BANTA CORP
Form 10-Q
November 13, 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 September 29, 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 September 29, 2001, 24,685,753 shares of $.10 par value common stock.

BANTA CORPORATION AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Quarter Ended September 29, 2001

INDEX

2

PART I Item 1. Financial Statements

BANTA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS

	(Dollars in thousands) September 29, 2001	December 30, 2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 47,842	$ 27,660
Receivables	238,280	249,200
Inventories	84,811	108,109
Other current assets	24,121	21,706
Total Current Assets	395,054	406,675
Plant and Equipment	901,280	876,243
Less: Accumulated Depreciation	(567,230)	(531,982)
Plant and Equipment, net	334,050	344,261
Other Assets and Investments	25,823	37,663
Cost in Excess of Net Assets of Subsidiaries Acquired	64,788	65,925
	$ 819,715	$ 854,524

LIABILITIES AND SHAREHOLDERS' INVESTMENT

Current Liabilities		
Short-term debt	$ 16,052	$ 46,863
Accounts payable	95,024	117,499
Accrued salaries and wages	31,160	43,235
Other accrued liabilities	33,875	24,217
Current maturities of long-term debt	10,126	8,505
Total Current Liabilities	186,237	240,319
Long-term Debt	168,776	179,202
Deferred Income Taxes	24,723	24,106
Other Non-Current Liabilities	44,587	39,985
Total Liabilities	424,323	483,612
Shareholders' Investment		
Preferred stock-$10 par value; authorized 300,000 shares; none issued	--	--
Common stock-$.10 par value; authorized 75,000,000 shares; 27,830,153 and 27,711,028 shares issued, respectively	2,783	2,771
Amount in excess of par value of stock	2,366	43
Accumulated other comprehensive loss	(9,601)	(8,964)
Treasury stock, at cost (3,144,400 shares)	(66,814)	(66,814)
Retained earnings	466,658	443,876
Total Shareholders' Investment	395,392	370,912
	$ 819,715	$ 854,524

See accompanying notes to consolidated financial statements

BANTA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(Dollars in thousands, except per s

	Three Months Ended		
	September 29, 2001	September 30, 2000	Septemb
Net Sales	$ 376,615	$ 417,395	$ 1,
Cost of goods sold	298,171	330,520	
Gross earnings	78,444	86,875	
Selling and administrative expenses	44,062	50,180	
Earnings from operations	34,382	36,695	
Interest expense	(3,303)	(4,772)	
Write-off of investment	--	--	
Other income (expense), net	(531)	(276)	
Earnings before income taxes	30,548	31,647	
Provision for income taxes	11,800	12,400	
Net earnings	$ 18,748	$ 19,247	$

Basic earnings per share of common stock	$ 0.76	$ 0.78	$
Diluted earnings per share of common stock	$ 0.75	$ 0.78	$
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) Nine Months Ended	
	September 29, 2001	September 30, 2
Cash Flows From Operating Activities		
Net earnings	$ 33,851	$ 41,785
Depreciation and amortization	56,370	55,795
Deferred income taxes	468	1,330
Cash paid for restructuring	(1,185)	(3,678)
Write-off of investment	12,500	--
(Gain) loss on sale of assets	(160)	91
Change in assets and liabilities, net of acquisition:		
Decrease (increase) in receivables	10,395	(49,885)
Decrease (increase) in inventories	23,298	(26,043)
(Increase) decrease in other current assets	(2,266)	722
(Decrease) increase in accounts payable and accrued liabilities	(23,707)	48,165
(Increase) decrease in other non-current assets	(2,060)	464
Other, net	3,143	(2,166)
Cash provided from operating activities	110,647	66,580
Cash Flows From Investing Activities		
Capital expenditures, net	(40,151)	(60,995)
Cash used for acquisitions, net of cash acquired	--	(11,547)
Additions to long-term investments	(1,964)	(13,643)
Cash used for investing activities	(42,115)	(86,185)
Cash Flows From Financing Activities		
Repayments of short-term debt, net	(30,811)	(17,526)
(Repayment of) proceeds from long-term debt	(8,805)	64,969
Dividends paid	(11,069)	(11,364)
Proceeds from exercise of stock options	2,335	--
Repurchase of common stock	--	(23,945)
Cash (used for) provided by financing activities	(48,350)	12,134
Net increase (decrease) in cash	20,182	(7,471)
Cash and cash equivalents at beginning of period	27,660	27,651

Cash and cash equivalents at end of period	$ 47,842	$ 20,180
Cash payments for:		
Interest, net of amount capitalized	$ 9,442	$ 10,349
Income taxes	13,567	25,451

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 and nine months ended September 29, 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 September 29, 2001 and December 30, 2000 were as follows:

	(Dollars in thousands)	
	September 29, 2001	December 30,
Raw Materials and Supplies	$ 47,838	$ 58,
Work-In-Process and Finished Goods	36,973	49,
FIFO value (current cost of all inventories)	$ 84,811	$ 108,

