BANTA CORP
Form 10-Q
May 15, 2001

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 31, 2001

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

BANTA CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin	39-0148550
(State or other jurisdiction of incorporation or organization)	(IRS Employer I.D. Number)
225 Main Street, Menasha, Wisconsin	54952
(Address of principal executive offices)	(Zip Code)

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

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 31, 2001, 24,589,187 shares of $.10 par value common stock.

BANTA CORPORATION AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2001

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PART 1 Item 1. Financial Statements

BANTA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS

	(Dollars in thousands) March 31, 2001	December 30, 2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 30,955	$ 27,660
Receivables	220,272	249,200
Inventories	93,509	108,109
Other current assets	23,410	21,706
Total Current Assets	368,146	406,675
Plant and Equipment	889,488	876,243
Less accumulated depreciation	(546,489)	(531,982)
Plant and Equipment, net	342,999	344,261
Other Assets	27,449	37,663
Cost in Excess of Net Assets of Subsidiaries Acquired	65,190	65,925
	$ 803,784	$ 854,524
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities		
Short-term debt	$ 35,243	$ 46,863

Accounts payable	93,916	117,499
Accrued salaries and wages	31,388	43,235
Other accrued liabilities	24,768	24,217
Current maturities of long-term debt	7,346	8,505
Total Current Liabilities	192,661	240,319
Long-term Debt	176,546	179,202
Deferred Income Taxes	24,449	24,106
Other Non-Current Liabilities	42,134	39,985
Total Liabilities	435,790	483,612
Shareholders' Investment		
Preferred stock-$.10 par value;		
Authorized 300,000 shares; none issued	0	0
Common stock-$.10 par value; Authorized 75,000,000 shares; 27,733,587 and 27,709,103 shares issued, respectively	2,773	2,771
Amount in excess of par value of stock	426	43
Accumulated other comprehensive loss	(11,214)	(8,964)
Treasury stock, at cost (3,144,400 shares)	(66,814)	(66,814)
Retained earnings	442,823	443,876
Total Shareholders' Investment	367,994	370,912
	$ 803,784	$ 854,524

See accompanying notes to consolidated financial statements

BANTA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

	(Dollars in thousands) Three Months Ended	
	March 31, 2001	April 1, 2000
Net sales	$ 372,777	$ 341,534
Cost of goods sold	305,381	275,027
Gross earnings	67,396	66,507
Selling and administrative expenses	46,815	45,870
Earnings from operations	20,581	20,637
Interest expense	(4,011)	(3,890)
Write-off of investment	(12,500)	0
Other income (expense), net	162	(353)
Earnings before income taxes	4,232	16,394
Provision for income taxes	1,600	6,500
Net earnings	$ 2,632	$ 9,894
Basic earnings per share of common stock	$ 0.11	$ 0.39

Diluted earnings per share of common stock	$ 0.11	$ 0.39
Cash dividends per common share	$ 0.15	$ 0.15

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 31, 2001	April 1, 2000
Cash Flows From Operating Activities		
Net earnings	$ 2,632	$ 9,894
Depreciation and amortization	18,952	18,107
Deferred income taxes	194	(2,505)
Cash paid for restructuring	(596)	(1,862)
Write-off of investment	12,500	--
Change in assets and liabilities:		
Decrease in receivables	28,403	1,767
Decrease (increase) in inventories	14,600	(7,330)
Increase in other current assets	(1,555)	(1,126)
(Decrease) increase in accounts payable and accrued liabilities	(34,283)	14,827
Increase in other non-current assets	(2,046)	(634)
Other, net	(47)	(1,181)
Cash provided from operating activities	38,754	29,957
Cash Flows From Investing Activities		
Capital expenditures, net	(15,499)	(25,761)
Additions to long-term investments	(1,223)	(3,695)
Cash used for investing activities	(16,722)	(29,456)
Cash Flows From Financing Activities		
Repayment of short-term debt, net	(11,620)	(6,843)
Proceeds from issuance of long-term debt	--	20,000
Repayment of long-term debt	(3,815)	(1,229)
Dividends paid	(3,685)	(3,858)
Proceeds from exercise of stock options	383	--
Repurchase of common stock	--	(11,961)
Cash used for financing activities	(18,737)	(3,891)
Net increase (decrease) in cash	3,295	(3,390)
Cash and cash equivalents at beginning of period	27,660	27,651
Cash and cash equivalents at end of period	$ 30,955	$ 24,261
Cash payments for:		
Interest, net of amount capitalized	$ 2,562	$ 2,007

