

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

Cellu Tissue Holdings, Inc.

CIK: **1295976** | IRS No.: **061346495** | State of Incorporation: **DE** | Fiscal Year End: **0228**
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(678)393-2651

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **January 5, 2006**

Cellu Tissue Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

333-118829
(Commission
File Number)

06-1346495
(IRS Employer
Identification No.)

3442 Francis Road Suite 220
Alpharetta, Georgia
(Address of principal executive offices)

30004
(Zip Code)

Registrant's telephone number, including area code **(678)393-2651**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On January 5, 2006, Cellu Tissue Holdings, Inc. issued a press release announcing third quarter earnings for the quarter ended November 24, 2005. The press release is furnished as Exhibit 99.1 to this report and incorporated herein by reference.

The information in this Form 8-K, including the accompanying exhibit, are being furnished hereunder and shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of such section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of the general incorporation language of such filing, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 FINANCIAL STATEMENTS AND EXHIBITS

The following is being furnished as an exhibit to this Current Report on Form 8-K:

(c) Exhibits

- 99.1 Release, dated January 5, 2006, “Cellu Tissue Holdings, Inc. Announces Third Quarter 2006 Results”, furnished pursuant to Item 2.02
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SIGNATURE

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 hereunto duly authorized.

Cellu Tissue Holdings, Inc.
(Registrant)

Date: January 5, 2006

By: /s/ Dianne M. Scheu
Ms. Dianne M. Scheu
Senior Vice President, Finance and
Chief Financial Officer

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EXHIBIT INDEX

- 99.1 Release, dated January 5, 2006, “Cellu Tissue Holdings, Inc. Announces Third Quarter 2006 Results”

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FOR IMMEDIATE RELEASE**Cellu Tissue Holdings, Inc. Announces Third Quarter 2006 Results**

East Hartford, Conn. - January 5, 2006—Cellu Tissue Holdings, Inc., an established leader in the manufacturing of high-quality business-to-business and consumer tissue grades used in health care and consumer products worldwide, today announced financial results for its third quarter ended November 24, 2005.

Third Quarter 2006 Operating Results

Net sales totaled \$81.5 million for the quarter ended November 24, 2005, compared to \$85.7 million in the third quarter of the prior fiscal year, a decrease of \$4.2 million, or 4.9%. For the quarter ended November 24, 2005 the Company sold 63,988 tons of tissue hard rolls, machine-glazed paper hard rolls and converted paper products. This is a decrease of 3,229 tons or 4.8% over the comparable period in the prior year. Net sales within the Tissue Segment for the quarter ended November 24, 2005 totaled \$56.8 million, an increase of .4% from \$56.6 million for the comparable period in the prior year. The increase for the Tissue Segment is attributable to growth in tissue converted product sales, partially offset by unfavorable tissue hard roll mix. Net sales within the Machine-Glazed Paper Segment for the quarter ended November 24, 2005 totaled \$24.7 million, a decrease of 15.2% from \$29.1 million for the comparable period in the prior year. The decrease for the Machine-Glazed Paper Segment is attributable to a decrease in volume sold and unfavorable price/mix from the prior year. Contributing to the decrease in volume sold for the quarter ended November 24, 2005 was the reduced operating schedule and ultimate shutdown of one of the machines at the Company's Interlake facility, as previously announced and the reduction in volume sold in September 2005 due to the shutdown of the Company's Mississippi mill resulting from Hurricane Katrina.

For the quarter ended November 24, 2005, Cellu Tissue reported gross profit of \$6.7 million or 8.3% of net sales, compared to \$11.2 million or 13.1% for the comparable period in the prior year. The decrease in gross profit is primarily attributable to significant market price increases for both natural gas and electricity. These increases accounted for \$4.1 million of the \$4.5 million decrease in gross profit from the prior year. Income from operations for the quarter ended November 24, 2005 was \$.8 million compared to \$7.5 million for the comparable period in the prior year. Income from operations in the Tissue Segment for the quarter ended November 24, 2005 was \$1.1 million compared to \$4.4 million for the third quarter in the prior year. Loss from operations in the Machine-Glazed Paper Segment for the quarter ended November 24, 2005 was \$.3 million compared to income of \$3.1 million for the third quarter in the prior year. These decreases are the result of the decrease in gross profit as noted above, \$1.0 million of restructuring costs and \$1.5 million of merger related transaction costs recorded in the third quarter of the current fiscal year. The restructuring costs relate to severance costs associated with the Company's decision to indefinitely idle one of its

paper machines at its Interlake facility, as previously announced and severance costs associated with a change in the corporate organizational structure. The merger related transaction costs were incurred in connection with a previously announced proposed transaction which was terminated in October 2005 by the mutual consent of the parties.

