. On December 30, 2001, the Corporation adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and will be required to analyze its goodwill for impairment issues during the first six months of fiscal 2002, and then on an annual basis thereafter. The Corporation has not completed this analysis and has not yet determined what effect, if any, this may have on the results of operations. At December 29, 2001, the Corporation had \$63.8 million in goodwill and

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recognized \$3 million of amortization expense for the year ended December 29, 2001.

- o Inventories. The Corporation's inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories include material, labor and manufacturing overhead.

### Cautionary Statements for Forward-Looking Information

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This document includes forward-looking statements. Statements that describe future expectations, including revenue and earnings projections, plans, results, or strategies, are considered forward-looking. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those currently anticipated. Factors that could affect actual results include, among others, changes in customers' order patterns or demand for the Corporation's products and services, changes in raw material costs and availability (particularly paper), unanticipated changes in operation expenses, unanticipated production difficulties, changes in demand for products and services in the technology sector, the impact of increased competition resulting from industry consolidation, and any anticipated delay in the economic recovery. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The forward-looking statements included herein are made as of the date hereof, and the Corporation undertakes no obligation to update publicly such statements to reflect subsequent events or circumstances.

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### Item 3. Qualitative and Quantitative Disclosures About Market Risk

The Corporation is exposed to market risk from changes in interest rates and foreign exchange rates. At March 30, 2002, the Corporation had no notes payable outstanding against lines of credit with banks. Since essentially all the Corporation's long-term debt is at fixed interest rates, exposure to interest rate fluctuations is minimal.

Exposure to adverse changes in foreign exchange rates is not considered material. Potential market risk associated with changes in foreign exchange is considered in contractual arrangements with customers.

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## PART II OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits - No exhibits are filed with this report.
- (b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter for which this report is filed.

### SIGNATURE

Pursuant to the requirements 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.

BANTA CORPORATION

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By: /s/ Daniel W. Kiener

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Daniel W. Kiener

Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer and Duly Authorized Officer)

Date: May 14, 2002

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