

BOWATER INC
Form 10-Q
August 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2003**

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 1-8712

BOWATER INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

62-0721803

(I.R.S. Employer Identification No.)

55 East Camperdown Way, P.O. Box 1028, Greenville, SC 29602

(Address of principal executive offices)

(Zip Code)

(864) 271-7733

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 8, 2003.

Edgar Filing: BOWATER INC - Form 10-Q

<u>Class</u>	<u>Outstanding at August 8, 2003</u>
Common Stock, \$1.00 Par Value	55,376,993 Shares

BOWATER INCORPORATED
I N D E X

	Page Number
PART I FINANCIAL INFORMATION	
1. Financial Statements:	
Consolidated Statement of Operations for the Three and Six Months Ended June 30, 2003, and 2002	3
Consolidated Balance Sheet at June 30, 2003, and December 31, 2002	4
Consolidated Statement of Capital Accounts for the Six Months Ended June 30, 2003	5
Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2003 and 2002	6
Notes to Consolidated Financial Statements	7-18
2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19-35
3. Quantitative and Qualitative Disclosures About Market Risk	36
4. Controls and Procedures	36
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	37
Item 4. Submission of Matter to a Vote of Security Holders	38
Item 6. Exhibits and Reports on Form 8-K	38
SIGNATURES	39

BOWATER INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited, in millions of US dollars except per-share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Sales	\$664.1	\$646.8	\$1,294.6	\$1,271.0
Cost of sales, excluding depreciation, amortization and cost of timber harvested	554.1	508.5	1,070.6	979.1
Depreciation, amortization and cost of timber harvested	86.0	86.1	168.5	172.4
Distribution costs	62.4	50.7	124.5	107.2
Selling and administrative expense	34.0	40.4	70.8	75.9
Net gain on sale of assets	104.0	3.5	115.1	75.0
Operating income (loss)	31.6	(35.4)	(24.7)	11.4
Other expense (income)				
Interest income	(1.4)	(1.2)	(2.4)	(2.2)
Interest expense, net of capitalized interest	42.2	41.3	82.1	83.1
Other, net	2.5	5.2	10.8	5.1
	43.3	45.3	90.5	86.0
Loss before income taxes, minority interests and cumulative effect of accounting change	(11.7)	(80.7)	(115.2)	(74.6)
Provision for income tax expense (benefit)	17.6	(22.8)	(12.7)	(25.3)
Minority interests in net loss of subsidiaries	(3.6)	(4.2)	(7.2)	(5.8)
Loss before cumulative effect of accounting change	(25.7)	(53.7)	(95.3)	(43.5)
Cumulative effect of accounting change			(2.1)	
Net loss	(25.7)	(53.7)	(97.4)	(43.5)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	5.7	2.3	10.4	2.9
Unrealized gain on hedged transactions	58.8	23.4	98.7	24.9
Minimum pension liability adjustments	(4.8)		(7.3)	
Comprehensive income (loss)	\$ 34.0	\$ (28.0)	\$ 4.4	\$ (15.7)
Basic loss per common share				
Loss before cumulative effect of accounting change	(0.45)	(0.95)	(1.67)	(0.77)
Cumulative effect of accounting change			(0.04)	
Net loss	\$ (0.45)	\$ (0.95)	\$ (1.71)	\$ (0.77)
Diluted loss per common share				
Loss before cumulative effect of accounting change	(0.45)	(0.95)	(1.67)	(0.77)
Cumulative effect of accounting change			(0.04)	
Net loss	\$ (0.45)	\$ (0.95)	\$ (1.71)	\$ (0.77)
Dividends declared per common share	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.40



See accompanying notes to consolidated financial statements

BOWATER INCORPORATED
CONSOLIDATED BALANCE SHEET
(Unaudited, in millions of US dollars)