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):

	Three Months Ended		Nine Month
	September 29, 2001	September 30, 2000	September 29, 2001
Basic	24.7	24.6	24.6
Diluted	24.9	24.7	24.8

4) Comprehensive Income

Total comprehensive income, comprised of net earnings and other comprehensive income was $21,718,000 and $17,171,000 for the third quarter of 2001 and 2000, respectively. For the first three-quarters of 2001 and 2000, comprehensive income was $33,214,000 and $37,730,000, 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 September 29, 2001 and September 30, 2000 are as follows:

Dollars in thousands	Printing	Turnkey Services	Healthcare	To
2001				
Net sales	$272,236	$80,929	$23,450	$376,
Earnings from operations	29,336	7,121	2,165	38,
2000				
Net sales	$296,197	$95,038	$26,160	$417,
Earnings from operations	32,969	6,738	1,854	41,

Summarized segment data for the nine months ended September 29, 2001 and September 30, 2000 are as follows:

Dollars in thousands	Printing	Turnkey Services	Healthcare	Total
2001				
Net sales	$755,033	$258,174	$73,581	$1,086,78
Earnings from operations	66,573	18,346	7,231	92,15
2000				
Net sales	$815,973	$224,265	$77,283	$1,117,52
Earnings from operations	78,386	11,468	6,455	96,30

The following table presents a reconciliation of segment earnings from operations to the totals contained in the condensed financial statements for the three and nine months ended September 29, 2001 and September 30, 2000:

Dollars in thousands	Three Months Ended September 29, 2001	Three Months Ended September 30, 2000	Nine Months Ende September 29, 2001	Septemb 200
Reportable segment earnings	$38,622	$41,561	$92,150	$96,30
Unallocated corporate expenses	(4,240)	(4,866)	(14,024)	(13,80
Interest expense	(3,303)	(4,772)	(10,807)	(12,40
Write-off of investment	-	-	(12,500)	
Other income (expense)	(531)	(276)	432	(1,21
Earnings before income taxes	$30,548	$ 31,647	$55,251	$68,88

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, defined by the Corporation as Costs in Excess of Net Assets of Subsidiaries Acquired, and other intangible assets. At the time of adoption of SFAS No. 142, goodwill will no longer be subject to amortization over its estimated useful life.

Rather, goodwill and intangibles with indefinite lives will be subject to at least annual assessment for impairment by applying a fair-value-based test. SFAS No. 142 also stipulates that an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. The Corporation will adopt SFAS No. 142 on December 30, 2001. The adoption of SFAS No. 142 is expected to decrease amortization expense in fiscal 2002 by approximately $2.7 million. The Corporation will annually perform the necessary impairment tests to assess whether or not recognition of an impairment loss is necessary.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net Sales

Net sales for the third quarter of 2001 were $376.6 million, 9.8% lower than the $417.4 million in the prior year quarter.

Third quarter sales for the print segment were $272.2 million, an 8.1% decrease from the prior year's $296.2 million. Approximately 40% of the decrease in print segment sales was attributable to a reduction in paper prices of approximately 13% compared to the prior year quarter. Also contributing to the sales decline was the absence of biennial business-to-business catalogs, which were not printed during the current year third quarter, and a softer economy. With the challenging economic environment, the Corporation's short-run publication markets experienced reductions in advertising page counts and lower print quantities. Consumer catalogs experienced a favorable third quarter with volumes ahead of last year in a competitive pricing environment.

Supply-chain management sales of $80.9 million for the current quarter were 14.8% lower than the prior period's $95.0 million. Fewer revenue opportunities from the Corporation's major technology customers led to a reduction in sales from the U.S. facilities. This reduction was partially offset by stronger demand and favorable product mix from European and Asian facilities.

Healthcare sales of $23.5 million for the current year third quarter were 10.4% lower than the prior period sales of $26.2 million. The decrease in healthcare sales was primarily related to a reduction in paper and resin prices compared to the prior year quarter.

Net sales for the first three-quarters of 2001 were $1.09 billion, slightly lower than the $1.12 billion in the first three-quarters of last year.

Print segment sales for the nine-month period were $755.0 million in 2001 compared to $816.0 million in 2000. Healthcare sales were $73.6 million, a 4.8% decrease from the prior year's $77.3 million. Trends in operating activity levels within the print and healthcare segments for the first three-quarters were similar to those described above for the third quarter.

Nine-month sales for the supply-chain management segment reached $258.2 million, 15.1% higher than the $224.3 million in sales for the nine months ended September 30, 2000. This increase was primarily due to three full quarters of activity under the Corporation's fulfillment contract with Compaq Computer in each of the three geographic locations.

Earnings from Operations

Third quarter earnings from operations were $34.4 million, 6.3% lower than the prior year's $36.7 million. Operating margins of 9.1% were slightly higher than the prior year operating margins of 8.8%, primarily due to product mix and improved operating performance.