Income taxes	885	3,341

See accompanying notes to consolidated statements

BANTA CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1) Basis of Presentation

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 31, 2001 are not necessarily indicative of results that may be expected for the year ending December 29, 2001.

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 31, 2001 and December 30, 2000 were as follows:

	(Dollars in thousands)	
	March 31, 2001	December 30, 2000
Raw Materials and Supplies	$ 56,255	$ 58,513
Work-In-Process and Finished Goods	37,254	49,596
FIFO value (current cost of all inventories)	$ 93,509	$ 108,109

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 31, 2001	April 1, 2000
Basic	24.6	25.5
Diluted	24.7	25.5

4) Comprehensive Income

Total comprehensive income, comprised of net income and other comprehensive income (loss), was $382,000 and $8,428,000 for the first quarter of 2001 and 2000, 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 foreign subsidiaries.

5) Segment Information

The Corporation operates in two primary business segments, print and turnkey services, with other business operations in healthcare products. Summarized segment data for the three months ended March 31, 2001 and April 1, 2000 are as follows:

Dollars in thousands	Printing	Turnkey Services	Health
2001			
Net sales	$256,009	$91,795	$24
Earnings from operations	17,424	5,833	2
2000			
Net sales	$256,516	$60,009	$25
Earnings from operations	20,732	1,223	2

The following table presents a reconciliation of segment earnings from operations to the totals contained in the condensed financial statements:

Dollars in thousands	2001	2000
Reportable segment earnings	$25,794	$24,570
Unallocated corporate expenses	(5,213)	(3,933)
Interest expense	(4,011)	(3,890)
Write-off of investment	(12,500)	-
Other income (expense)	162	(353)
Earnings before income taxes	$ 4,232	$ 16,394

6) Restructuring Charge

In the second quarter of 1999, the Corporation recorded a restructuring charge of $55 million ($38.5 million or $1.40 diluted share, after tax). The restructuring primarily involved the Corporation's print segment and resulted in three facility closings and the elimination of certain underperforming business assets. With the exception of continued lease payments for certain of the closed facilities, all restructuring actions were substantially completed in 2000. At March 31, 2001, the remaining restructuring reserve balance was $6.2 million.

7) Write-off of Investment

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, XYAN.com, Inc. ("Xyan") filed for bankruptcy under Chapter 11 on March 31, 2001. In response to Xyan's filing for bankruptcy, the Corporation wrote-off 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 diluted share, after tax).

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net Sales

Net sales for the first quarter of 2001 increased to $372.8 million, 9.1% higher than the $341.5 million in the prior year quarter.

First quarter sales for the print segment were $256.0 million, substantially equivalent to the prior year's $256.5 million. Sales in the book market for the first quarter of 2001 were comparable to the prior year period. Lower than expected sales to educational and trade book customers were offset by the sales volume generated by Southeastern Color Graphics, a second quarter 2000 acquisition. Increased market share more than offset the approximate 2% lower page counts impacting sales for the magazine market. Paper prices for the current year first quarter were consistent with the prior year first quarter.

Supply-chain management sales of $91.8 million for the current quarter were 53% higher than the prior period's $60.0 million. This increase was partially due to a full quarter of activity for Compaq in three geographic locations, U.S., Europe and Asia. The Corporation also began serving other major technology companies during the first quarter and continued its expansion into Mexico to serve additional customers.

Healthcare sales of $25.0 million for the current year first quarter were comparable to the prior period sales.

