BUCKEYE TECHNOLOGIES INC
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2013

¨ 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: 001-14030

Buckeye Technologies Inc.
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation)

IRS — Employer Identification No. 62-1518973

1001 Tillman Street, Memphis, TN 38112 901-320-8100
(Address of principal executive offices) (Zip Code) (Registrant's telephone number,
including area code)

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 ¨

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x 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 definitions of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

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

Yes ¨ No x

As of May 1, 2013, there were outstanding 38,887,590 Common Shares of the Registrant.

INDEX

BUCKEYE TECHNOLOGIES INC.

2

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31		Nine Months Ended March 31	
	2013	2012	2013	2012
Net sales	$ 195,562	$ 217,065	$ 596,853	$ 669,941
Cost of goods sold	152,204	163,903	456,056	505,519
Gross margin	43,358	53,162	140,797	164,422
Selling, research and administrative expenses	11,408	10,760	36,792	34,447
Amortization of intangibles and other	517	515	1,539	1,511
Asset impairment loss	701	92	3,591	1,765
Goodwill impairment loss	-	-	-	2,425
Restructuring costs	855	234	9,614	234
Other operating income	-	(32)	(4,280)	(32)
Operating income	29,877	41,593	93,541	124,072
Net interest expense and amortization of debt costs	(314)	(1,240)	(1,517)	(5,710)
Gain on sale of assets held for sale	7,346	-	7,346	-
Gain (loss) on foreign exchange and other	508	(280)	87	85
Income from continuing operations before income taxes	37,417	40,073	99,457	118,447
Income tax expense	10,524	13,052	30,164	29,936
Income from continuing operations	26,893	27,021	69,293	88,511
Income (loss) from discontinued operations, net of tax	1,369	(1,176)	1,369	(26,998)
Net income	$ 28,262	$ 25,845	$ 70,662	$ 61,513
Earnings per share				
Basic				
Income from continuing operations	$ 0.68	$ 0.68	$ 1.76	$ 2.24
Income (loss) from discontinued operations	0.04	(0.03)	0.04	(0.70)
Earnings per share – basic	$ 0.72	$ 0.65	$ 1.80	$ 1.54
Diluted				
Income from continuing operations	$ 0.68	$ 0.67	$ 1.75	$ 2.21

Income (loss) from discontinued operations		0.03		(0.03)		0.03		(0.69)
Earnings per share – diluted	$	0.71	$	0.64	$	1.78	$	1.52
Cash dividends per share	$	0.09	$	0.07	$	0.26	$	0.19

See accompanying notes.

3

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended March 31		Nine Months Ended March 31	
	2013	2012	2013	2012
Net income	$ 28,262	$ 25,845	$ 70,662	$ 61,513
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(3,168)	3,737	2,242	(19,983)
Net unrealized losses from cash flow hedging instruments, net of tax of ($16) for the three and nine months ending March 31, 2013, respectively.	47	-	46	-
Other comprehensive income (loss)	(3,121)	3,737	2,288	(19,983)
Comprehensive income	$ 25,141	$ 29,582	$ 72,950	$ 41,530

See accompanying notes.

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31 2013 (Unaudited)	June 30 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 55,220	$ 38,284
Short-term investments	-	8,813
Accounts receivable – net	120,518	126,705
Income tax receivable	8,106	-
Inventories – net	105,058	90,183
Deferred income taxes and other	10,882	25,697
Total current assets	299,784	289,682
Property, plant and equipment	1,194,199	1,117,277
Less accumulated depreciation	(661,921)	(625,168)
Property, plant and equipment – net	532,278	492,109
Deferred income taxes	40,678	42,427
Intellectual property and other, net	11,624	13,193
Total assets	$ 884,364	$ 837,411
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 28,372	$ 40,600
Accrued expenses and other	35,708	43,135
Total current liabilities	64,080	83,735
Long-term debt	62,271	58,578
Accrued postretirement benefits	30,859	30,602
Deferred income taxes	4,536	4,930
Payable related to exchange of alternative fuel mixture credits	51,961	49,741
Other liabilities	6,817	6,789
Stockholders' equity	663,840	603,036
Total liabilities and stockholders' equity	$ 884,364	$ 837,411

See accompanying notes.

