BUCKEYE TECHNOLOGIES INC
Form 10-Q
February 13, 2002

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, 2001

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 8, 2002, there were outstanding 34,763,900 Common Shares of the Registrant.

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BUCKEYE TECHNOLOGIES INC.

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

	Quarter Ended December 31		
	2001	2000	
Net sales..	$155,708	$186,001	$
Cost of goods sold.....................................	136,772	142,629	
Gross margin...	18,936	43,372	
Selling, research and administrative expenses..........	8,480	12,427	

Operating income	10,456	30,945
Net interest expense and amortization of debt costs	12,550	11,294
Other (income) expense	(55)	401
Income (loss) before income taxes and cumulative effect of change in accounting	(2,039)	19,250
Income taxes	(1,191)	5,932
Income (loss) before cumulative effect of change in accounting	(848)	13,318
Cumulative effect of change in accounting (net of tax of $1,268)	-	-
Net income (loss)	$ (848)	$ 13,318
Earnings per share before cumulative effect of change in accounting		
Basic earnings per share	$(0.02)	$ 0.38
Diluted earnings per share	$(0.02)	$ 0.38
Cumulative effect of change in accounting		
Basic earnings per share	$ -	$ -
Diluted earnings per share	$ -	$ -
Earnings per share		
Basic earnings per share	$(0.02)	$ 0.38
Diluted earnings per share	$(0.02)	$ 0.38
Weighted average shares for basic earnings per share	34,674	34,755
Effect of dilutive stock options	-	702
Adjusted weighted average shares for diluted earnings per share	34,674	35,457

See accompanying notes.

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

	December 31 2001
Assets	
Current assets:	
Cash and cash equivalents	$ 6,526
Cash, restricted	3,375
Accounts receivable - net	97,104
Inventories	158,758
Deferred income taxes and other	14,716

Total current assets	280,479
Property, plant and equipment	885,834
Less accumulated depreciation	(252,110)
	633,724
Goodwill, net	129,231
Intellectual property and other, net	45,133
Total assets	$1,088,567
Liabilities and stockholders' equity Current liabilities:	
Accounts payable	$ 32,562
Accrued expenses	51,651
Current portion of long-term debt	22,793
Total current liabilities	107,006
Long-term debt	658,483
Accrued postretirement benefit obligation	19,619
Deferred income taxes	67,605
Other liabilities	3,850
Stockholders' equity	232,004
Total liabilities and stockholders' equity	$1,088,567

See accompanying notes.

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

	Six Months December
	2001
Operating activities	
Net income	$ (836)
Adjustments to reconcile net income to net cash provided by operating activities:	
Cumulative effect of change in accounting	-
Depreciation	22,015
Amortization	2,053
Deferred income taxes and other	2,595
Changes in operating assets and liabilities:	
Accounts receivable	6,199
Inventories	(21,301)
Other assets	(884)

Accounts payable and other current liabilities.........	(9,420)
Net cash provided by operating activities........................	421
Investing activities	
Purchases of property, plant and equipment.......................	(24,752)
Acquisition of business..	-
Other..	(635)
Net cash used in investing activities............................	(25,387)
Financing activities	
Purchase of treasury shares......................................	-
Proceeds from exercise of stock options..........................	3,605
Net borrowings under revolving lines of credit...................	41,033
Principal payments on long term debt.............................	(22,208)
Other..	2,433
Net cash provided by financing activities........................	24,863
Effect of foreign currency rate fluctuations on cash.............	(283)
Decrease in cash and cash equivalents............................	(386)
Cash and cash equivalents at beginning of period.................	6,912
Cash and cash equivalents at end of period.......................	$6,526

See accompanying notes.

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, 2001 are not necessarily indicative of the results that may be expected for the year ended June 30, 2002. 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, 2001.

Certain amounts in the 2000 financial statements have been reclassified to conform with the 2001 financial statement presentation.

NOTE B - BUSINESS COMBINATION

On August 1, 2000, the Company acquired the cotton cellulose business of Fibra, S.A. (Americana), located in Americana, Brazil for $36,588, including acquisition costs. The acquisition was funded using borrowings from the Company's revolving credit facility. The acquisition was accounted for using the purchase method of accounting. In May 2001, production at Americana was suspended and capital improvements are planned to allow sales to market customers.

The operating results of Americana have been included in the consolidated statements of income from the date of acquisition. The following unaudited pro forma results of operations assume that the acquisition occurred at the beginning of the periods presented.