For the quarter ended November 24, 2005, the Company reported a pretax loss of \$3.5 million, compared to pretax income of \$2.5 million for the comparable period in the prior year. For the quarter ended November 24, 2005, the Company experienced a net loss of \$1.2 million, compared to a net loss of \$.5 million for the comparable period in the prior year.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) for the quarter ended November 24, 2005 totaled \$4.4 million, compared to \$10.7 million for the comparable period in the prior year. Included in current year EBITDA is \$1.5 million in costs associated with the terminated transaction and \$1.0 million related to restructuring costs as explained above.

Russell C. Taylor, President and Chief Executive Officer of Cellu Tissue,

commented: “During the third quarter of fiscal 2006 we continued to experience growth in our tissue converting business. Unfortunately this growth was offset by increases in energy prices. To lessen the impact of these energy increases, we have recently announced price increases.”

Notice Relating to the Use of Non-GAAP Measures

Attached to this press release are tables setting forth our unaudited consolidated statements of operations, financial position and selected consolidated financial data, including information concerning our cash flow position, selected consolidated segment data, and reconciliations of consolidated net income from operations to consolidated EBITDA. EBITDA is not a measure of performance under accounting principles generally accepted in the United States and should not be considered in isolation or used as a substitute for income from operations, net income, net cash provided by operating activities, or other operating or cash flow data prepared in accordance with generally accepted accounting principles. We have presented EBITDA because this measure is used by investors, as well as our own management, to evaluate the operating performance of our business, including its ability to service debt.

Cellu Tissue’s management invites you to listen to our conference call on January 6, 2006 at 10 a.m. ET regarding third quarter fiscal 2006 financial results. The dial-in number is (877) 209-0397 or International (612) 332-0932; participant code 812339. A taped replay of the conference call will be available after 1:30 p.m. January 6, 2006 until January 20, 2006. The number to call for the taped replay is (800) 475-6701 or International (320) 365-3844, access code 812339.

Cellu Tissue Holdings, Inc. is a manufacturer of a variety of specialty tissue hard rolls and machine-glazed paper used in the manufacture of various end products, including diapers, facial and bath tissue, assorted paper towels and food wraps. In addition, the Company produces a variety of converted tissue products. Information about Cellu Tissue Holdings, Inc. is available on the Internet at www.cellutissue.com.

For further information, please contact Dianne Scheu, Chief Financial Officer of Cellu Tissue Holdings, Inc. @ 678-393-2651, Ext. 2164; scheid@cellutissue.com.

CELLU TISSUE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Dollars, in thousands)

	Three Months Ended		Nine Months Ended	
	November 24	November 25	November 24	November 25
	2005	2004	2005	2004
Net sales	\$ 81,512	\$ 85,689	\$ 245,174	\$ 250,749
Cost of goods sold	74,784	74,471	223,829	219,459
Gross profit	6,728	11,218	21,345	31,290
Selling, general and administrative expenses	3,317	3,670	9,475	11,456
Restructuring costs	1,032	–	1,032	–
Merger related transaction costs	1,477	–	2,366	–
Compensation from redemption of stock options	–	–	–	3,414
Accelerated vesting of stock options-noncash	64	–	64	534
Income from operations	838	7,548	8,408	15,886
Write-off of debt issuance costs and prepayment penalties	–	–	–	3,318
Interest expense, net	4,300	4,430	12,748	13,070
Foreign currency loss	93	658	378	855
Other income	(21)	(1)	(54)	(2,357)
(Loss) income before income tax expense (benefit)	(3,534)	2,461	(4,664)	1,000

Income tax expense (benefit)	(2,304)	2,952	(2,468)	(1,046)
Net (loss) income	<u>\$ (1,230)</u>	<u>\$ (491)</u>	<u>\$ (2,196)</u>	<u>\$ 2,046</u>

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CELLU TISSUE HOLDINGS, INC.,
CONSOLIDATED BALANCE SHEETS
(Dollars, in thousands)

	November 24 2005 (Unaudited)	February 28 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,343	\$ 26,959
Receivables, net	34,055	35,787
Inventories	29,466	24,601
Prepaid expenses and other current assets	4,266	3,499
Income tax receivable	2,129	-
Deferred income taxes	1,251	1,295
TOTAL CURRENT ASSETS	<u>87,510</u>	<u>92,141</u>
PROPERTY, PLANT AND EQUIPMENT, NET	97,665	97,314
DEBT ISSUANCE COSTS	6,120	7,168
GOODWILL	13,724	13,724
OTHER ASSETS	186	190
TOTAL ASSETS	<u>\$ 205,205</u>	<u>\$ 210,537</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable	\$ 19,269	\$ 18,974
Accrued expenses	14,825	15,157
Accrued interest	3,261	7,416
Current portion of long-term debt	290	270
TOTAL CURRENT LIABILITIES	<u>37,645</u>	<u>41,817</u>
LONG-TERM DEBT, LESS CURRENT PORTION	160,711	160,790
DEFERRED INCOME TAXES	13,726	15,280
OTHER LIABILITIES	217	236
STOCKHOLDERS' EQUITY(DEFICIENCY)	(7,094)	(7,586)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIENCY)	<u>\$ 205,205</u>	<u>\$ 210,537</u>