Print segment earnings from operations for the third quarter decreased 11.0% from the same period in the prior year. Operating margins of 10.8% were only slightly lower than the prior year's 11.1%. These reductions were primarily due to the aforementioned sales decrease. Partially offsetting the reductions were improved utilization of in-line imaging equipment within the direct marketing business and improved operational efficiencies within the consumer catalog business. The Corporation also aggressively managed costs by balancing facility staffing with plant utilization requirements.

Earnings from operations for the supply-chain management segment increased 5.7% from the prior year period. Operating margins increased to 8.8% from 7.1% in 2000. These improvements were primarily due to a level cost structure during the current year third quarter compared to the higher cost structure during the third quarter of 2000 which included one-time start-up costs as a result of the European and Asian Compaq contract.

Healthcare segment earnings from operations were 16.8% higher than the prior year period and operating margins were 9.2% compared to 7.1% in the prior year. This segment benefited from last year's domestic manufacturing and global sourcing initiatives, which included establishing a management office in Hong Kong and forming supply relationships in Asia. The prior year earnings were lower as a result of the start-up costs associated with these initiatives.

Earnings from operations for the first three-quarters of 2001 decreased to $78.1 million, 5.3% lower than the prior year's $82.5 million. Operating margins of 7.2% were slightly lower than the prior year's 7.4%. Print segment earnings from operations for the nine-month period were 15.1% lower than the prior year period due to the factors discussed in the analysis of third quarter earnings as well as higher utility and employee healthcare costs during the first quarter of 2001 compared to the prior year first quarter. Earnings from operations for the supply-chain management segment were 60% higher for the current year nine-month period compared to the prior year primarily due to improved utilization at all the facilities servicing Compaq and strong volume increases at other U.S., Europe and Mexican facilities during the first half of 2001. Healthcare segment earnings from operations for the first nine months of 2001 improved from the same period in 2000 due to the same factors that impacted the 2001 third quarter.

Investment Write-off

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).

Interest Expense

Interest expense for the third quarter and first three-quarters of 2001 was $1.5 million and $1.6 million lower, respectively, than in the comparable periods in the prior year. This decrease was primarily due to lower rates on short-term commercial paper and decreased debt levels primarily due to lower capital requirements.

Income Taxes

As indicated below, the Corporation's effective third quarter and first three quarters income tax rates for 2001 were slightly lower than the 2000 rates. The current year tax rate was impacted by higher tax-exempt earnings and foreign earnings taxed at lower rates.

	Effective Tax Rate	
	2001	2000
Third Quarter	38.6%	39.2%
First Three Quarters	38.7%	39.3%

10

FINANCIAL CONDITION

Liquidity and Capital Resources

The Corporation's net working capital increased by approximately $42 million during the first three-quarters of 2001 due to a decrease in accounts payables and short-term debt. These decreases more than offset the reductions in accounts receivables and inventory. Reductions in these balances from December 30, 2000 were primarily due to lower sales volume. Reduced capital spending and no share repurchases in the first nine months of 2001 resulted in a reduction in short-term borrowings.

Capital expenditures were $40.2 million during the first three-quarters of 2001, a decrease of $20.8 million from the amount expended during the prior year period. Capital requirements for the full year are expected to be approximately $65 to $70 million and will be funded by cash provided from operations. As a result of lower capital requirements, the Corporation's availability under its short-term credit facilities increased from $58.1 million at December 30, 2000 to $88.9 million at September 29, 2001.

Long-term debt as a percentage of total capitalization of 30.0% at September 29, 2001 was slightly lower than the 32.6% at December 30, 2000.

Future Outlook

The Corporation believes that, given the continued soft economy, it will be a challenge to fully achieve the levels of revenue and earnings reached during last year's exceptionally strong fourth quarter. Thus, for the full-year 2001, the Corporation's diluted earnings per share are expected to be modestly below last year's record of $2.35, before the one-time charge taken during 2001's first quarter.

Cautionary Statements for Forward-Looking Information

This document includes forward-looking statements. Statements that describe future expectations, including revenue and earnings projections, plans, results or strategies, are considered forward-looking statements. 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, unanticipated changes in operating expenses, unanticipated production difficulties, demand for products and services in the technology sector, 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 September 29, 2001, the Corporation had notes payable outstanding aggregating $16.1 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 $161,000 annually. Since essentially all long-term debt is at fixed interest rates, exposure to interest rate fluctuations is not material.

Any potential market risk associated with changes in foreign exchange rates is considered in contractual arrangements with customers. The Corporation also manages foreign currency exchange rate exposure by utilizing some natural hedges to mitigate a portion of its transaction and commitment exposures, and may utilize forward contracts in certain situations.

Based on the Corporation's overall foreign currency exchange rate exposure at September 29, 2001, a 10% change in foreign currency exchange rates will not have a material effect on the Corporation's balance sheet, statement of earnings or cash flows.

PART II: OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - No exhibits filed with this report

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 November 13, 2001