Pro forma results of operations	Six Months Ended December 31 2001	2000
Net sales	$310,865	$375,235
Net income (loss)	(836)	32,061
Basic earnings per share	$ (0.02)	$ 0.92
Diluted earnings per share	$ (0.02)	$ 0.89

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-- RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141) and No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). The Company adopted SFAS 142 on July 1, 2001 and discontinued the amortization of goodwill. Under the guidelines of SFAS 142, the Company completed step one of the goodwill impairment test. The results of the test indicate an impairment of approximately $11,000 in the goodwill of the Company's converting business, which was purchased as part of the Merfin acquisition in 1997. The Company anticipates completing step two of the analysis in the third quarter and recording a cumulative effect of a change in accounting policy adjustment. There will not be any tax benefit recorded as a result of this reduction in carrying value of goodwill.

NOTE D-- INVENTORIES

The components of inventory consist of the following:

	December 31 2001	June 30 2001
	(In thousands)	
Raw materials......................	$38,716	$ 39,008
Finished goods.....................	97,618	77,111
Storeroom and other supplies........	22,424	20,661

$158,758	$136,780

NOTE E -- DEBT

On December 5, 2001, the Company entered into a receivables based credit facility with a commercial bank providing for borrowings up to $30,000, of which $25,636 was outstanding at December 31, 2001. In accordance with the terms of the agreement, $3,375 of the loan proceeds are held as restricted cash. The credit facility matures on December 5, 2002. The interest rate applicable to borrowings under the credit facility is one-week LIBOR plus 0.95%. The credit facility is secured by certain insured receivables of the Company. At December 31, 2001, the Company had total unused borrowing availability of approximately $33,300 on its revolving credit facility and its receivables based credit facility.

NOTE F -- COMPREHENSIVE INCOME

The components of comprehensive income consist of the following:

	Three Months Ended December 31		Six
	2001	2000	2001
	(In thousands)		(I
Net income (loss)..................................	$ (848)	$13,318	$ (83
Foreign currency translation adjustments - net..	(4,373)	6,304	(92
Comprehensive income (loss)........................	$(5,221)	$19,622	$(1,75

The change in the foreign currency translation adjustment is primarily due to fluctuations in the exchange rate of the US dollar and the euro, the Brazilian real and the Canadian dollar.

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

Results of Operations

Net sales for the quarter ended December 31, 2001 were $155.7 million compared to $186.0 million for the same period in the prior fiscal year, a decrease of $30.3 million or 16.3%. The decrease in net sales was primarily due to lower shipment volumes in cotton cellulose and lower sales prices on fluff pulp. Net sales for the six-month period ended December 31, 2001 were $310.9 million compared to $374.6 million for the same period in the prior fiscal year, a decrease of $63.7 million or 17.0%. The decrease in net sales was primarily due to lower sales prices on fluff pulp and lower shipment volumes of fluff pulp and cotton cellulose. The decrease in shipment volumes of fluff pulp reflects the impact of the contractual change in the Fluff Pulp Supply Agreement with The

Procter & Gamble Company.

Operating income for the quarter ended December 31, 2001 was $10.5 million compared to $30.9 million for the same period in the prior fiscal year, a decrease of $20.4 million or 66.0%. Operating income for the six months ended December 31, 2001 was $21.9 million compared to $65.8 million for the same period in the prior fiscal year, a decrease of $43.9 million or 66.7%. Operating income decreased mainly due to the lower sales prices and sales volume of fluff pulp combined with lower cotton cellulose volume and increased cost of cotton raw materials. The decrease was partially offset by decreases in sales, research and administrative expenses of $3.9 million and $8.7 million, respectively, for the quarter ended December 31, 2001 and the six months ended December 31, 2001.

Net interest expense and amortization of debt costs were $12.6 million for the quarter ended December 31, 2001 compared to $11.3 million for the quarter ended December 31, 2000. The increase was primarily due to higher debt levels and lower capitalized interest, offset by lower interest rates and the interest rate swap agreement that the Company entered into on May 7, 2001. Net interest expense and amortization of debt costs were $23.4 million for the six months ended December 31, 2001 compared to $22.6 million for the same period of the prior fiscal year. The increase was primarily due to higher debt levels offset by lower interest rates and the interest rate swap agreement.

The Company's effective tax benefit rate of 58.4% for the quarter ended December 31, 2001 is higher than the effective tax rate of 30.8% for the quarter ended December 31, 2000 primarily due to a one-time reduction in deferred income taxes of approximately $0.6 million due to legislation reducing the British Columbia, Canadian provincial corporate income tax rate.

Financial Condition

Cash Flow

On December 5, the Company obtained additional financing of $30.0 million through a receivables based credit facility. Borrowings under this new credit facility were $25.6 million at December 31, 2001. The funds provided from operations, along with the additional borrowings under the Company's credit facilities, were used to fund the increased working capital requirements, fund the capital expenditures to modernize and upgrade production equipment and facilities and to make the $22.0 million note payment to UPM-Kymmene for the purchase of Walkisoft.