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended March 31 2013	Nine Months Ended March 31 2012
Operating activities		
Net income	$ 70,662	$ 61,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	34,860	38,045
Amortization	2,005	1,976
Asset impairment loss	3,591	50,803
Goodwill impairment loss	-	2,425
Insurance settlement	(4,277)	-
Gain on sale of assets held for sale	(7,346)	-
Deferred income taxes	3,452	(15,707)
Noncurrent alternative fuel mixture credits refund payable	3,288	13,895
Stock based compensation expense	3,880	3,377
Excess tax benefit from stock based compensation	(2,291)	(2,695)
Other	1,911	308
Changes in operating assets and liabilities:		
Accounts receivable	6,264	3,440
Income tax receivable	(8,106)	(6)
Inventories	(14,483)	(25,346)
Other assets	13,733	3,692
Accounts payable and other current liabilities	(32,327)	(51,326)
Net cash provided by operating activities	74,816	84,394
Investing activities		
Purchases of property, plant and equipment	(79,129)	(46,206)
Proceeds from sale of assets	19,896	5,675
Proceeds from short-term investments	9,075	-
Proceeds from insurance settlement related to capital investment	4,277	-
Other	(329)	(353)
Net cash used in investing activities	(46,210)	(40,884)
Financing activities		
Net borrowings (payments) under revolving line of credit	3,693	(26,782)
Purchase of treasury shares	(9,203)	(10,589)
Excess tax benefit from stock based compensation	2,291	2,695
Net proceeds from sale of equity interests	2,219	2,801
Payment of dividend	(10,201)	(7,592)
Other	(938)	(469)
Net cash used in financing activities	(12,139)	(39,936)
Effect of foreign currency rate fluctuations on cash	469	3,099
Increase in cash and cash equivalents	16,936	6,673

Cash and cash equivalents at beginning of period		38,284		30,494
Cash and cash equivalents at end of period	$	55,220	$	37,167

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In thousands, except share data)

NOTE 1: BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information and a listing of our significant accounting policies, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2012, which was filed with the Securities and Exchange Commission ("SEC") on August 29, 2012 ("Annual Report"). Except as otherwise specified, references to a year indicate our fiscal year ending on June 30 of the year referenced and comparisons are to the corresponding period of the prior year. These financial statements should be read in conjunction with our audited financial statements and the notes thereto included in our Annual Report.

In June 2012, we sold our Brazilian subsidiary, Buckeye Americana Ltda. ("Americana") to Vicunha Participacoes, S.A. Consequently, our income from continuing operations for the three and nine months ended March 31, 2012, excludes Americana's results, which have been reclassified to discontinued operations. See Note 2, Discontinued Operations, for further detail.

Translation adjustment

Management has determined that the local currency of our German and Canadian subsidiaries is the functional currency, and accordingly, European euro and Canadian dollar denominated balance sheet accounts are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Income and expense activity for the period is translated at the weighted average exchange rate during the period. Translation adjustments are included as a separate component of stockholders' equity.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates and assumptions used.

Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas in which the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: impairment assessments on long-lived assets, allowance for doubtful accounts, inventory reserves, income tax assets and liabilities and contingent liabilities.

NOTE 2: DISCONTINUED OPERATIONS

In June 2012, we completed the sale of our Americana, Brazil facility. Below are the amounts attributed to the Americana sale included in discontinued operations in the consolidated statements of operations.