Earnings from Operations

First quarter earnings from operations were $20.6 million, consistent with the prior year's $20.6 million. Operating margins of 5.5% were slightly lower than the prior year operating margins of 6.0%, primarily due to product mix and lower print segment margins. This reduction was partially offset by higher supply-chain management operating margins. Increased sales volume from supply-chain management will lower the overall-operating margin for the Corporation because of the higher material content of this segment's products.

Print segment earnings from operations were 16.0% lower than the prior year and operating margins for this segment decreased to 6.8% from 8.1% in 2000. These reductions were a result of lower utilization at most print facilities and higher gas and electric costs and employee healthcare costs. Utility costs for the current year first quarter were approximately $1.3 million higher than the prior year period.

Earnings from operations for the supply-chain management segment increased nearly five-fold from $1.2 million for the first quarter of 2000 to $5.8 million for the current year first quarter. Operating margins increased to 6.4% from 2.0% in 2000. These improvements were primarily due to improved utilization at the facilities servicing the Compaq contract and strong volume increases at other U.S., European and Mexican facilities. Prior-year first quarter results were impacted by the continued ramp-up of the Houston facility and the start-up of the European facility servicing Compaq.

Healthcare segment earnings from operations were consistent with the prior year period. Operating margins were slightly lower than the prior year first quarter due to continuing pricing pressures and increasing raw material prices.

Investment Write-off

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, XYAN.com, Inc. ("Xyan") filed for bankruptcy under Chapter 11 on March 31, 2001. In response to Xyan's filing for bankruptcy, the Corporation wrote-off 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 diluted share, after tax).

Interest Expense

Interest expense for the first quarter of 2001 was comparable to the prior year first quarter.

Income Taxes

The Corporation's effective first quarter income tax rate for 2001 of 37.8% was slightly lower than the 2000 first quarter rate of 39.6%. The current year tax rate was impacted by the rate applied to the investment write-off. Without giving effect to the investment write-off, the effective income tax rate for the first quarter of 2001 was 39.4%.

FINANCIAL CONDITION

Liquidity and Capital Resources

The Corporation's net working capital increased by approximately $9.1 million during the first quarter of 2001 due to a decrease in payables and accrued liabilities. These decreases more than offset the reductions in receivables and inventory. Reductions in these balances from December 30, 2000 were primarily due to lower sales volume for the first quarter of 2001 compared to the fourth quarter of 2000.

Capital expenditures were $15.5 million during the first quarter of 2001, a decrease of $10.3 million from the amount expended during the prior year first quarter. Included in the prior year capital expenditure amount were significant expenditures to support the Compaq start-up. Capital requirements for the full year are expected to be approximately $90 million and will be funded by a combination of cash provided from operations and borrowings. During the first quarter of 2001, the Corporation repurchased no shares of common stock.

Long-term debt as a percentage of total capitalization at March 31, 2001 was comparable to the percentage at December 30, 2000.

Future Outlook

Projections for the Corporation's second quarter are for revenues and earnings to be comparable with the prior year second quarter. Supply-chain management results are expected to exceed the prior year, while print segment revenues and earnings are expected to be lower.

Cautionary Statements for Forward-Looking Information

This document includes forward-looking statements. Statements that describe future expectations, plans 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 customer order patterns or demand for the Corporation's products and services, changes in raw material costs and availability, unanticipated changes in operating expenses, unanticipated production difficulties, and general changes in economic conditions. 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.

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 31, 2001, the Corporation had notes payable outstanding aggregating $35.2 million against lines of credit with banks. These notes consist entirely of commercial paper and bear interest at floating rates. Each 1% fluctuation in the interest rate will increase or decrease interest expense for the Corporation by approximately $352,000 annually. Since essentially all long-term debt is at fixed interest rates, exposure to interest rate fluctuations is minimal.

Exposure to adverse changes in foreign exchange rates is considered immaterial. Any potential market risk associated with changes in foreign exchange is considered in contractual arrangements with customers.

PART II: OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) No exhibits are being filed with this report.

(b) No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

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

/S/GERALD A. HENSELER
Gerald A. Henseler
Executive Vice President, Chief Financial Officer and Treasurer

Date: May 15, 2001