Liquidity and Capital Resources

The Company has the following major sources of financing: revolving credit facility, receivables based credit facility and senior subordinated notes. At December 31, 2001, the Company had total unused borrowing availability of $33.3 million from its revolving credit facility and its receivables based credit facility. The Company's revolving credit facility and senior subordinated notes contain various covenants. At December 31, 2001, the Company was in compliance with such covenants.

Revolving Credit Facility. Due to difficult economic conditions, the Company believes it will not be in compliance with some of the existing financial covenants under its revolving credit facility as of March 31, 2002. The Company is presently engaged in negotiations with its lenders to amend the financial covenants and other terms of the facility in order to provide greater financial flexibility and to avoid an event of default. The Company believes that it will be successful in these negotiations and will remain in compliance with the financial covenants under this facility.

Receivables Based Credit Facility. On December 5, 2001, the Company entered into a receivables based credit facility with a commercial bank providing for borrowings up to $30.0 million, of which $25.6 million was outstanding at December 31, 2001. In accordance with the terms of the agreement, $3.4 million of the loan proceeds must be held as restricted cash. The credit facility matures on December 5, 2002 and may be extended for an additional year at the lender's discretion. The interest rate applicable to borrowings under this facility is one-week LIBOR plus 0.95%, and the facility is secured by certain insured receivables of the Company.

Senior Subordinated Notes. The indentures governing the Company's subordinated notes specify that if the Company's fixed charge coverage ratio (as defined in those indentures) falls below 2:1, then the Company's debt is limited to "Permitted Indebtedness" (also as defined in those indentures), until the ratio again equals or exceeds 2:1. If operating earnings do not improve from the level achieved during the first six months of the fiscal year, this ratio, which is measured on a rolling four-quarter basis, will fall below 2:1 by June 30, 2002. Since the Company has utilized substantially all of the Permitted Indebtedness allowed under the indentures maturing in 2005 and 2008, the effect of falling below this ratio would be to prevent the Company from incurring any additional debt until the ratio is again equal to or greater than 2:1. Additionally, if the ratio were less than 2:1, the Company's availability under its receivables based credit facility would be capped at $25.0 million instead of $30.0 million, until the ratio is again equal to or greater than 2:1. The Company would not be required to repay any of its outstanding debt, and falling below the 2:1 ratio would not create an event of default under the revolving credit facility, the receivables based credit facility nor the senior subordinated notes.

While there can be no assurances, even if the Company's fixed charge coverage ratio falls below 2:1, resulting in a $5.0 million decrease in credit availability under its receivables based credit facility, the Company believes that its cash flow from operations along with borrowings under its credit facilities will be sufficient to fund capital expenditures (expected to total $40.0 million for this fiscal year), meet operating expenses and service all debt requirements for the foreseeable future.

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Recently Issued Accounting Standards

Effective July 1, 2001 the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets, which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, goodwill amortization ceases when the new standard is adopted. The new rules also require an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company has completed step one of the goodwill impairment test. The results of the test indicate an impairment of approximately $11 million in the goodwill of the Company's converting business, which was purchased as part of the Merfin acquisition in 1997. The Company anticipates completing step two of the analysis in the third quarter and recording a cumulative effect of a change in accounting policy adjustment. There will not be any tax benefit recorded as a result of this reduction in carrying value of goodwill.

PART II - OTHER INFORMATION

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

On November 1, 2001, the Company held its Annual Meeting of Stockholders. At the meeting, Henry F. Frigon, Samuel M. Mencoff and Robert E. Cannon 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 Mr. Frigon, 32,580,168 votes were cast in favor and 741,805 votes were withheld. For Mr. Mencoff, 32,583,256 votes were cast in favor and 738,717 were withheld. For Mr. Cannon, 30,595,601 votes were cast in favor and 2,726,372 were withheld.

Following the election, the Company's Board of Directors consisted of Red Cavaney, R. Howard Cannon, Robert E. Cannon, David B. Ferraro, Henry F. Frigon, Samuel M. Mencoff, and George W. Bryan.

The stockholders also ratified the appointment of Ernst & Young LLP as the Company's independent auditors. 33,185,640 votes were cast in favor of the ratification, 104,106 were cast against and 32,227 votes abstained.

Item 6. Exhibits and Reports on Form 8-K

1. Exhibit 10.1
   - Credit and Security Agreement dated December 5, 2001, by and among Wachovia Bank, N.A. and Buckeye Receivables Inc.

2. Reports on Form 8-K
   - Report dated December 21, 2001 announcing the conference call regarding operating results for the second quarter ended December 31, 2001.

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, President and Chief Operating Officer

Date: February 12, 2002

By: /S/ GAYLE L. POWELSON

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

Date: February 12, 2002