	Three Months Ended March 31		Nine Months Ended March 31	
	2013	2012	2013	2012
Net sales	$ -	$ -	$ -	$ 14,288
Cost of goods sold	$ -	$ 343	$ -	$ 14,604
Operating loss	$ -	$ (1,246)	$ -	$ (50,257)
Income (loss) from discontinued operations, net of tax	$ 1,369	$ (1,176)	$ 1,369	$ (26,998)

During the quarter, we recorded an out-of-period adjustment to increase the amount of the tax benefit associated with our exit of the business in Americana, Brazil in the amount of $1,369. This amount is recorded as income from discontinued operations in the consolidated statements of operations for the three and nine months ended March 31, 2013. After evaluating the quantitative and qualitative aspects of the adjustment, management has determined that its previously issued quarterly and annual consolidated financial statements were not materially misstated and that the out-of-period adjustment is immaterial to our estimated full year 2013 results and to our earnings trends.

NOTE 3: SEGMENT INFORMATION

We report results for two segments, specialty fibers and nonwoven materials. The specialty fibers segment consists of our chemical cellulose, customized fibers and fluff pulp product lines which are cellulosic fibers based on both wood and cotton. The nonwovens materials segment currently consists of our three airlaid plants. Our converting plant, which was sold in January 2012, is included in the prior-year period results. Management makes financial decisions and allocates resources based on the sales and operating income of each segment. We allocate selling, research, and administrative expenses to each segment and management uses the resulting operating income to measure the performance of the segments. The continuing operations financial information attributed to these segments is included in the following tables:

	Three Months Ended March 31	Specialty Fibers	Nonwoven Materials	Corporate	Total
Net sales	2013	$ 142,601	$ 57,380	$ (4,419)	$ 195,562
	2012	169,989	54,188	(7,112)	217,065
Operating income (loss)	2013	27,723	5,786	(3,632)	29,877
	2012	40,584	3,016	(2,007)	41,593
Depreciation and amortization of	2013	7,682	2,905	905	11,492
Intangibles	2012	7,854	3,916	971	12,741
Total assets	2013	549,821	153,970	180,573	884,364
	2012	488,190	185,739	168,189	842,118
Capital expenditures	2013	24,323	2,002	853	27,178
	2012	19,501	1,834	572	21,907

	Nine Months Ended March 31	Specialty Fibers	Nonwoven Materials	Corporate	Total
Net sales	2013	$ 439,311	$ 169,944	$ (12,402)	$ 596,853
	2012	515,783	177,180	(23,022)	669,941
Operating income (loss)	2013	99,867	15,027	(21,353)	93,541
	2012	126,335	8,109	(10,372)	124,072
Depreciation and amortization of	2013	23,042	10,555	2,802	36,399
Intangibles	2012	23,363	12,142	2,874	38,379
Total assets	2013	549,821	153,970	180,573	884,364
	2012	488,190	185,739	168,189	842,118
Capital expenditures	2013	71,195	5,552	2,382	79,129
	2012	39,996	5,197	1,013	46,206

Management evaluates operating performance of the specialty fibers and nonwoven materials segments excluding amortization of intangibles, goodwill impairment, asset impairment, charges related to restructuring, unallocated at-risk compensation and unallocated stock-based compensation for executive officers and certain other employees. Therefore, the corporate column includes operating elements such as segment eliminations, amortization of intangibles, asset impairment, goodwill impairment, charges related to restructuring, unallocated at-risk compensation and unallocated stock-based compensation for executive officers and certain other employees. Corporate net sales represent the elimination of intersegment sales included in the specialty fibers reporting segment which are used in the production of nonwoven materials. We account for intersegment sales as if the sales were to third parties. Corporate assets primarily include cash, income tax receivables, and intellectual property.