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CELLU TISSUE HOLDINGS, INC.
SUMMARY OF CONSOLIDATED CASH FLOW ACTIVITY (Unaudited)
(Dollars, in thousands)

Three Months Ended

Nine Months Ended

	November 24 2005	November 25 2004	November 24 2005	November 25 2004
OPERATING ACTIVITIES				
Net (loss) income	\$ (1,230)	\$ (491)	\$ (2,196)	\$ 2,046
Write-off of debt issuance costs-noncash	-	-	-	2,895
Accelerated vesting of stock options-noncash	64	-	64	534
Deferred income taxes	(918)	2,193	(1,511)	2,193
Accretion of debt discount	75	74	221	222
Depreciation and amortization	3,957	4,177	12,722	12,179
Gain on sale of property, plant & equipment	13	7	(12)	(2,374)
Unearned compensation	-	92	-	389
Changes in working capital	(5,653)	6,577	(10,236)	3,932
<i>Net cash (used in) provided by operating activities</i>	<u>(3,692)</u>	<u>12,629</u>	<u>(948)</u>	<u>22,016</u>
INVESTING ACTIVITIES				
Proceeds for sale of property, plant and equipment, net	-	-	-	4,004
Capital expenditures	(2,338)	(4,493)	(9,750)	(7,676)
<i>Net cash used in investing activities</i>	<u>(2,338)</u>	<u>(4,493)</u>	<u>(9,750)</u>	<u>(3,672)</u>
FINANCING ACTIVITIES				
(Payments) borrowings of debt, net	-	-	(280)	116,337
Payments on revolving line of credit, net	-	-	-	(10,954)
Cash dividends	-	-	-	(96,789)
Prepayment penalties	-	-	-	(424)
Debt issuance costs	-	(340)	(2)	(6,659)
<i>Net cash (used in) provided by financing activities</i>	<u>-</u>	<u>(340)</u>	<u>(282)</u>	<u>1,511</u>
Effect of foreign currency	<u>131</u>	<u>569</u>	<u>364</u>	<u>676</u>
<i>Net (decrease) increase in cash and cash equivalents</i>	(5,899)	8,365	(10,616)	20,531
<i>Cash and cash equivalents at beginning of period</i>	22,242	12,166	26,959	-
<i>Cash and cash equivalents at end of period</i>	<u>\$ 16,343</u>	<u>\$ 20,531</u>	<u>\$ 16,343</u>	<u>\$ 20,531</u>

CELLU TISSUE HOLDINGS, INC.
CONSOLIDATED BUSINESS SEGMENT INFORMATION (Unaudited)
(Dollars, in thousands)

BUSINESS SEGMENTS

	Three Months Ended		Nine Months Ended	
	November 24 2005	November 25 2004	November 24 2005	November 25 2004
NET SALES:				
Tissue	\$ 56,845	\$ 56,606	\$ 173,775	\$ 172,120
Machine-Glazed Paper	24,667	29,083	71,399	78,629
Consolidated	<u>\$ 81,512</u>	<u>\$ 85,689</u>	<u>\$ 245,174</u>	<u>\$ 250,749</u>

INCOME FROM OPERATIONS:

Tissue	\$ 1,096	\$ 4,391	\$ 6,441	\$ 10,408
Machine-Glazed Paper	(258)	3,157	1,967	5,478
Consolidated	\$ 838	\$ 7,548	\$ 8,408	\$ 15,886

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CELLU TISSUE HOLDINGS, INC.
RECONCILIATION OF CONSOLIDATED NET (LOSS) INCOME TO EBITDA
(Unaudited) (Dollars, in thousands)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>November 24</u>	<u>November 25</u>	<u>November 24</u>	<u>November 25</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
NET (LOSS) INCOME	\$ (1,230)	\$ (491)	\$ (2,196)	\$ 2,046
Add back:				
Depreciation	3,601	3,831	11,673	11,140
Interest expense	4,376	4,453	12,939	13,102
Income tax (benefit) expense	(2,304)	2,952	(2,468)	(1,046)
EBITDA	\$ 4,443	\$ 10,745	\$ 19,948	\$ 25,242

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