FIBERMARK INC
Form 10-Q
May 15, 2001

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, 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 0-20231

FIBERMARK, INC.
(Exact name of registrant as specified in its charter)

Delaware	82-0429330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

161 WELLINGTON ROAD
P.O. BOX 498
BRATTLEBORO, VERMONT 05302
(802) 257-0365

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, $.001 PAR VALUE

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Class	Outstanding
Common Stock $.001 par value	March 31, 2001 6,848,652

FIBERMARK, INC.

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FIBERMARK, INC.

CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended March 31, 2001 and 2000

(In thousands, except per share amounts)

	2001
Net sales	$90,344
Cost of sales	76,604

Gross profit	13,740
Selling, general and administrative expenses	5,393
Income from operations	8,347
Other (income) expense, net	396
Interest expense	3,225
Income before income taxes	4,726
Income tax expense	1,868
Net income	$2,858
Basic earnings per share	$0.42
Diluted earnings per share	$0.41
Average Basic Shares Outstanding	6,834
Average Diluted Shares Outstanding	6,944

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FIBERMARK, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	Unaudited March 31, 2001	Audit Decembe 200
Current assets:		
Cash	$ 4,614	$ 1
Accounts receivable, net of allowances	43,570	4
Inventories	73,194	7
Other	1,306	
Deferred income taxes	4,955	

Total current assets	127,639	13
Property, plant and equipment, net	196,390	19
Goodwill, net	44,181	4
Other intangible assets, net	7,666	
Other long-term assets	1,761	
Other pension assets	4,018	
Total assets	$ 381,655	$ 38
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion long-term debt	11,175	
Accounts payable	26,961	2
Accrued liabilities	17,548	1
Accrued income taxes payable	3,343	
Total current liabilities	59,027	5
Long-term liabilities:		
Revolving credit line	39,572	3
Long-term debt, less current portion	138,456	14
Deferred income taxes	20,765	2
Other long-term liabilities	20,876	2
Total long-term liabilities	219,669	22
Total liabilities	278,696	28
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value $.001 per share; 2,000,000 shares authorized, and none issued		
Common stock, par value $.001 per share; 20,000,000 shares authorized 6,852,452 and 6,848,652 shares issued and outstanding in 2001 and 6,830,483 and 6,826,683 shares issued and outstanding in 2000	7	
Additional paid-in capital	64,492	6
Retained earnings	45,734	4
Accumulated other comprehensive loss	(7,239)	(
Less treasury stock, 3,800 shares at cost in 2001 and 2000	(35)	
Total stockholders' equity	102,959	10
Total liabilities and stockholders' equity	$ 381,655	$ 38

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FIBERMARK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2001 and 2000
(In thousands)
Unaudited

	2001	20
Cash flows from operating activities:		
Net income	$ 2,858	$ 4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,981	2
Changes in operating assets and liabilities:		
Accounts receivable	(91)	(5
Inventories	(2,384)	
Other	(541)	
Accounts payable	(2,007)	
Accrued pension and other liabilities	2,641	2
Other long-term liabilities	188	
Accrued income taxes payable	545	3
Net cash provided by operating activities	4,190	6
Cash flows used for investing activities:		
Additions to property, plant and equipment	(8,787)	(6
(Increase) Decrease in other intangible assets	(1,181)	
Net cash used in investing activities	(9,968)	(6
Cash flows from financing activities:		
Proceeds from issuance of bank debt	3,662	
Net proceeds from exercise of stock options	93	
Net borrowings under revolving credit line	545	
Repayment of debt	(4,299)	(2
Net cash provided by (used in) financing activities	1	(1
Effect of exchange rate changes on cash	(742)	
Net decrease in cash	(6,519)	(3
Cash at beginning of year	11,133	12
Cash at end of year	$ 4,614	$ 8

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FIBERMARK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001 AND 2000
(UNAUDITED)

1. BASIS OF PRESENTATION:

The balance sheet as of March 31, 2001, and the statements of income and cash flows for the quarters ended March 31, 2001, and 2000 are unaudited and, in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been recorded. Such adjustments consist only of normal recurring items.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The year-end balance sheet was derived from audited financial statements, but does not include disclosures required by generally accepted accounting principles. It is suggested that these interim financial statements be read in conjunction with the audited financial statements for the year ended December 31, 2000, included in the company's Annual Report on Form 10-K.

2. INVENTORIES:

Inventories at March 31, 2001, and December 31, 2000, consisted of the following (000's):

	(Unaudited) 03/31/01
Raw Material	$ 21,150
Work in Progress	18,461
Finished Goods	21,734
Finished Goods on Consignment	6,510
Stores Inventory	2,794
Operating Supplies	2,545
Total Inventories	$ 73,194

3. NET INCOME PER COMMON SHARE:

The reconciliation of the numerators and denominators of the basic and diluted income per common share computations for the company's reported net income follows:

	THREE MONTHS EN UNAUDITED
	3/31/01
Numerator:	