	June 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 82.7	\$ 35.9
Accounts receivable, net	338.4	330.6
Inventories	290.6	257.2
Income taxes receivable		75.6
Other current assets	120.4	35.9
	<u>832.1</u>	<u>735.2</u>
Total current assets	832.1	735.2
Timber and timberlands	188.2	212.0
Fixed assets, net	3,603.1	3,645.6
Goodwill	828.2	839.9
Other assets	218.9	157.6
	<u>5,670.5</u>	<u>5,590.3</u>
Total assets	\$5,670.5	\$5,590.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 17.6	\$ 84.3
Short-term bank debt	111.8	249.0
Accounts payable and accrued liabilities	389.4	411.9
Dividends payable	11.3	11.2
	<u>530.1</u>	<u>756.4</u>
Total current liabilities	530.1	756.4
Long-term debt, net of current installments	2,293.1	2,037.4
Other long-term liabilities	470.2	450.7
Deferred income taxes	567.0	518.2
Minority interests in subsidiaries	71.3	72.1
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$1 par value. Authorized 100,000,000 shares; issued 66,908,158 and 66,897,158 shares at June 30, 2003 and December 31, 2002, respectively	66.9	66.9
Exchangeable shares, no par value. Unlimited shares authorized; 1,643,248 outstanding at June 30, 2003 and December 31, 2002, respectively	78.3	78.3
Additional paid-in capital	1,597.4	1,596.8
Retained earnings	529.6	649.9
Unearned compensation	(2.3)	
Accumulated other comprehensive loss	(48.3)	(150.1)
Treasury stock, at cost, 11,529,897 and 11,617,494 shares at June 30, 2003 and December 31, 2002, respectively	(482.8)	(486.3)
	<u>1,738.8</u>	<u>1,755.5</u>
Total shareholders' equity	1,738.8	1,755.5
Total liabilities and shareholders' equity	\$5,670.5	\$5,590.3

See accompanying notes to consolidated financial statements

BOWATER INCORPORATED
CONSOLIDATED STATEMENT OF CAPITAL ACCOUNTS
For The Six Months Ended June 30, 2003
(Unaudited, in millions of US dollars except per-share amounts)

	Common Stock	Exchangeable Shares	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Loss	Treasury Stock
Balance at December 31, 2002	\$ 66.9	\$ 78.3	\$ 1,596.8	\$ 649.9	\$	\$ (150.1)	\$(486.3)
Net loss				(97.4)			
Dividends (\$0.40 per share)				(22.9)			
Foreign currency translation						10.4	
Stock options exercised (11,000 shares)			0.2				
Tax benefit on exercise of stock options			0.1				
Stock option compensation			0.4				
Translation of pension plan additional minimum liability, net of \$4.1 translation of related tax benefit						(7.3)	
Treasury stock used for dividend reinvestment plans and to pay employee and director benefits (5,087 shares)							0.1
Restricted stock grant (82,510 shares from treasury stock)			(0.1)		(3.3)		3.4
Amortization of unearned compensation					1.0		
Unrealized gain on hedged transactions, net of tax provision of \$60.5						98.7	
Balance at June 30, 2003	\$ 66.9	\$ 78.3	\$ 1,597.4	\$ 529.6	\$ (2.3)	\$ (48.3)	\$(482.8)

See accompanying notes to consolidated financial statements

BOWATER INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited, in millions of US Dollars)

	Six Months Ended	
	June 30, 2003	June 30, 2002
Cash flows from operating activities:		
Net loss	\$ (97.4)	\$ (43.5)
Cumulative effect of accounting change	2.1	
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and cost of timber harvested	168.5	172.4
Deferred income taxes	(16.8)	(35.5)
Amortization of unearned compensation	1.0	
Minority interests in net loss of subsidiaries	(7.2)	(5.8)
Net gain on sale of assets	(115.1)	(75.0)
Changes in working capital:		
Accounts receivable, net	(7.8)	9.5
Inventories	(33.4)	(6.9)
Income taxes receivable	75.6	
Accounts payable and accrued liabilities	11.8	(45.5)
Income taxes payable	29.6	6.8
Receipts (payments) on maturity of hedging contracts	13.3	(7.1)
Other, net	16.9	6.8
	<hr/>	<hr/>
Net cash from (used for) operating activities	41.1	(23.8)
Cash flows from investing activities:		
Cash invested in fixed assets, timber and timberlands	(150.0)	(125.0)
Disposition of assets, including timber and timberlands	140.3	19.9
Proceeds from the monetization of notes receivable		88.1
Cash invested in marketable securities		(1.5)
Cash from maturity of marketable securities		3.2
	<hr/>	<hr/>
Net cash used for investing activities	(9.7)	(15.3)
Cash flows from financing activities:		
Cash dividends, including minority interests	(22.8)	(26.6)
Short-term financing	558.2	588.3
Short-term financing repayments	(695.4)	