NOTE 4: ASSET IMPAIRMENT LOSS

Delta, British Columbia facility

In 2011, we announced our decision to cease production at our Delta airlaid nonwovens facility by the end of calendar 2012. The plant ceased production in November 2012, and, as a result, we evaluated the recoverability of the long-lived assets at the Delta facility as of November 30, 2012. Based on this evaluation, we determined that certain long-lived assets associated with this operation having a carrying value of $4,681 were impaired and wrote them down to their estimated fair value of $1,090, resulting in an impairment charge of $3,591 ($0.09 per diluted share), which is recorded in asset impairment loss on the consolidated statements of operations for the nine months ended March 31, 2013. The sale of the land and buildings was completed in the third quarter of 2013 resulting in a reduction of other current assets on the balance sheet of $12,704 and a gain on sale of assets held for sale recognized on the consolidated statements of operations of $7,346 for the three and nine months ended March 31, 2013.

King, North Carolina facility

During the nine months ended March 31, 2012, we recorded asset impairment losses totaling $1,765 associated with our decision to sell the nonwovens materials Merfin Systems converting business in King, North Carolina. In addition, the goodwill of $2,425 associated with this facility was considered impaired and was written off during the nine months ended March 31, 2012. We completed the sale of Merfin Systems in the third quarter of 2012 and recorded proceeds of $5,675. In the three months ended March 31, 2013, we recorded miscellaneous income of $250 from an earn out provision in the sale agreement that was settled during the quarter.

NOTE 5: RESTRUCTURING COSTS

On July 26, 2012, we announced a corporate restructuring of our executive management team in support of our previously announced decision to close or sell several underperforming or non-core assets and in conjunction with the departure of our chief operating officer. Total costs of $1,080 associated with this restructuring plan were recognized in restructuring costs for the nine months ended March 31, 2013.

On January 31, 2012, we completed the sale of Merfin Systems. In conjunction with this sale, four positions were eliminated from our nonwoven materials segment. In June 2011, we announced our decision to close the Delta facility at the end of calendar 2012. The plant ceased production in November 2012, and, as a result, $7,796 ($0.20 per diluted share) in total restructuring costs were recognized for the three months ended December 31, 2012, as we reduced the carrying value of related spare parts and inventory by $2,547 and recognized $5,249 in severance and employee benefit costs. Additionally, $855 ($0.02 per diluted share) in restructuring costs were recognized for the three months ended March 31, 2013, primarily related to costs associated with shutting down the facility.

Included in the severance and employee benefits costs recognized in restructuring expense for the nine months ended March 31, 2013, were approximately $3,950 ($0.10 per diluted share) related to retention bonus payments that should have been recognized ratably over the requisite service period and would have resulted in approximately $2,600 ($0.07 per diluted share) being recognized ratably during fiscal 2012 in restructuring expense and accrued reserves. An additional $650 ($0.02 per diluted share) would have been recognized in restructuring expense and accrued reserves for the three months ended September 30, 2012.

Restructuring expenses are included in restructuring costs in our consolidated statements of operations. The charges below reflect severance and employee benefits accrued over the retention period, relocation expenses and other miscellaneous expenses. Accrual balances are included in accrued expenses on the balance sheet. The following table summarizes the expenses and accrual balances for the nine months ended March 31, 2013.

	Accrual Balance as of June 30, 2012	Reserve Adjustment	Impact of Foreign Currency	Payments / Impairment	Accrual Balance as of March 31, 2013	Program Charges to Date	Total Estimated Charges
2013 Restructuring Program							
Severance and employee benefits	$ -	$ 1,080	$ -	$ (1,080)	$ -	$ 1,080	$ 1,080
Total 2013 Program	-	1,080	-	(1,080)	-	1,080	1,080
2012 Restructuring Program							
Severance and employee benefits	$ -	$ -	$ -	$ -	$ -	$ 109	$ 109
Other miscellaneous costs	117	(117)	-	-	-	8	8
Total 2012 Program	117	(117)	-	-	-	117	117
2011 Restructuring Program							
Severance and employee benefits	-	5,323	(28)	(5,295)	-	5,323	5,323
Spare parts and inventory	57	2,637	-	(2,694)	-	2,694	2,604
Other miscellaneous costs	-	691	-	(691)	-	691	891
Total 2011 Program	57	8,651	(28)	(8,680)	-	8,708	8,818