Income available to common shareholders used in basic and diluted earnings per share ($000)	$ 2,858	$
Denominator:		
Denominator for basic earnings per share:		
Weighted average shares	6,834,362	
Effect of dilutive securities:		
Fixed stock options	109,812	
Denominator for diluted earnings per share:		
Adjusted weighted average shares	6,944,174	
Basic earnings per share	$ 0.42	$
Diluted earnings per share	$ 0.41	$

4. COMPREHENSIVE INCOME (LOSS) ($000):

	THREE MONTHS ENDED UNAUDITED	
	3/31/01	3/31
Net income	$ 2,858	$
Minimum pension liability adjustment, net of tax benefit	-	
Currency translation adjustment	(2,940)	
Comprehensive income (loss)	$ (82)	$

5. Segment Information:

The following table categorizes net sales in each market segment into the appropriate operating segment:

(In Thousands)

	Operating Segment				
3 months ended March 31, 2001 Net sales	German Oper. & Filter Media	Technical & Office Products	Durable Specialties	Other	Tota
Market Segment					
Filter Media	$ 25,265	$ 1,331	$ -	$ -	$ 26,5
Technical Specialties	13,888	13,401	-	-	27,2
Durable Specialties	7,268	-	17,155	-	24,4
Office Products	-	12,036	-	-	12,0
Total	$ 46,421	$ 26,768	$ 17,155	$ -	$ 90,3
3 months ended March 31, 2000 Net sales					
Market Segment					
Filter Media	$ 27,380	$ 1,451	$ -	$ -	$ 28,8
Technical Specialties	12,326	14,867	-	-	27,1
Durable Specialties	7,074	-	17,942	-	25,0
Office Products	-	14,048	-	-	14,0
Total	$ 46,780	$ 30,366	$ 17,942	$ -	$ 95,0

The following table details selected financial data by operating segment:

	(In Thousands) Operating Segment				
3 months ended March 31, 2001	German Oper. & Filter Media	Technical & Office Products	Durable Specialties	Other	Tota
Net sales	$ 46,421	$ 26,768	$ 17,155	$ -	$ 90,3
Inter-segment net sales	38	1,940	-	(1,978)	-
Total net sales	$ 46,459	$ 28,708	$ 17,155	$(1,978)	$ 90,3
EBIT	$ 6,056	$ (622)	$ 2,517	$ -	$ 7,9
Depreciation & Amortization	$ 993	$ 1,356	$ 632	$ -	$ 2,9
Total Assets	$ 141,423	$154,685	$ 33,799	$51,748 (1)	$381,6

3 months ended March 31, 2000

Net sales	$ 46,780	$ 30,366	$ 17,942	$ -	$ 95,0
Inter-segment net sales	44	506	-	(550)	-
Total net sales	$ 46,824	$ 30,872	$ 17,942	$ (550)	$ 95,0
EBIT	$ 7,307	$ 1,049	$ 2,501	$ -	$ 10,8
Depreciation and Amortization (Excl Def Gain)	$ 912	$ 1,268	$ 576	$ -	$ 2,7
Total Assets	$ 141,898	$122,929	$ 322,202	$51,495 (1)	$348,5

(1) Corporate assets not allocated to operating segments.

6. SUBSEQUENT EVENT:

Effective April 18, 2001, the company acquired Rexam Decorative Specialties International (DSI) for a purchase price of $140 million. DSI is a leading global manufacturer of specialty decorative covering materials serving the publishing, stationery and premium packaging markets, with a particular focus on latex-saturated paper products. This acquisition was financed with the issuance of $230 million of 10.75% Senior Notes due 2011. The balance of the Senior Notes was used to repay existing indebtedness, estimated capital expenditures and estimated financing and acquisition fees. The acquisition was accounted for using the purchase method. Accordingly, the full purchase price was allocated to the assets acquired and liabilities assumed based upon their respective fair values. The 2001 consolidated results will not include DSI's results of operations until the six month period ending June 30, 2001, which will include two and a half months.

The following summarizes unaudited pro forma results of operations for the periods ended March 31, 2001 and 2000, assumes the DSI acquisition occurred as of the beginning of the periods presented (in thousands, except for share amounts):

	THREE MONTHS ENDED UNAUDITED	
	3/31/01	3/31/00
Net Sales	$ 121,235	$ 129,612
Net Income	$ 1,177	$ 3,959
Basic earnings per share	$ 0.17	$ 0.58

The unaudited pro forma results are not necessarily indicative of actual results of operations that would have occurred had the acquisitions been consummated as of the above dates, nor are they necessarily indicative of future operating results.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001, COMPARED WITH THREE MONTHS ENDED MARCH 31, 2000

Net sales for the first quarter of 2001 were $90.3 million compared with $95.1 million for the first quarter of 2000, a 5.1% decrease. Sales in our German operations and filter media operating segment decreased by 0.9% to $46.4 million compared with $46.8 million in the first quarter of 2000. The technical and office products operating segment sales decreased by 11.8% to $26.8 million compared with $30.4 million for the same period in 2000. Sales in the durable specialties operating segment decreased by 4.5% to $17.1 million compared with $17.9 million for the first quarter of 2000.

Sales in the German operations and filter media segment were down slightly due to weakening demand in the automotive and vacuum bag filter business in Europe and the United States offset by strong demand in abrasive base materials. The decrease in the technical and office products segment was primarily due to weaker sales in office products. A general softening in the U.S. economy and significant consolidation in office products super stores have resulted in the decline in sales. The decrease in durable specialties reflects a slowing economy with particular softness in binding tapes used in office filing supplies.

Gross margin for the quarter was 15.2% compared with 19.0% last year. The lower gross margin was attributable to lower volume, higher raw material and energy costs and expenses associated with the startup of our new paper machine in Warren Glen, New Jersey.

General and administrative expenses for the quarter were $5.4 million compared with $6.8 million for the same period in 2000. The decrease is due primarily to lower salary and professional fees expenses.

Interest expense was $3.2 million for the quarter compared with $3.4 million last year.

The effective income tax rate was 39.5% compared with 45.9% for the first quarter of 2000. The decrease is primarily due to reduced tax rates in Germany.

Net income for the first quarter of this year was $2.9 million, or $.41 per share, compared with $4.0 million, or $.58 per share, for the first quarter of last year.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations and acquisitions through cash flow from operations and a number of different types of debt financing.

For the three months ended March 31, cash flows from operating activities were $4.2 million in 2001 and $6.1 million in 2000. During these periods, net cash used in investing activities was $10.0 million in 2001 compared with $6.8 million in 2000. The increase was primarily attributable to acquisition costs and capital expenditures related to the installation of a new paper machine at the Warren Glen, New Jersey, facility, which we believe will provide quality improvements, cost reductions, product performance enhancements and the ability to produce a broader range of products. There was no cash provided by financing activities in 2001 and $1.9 million was used in

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financing activities in the same period in 2000. The increase was primarily attributable to borrowing under the credit facility with Jules & Associates, offset by repayments, to partially fund the Warren Glen paper machine.

As of March 31, 2001, we had outstanding $100.0 million of senior notes. The notes have a ten-year term beginning October 16, 1996, are non-amortizing and carry a fixed interest rate of 9.375%. Additionally, we have available to us a $50.0 million revolving credit facility. As of March 31, 2001, $39.6 million was outstanding under this credit facility. A portion of the balance was at an interest rate of LIBOR plus 2% and the remainder was at an interest rate of prime plus .5%. On April 18, 2001, $35.0 million in proceeds from the issuance of $230.0 million of senior notes in conjunction with the DSI acquisition was used to reduce the outstanding balance under this credit facility. These notes have a ten-year term beginning April 18, 2001, were issued at a discounted price of $228.275 million and carry a fixed rate of 10.75%. As of March 31, 2001, our German subsidiaries had loans outstanding of $34.3 million. Proceeds from the $230.0 million of senior notes were used to pay these loans in full on April 18, 2001. On March 31, 2001, Gessner also had a $6.7 million line of credit. At that date, no advances were outstanding under this facility. At March 31, 2001, $12.5 million was outstanding on a term loan with Jules and Associates secured by the paper machine at the Warren Glen, New Jersey, facility. The interest rate on this loan is 8.47% with the balance amortizing over seven years. As of the same date, $2.8 million was outstanding on a term loan with CIT secured by machinery at the Quakertown, Pennsylvania facility. The interest rate on this loan is LIBOR + 2% with the balance amortizing through November 2007.

We believe that cash reserves on hand, cash flow from operations, plus amounts available under credit facilities, will be sufficient to fund our capital requirements, debt service and working capital requirements for the foreseeable future.

INFLATION

We attempt to minimize the effect of inflation on earnings by controlling operating expenses. During the past several years, the rate of general inflation has been relatively low and has not had a significant impact on our results of operations. We purchase raw materials that are subject to cyclical changes in costs that may not reflect the rate of general inflation.

SEASONALITY

Our business is mildly seasonal, with the second half of each year typically having a lower level of net sales and operating income. This seasonality is the result of summer manufacturing shutdowns and the impact of year-end holidays.

NEW ACCOUNTING PRONOUNCEMENTS

There are no new accounting pronouncements applicable to the company.

FORWARD-LOOKING STATEMENTS

Statements in this report that are not historical are forward-looking statements subject to risk and uncertainties that could cause actual results to differ materially. Such risk and uncertainties include fluctuations in economies worldwide, fluctuations in our customers' demand and inventory levels (including the loss of certain major customers or the possibility that customers could choose to bring previously outsourced business in house); the price and availability of raw materials and of

competitive materials, which may preclude passing increases on or maintaining prices with customers; changes in environmental and other governmental regulations; changes in terms from lenders; ability to retain key management and to reach agreement on labor issues; or the failure to identify or carry out suitable strategic acquisitions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe we have minimal exposure to financial market risks. The majority of our debt is at a fixed rate. Most of our sales transactions have been conducted in the currency where the shipment originated, limiting our exposure to changes in currency exchange rates. We do not use derivative financial instruments.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K:

Reports on Form 8-K:

Not applicable.

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.

FiberMark, Inc.

Date: May 15, 2001

/s/ Bruce Moore

Bruce Moore, Vice President and
Chief Financial Officer

(Principal Financial and Accounting
Officer and Duly Authorized Officer)