

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

CHAMPION INTERNATIONAL CORP

CIK: **19150** | IRS No.: **131427390** | State of Incorporation: **NY** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-03053** | Film No.: **94528096**
SIC: **2621** Paper mills

Business Address
*ONE CHAMPION PLAZA
STAMFORD CT 06921
2033587000*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1994

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 1-3053

Champion International Corporation

(Exact name of registrant as specified in its charter)

New York

13-1427390

(State or other jurisdiction
of incorporation or organization)

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

One Champion Plaza, Stamford, Connecticut 06921

(Address of principal executive offices)
(Zip Code)

203-358-7000

(Registrant's telephone number, including area code)

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

--- ---

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

Class	Outstanding at April 30, 1994
----- Common stock, \$.50 par value	----- 92,970,324

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME (unaudited)
(in thousands, except per share)

<TABLE>
<CAPTION>

	Three Months Ended	
	----- March 31, -----	
	1994	1993
	-----	-----
<S>	<C>	<C>
Net Sales	\$1,226,120	\$1,266,976
Cost of products sold	1,142,676	1,163,183
Selling, general and administrative expenses	66,635	74,047
Income From Operations	16,809	29,746
Interest and debt expense	56,537	53,573
Other (income) expense - net	240	22,946
Income (Loss) Before Income Taxes and Cumulative Effect of Accounting Change	(39,968)	(46,773)
Income Taxes	(8,982)	(18,709)
Income (Loss) Before Cumulative Effect of Accounting Change	(30,986)	(28,064)
Cumulative Effect of Accounting Change,		

Net of Taxes (Note 2)	---	(7,523)
Net Income (Loss)	\$ (30,986)	\$ (35,587)
Dividends on Preference Stock	6,938	6,938
Net Income (Loss) Applicable to Common Stock	\$ (37,924)	\$ (42,525)
Average Number of Common Shares Outstanding	92,946	92,692
Earnings (Loss) Per Common Share (Exhibit 11):		
Income (Loss) Before Cumulative Effect of Accounting Change	\$ (.41)	\$ (.38)
Cumulative Effect of Accounting Change	\$ ---	\$ (.08)
Net Income (Loss)	\$ (.41)	\$ (.46)
Cash dividends declared	\$.05	\$.05

</TABLE>

The accompanying notes are an integral part of this statement.

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CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in thousands of dollars)

<TABLE>
<CAPTION>

	March 31, 1994 (unaudited)	December 31, 1993
	-----	-----
<S>	<C>	<C>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 75,039	\$ 55,653
Short-term investments	17,169	7,197
Receivables - net	494,813	494,426
Inventories	483,497	469,269
Prepaid expenses	27,580	22,818
Deferred income taxes	64,847	65,064
	-----	-----
Total Current Assets	1,162,945	1,114,427
	-----	-----

Timber and timberlands, at cost - less cost of timber harvested	1,836,531	1,838,550
	-----	-----
Property, plant and equipment, at cost	8,472,284	8,467,756
Less - Accumulated depreciation	(2,737,356)	(2,665,720)
	-----	-----
	5,734,928	5,802,036
	-----	-----
Other assets and deferred charges	363,613	387,756
	-----	-----
Total Assets	\$9,098,017	\$9,142,769
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY:

Current Liabilities:

Current installments of long-term debt	\$ 84,928	\$ 88,052
Short-term bank borrowings	105,718	88,258
Accounts payable and accrued liabilities	566,431	591,153
Income taxes	5,449	4,841
	-----	-----
Total Current Liabilities	762,526	772,304
	-----	-----

Long-term debt	3,363,104	3,316,165
	-----	-----
Other liabilities	668,705	672,788
	-----	-----
Deferred income taxes	1,051,974	1,077,234
	-----	-----
Minority interest in subsidiaries	54,487	54,160
	-----	-----
Preference stock, \$1.00 par value, \$92.50 cumulative convertible series; 300,000 shares issued and outstanding (redeemable for \$300,000)	300,000	300,000
	-----	-----

Shareholders' Equity:

Preference stock, no series, 8,231,431 shares authorized but unissued	---	---
Capital Shares:		
Common (92,968,916 and 93,026,400 shares outstanding at March 31, 1994 and December 31, 1993, respectively)	48,231	48,184
Capital Surplus	1,166,112	1,163,555
Retained Earnings	1,818,962	1,861,535
	-----	-----
	3,033,305	3,073,274
	-----	-----
Treasury shares, at cost	(100,308)	(100,233)
Cumulative translation adjustment	(35,776)	(22,923)
	-----	-----
Total Shareholders' Equity	2,897,221	2,950,118

Total Liabilities and Shareholders' Equity	\$9,098,017	\$9,142,769
	=====	=====

</TABLE>

The accompanying notes are an integral part of this statement.

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CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOWS (unaudited)
(in thousands of dollars)

<TABLE>
<CAPTION>

	Three Months Ended	
	March 31,	
	1994	1993
	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ (30,986)	\$ (35,587)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Cumulative effect of accounting change	---	7,523
Depreciation expense	90,985	88,128
Cost of timber harvested	19,697	18,351
(Increase)/decrease in receivables	(2,925)	(24,996)
(Increase)/decrease in inventories	(18,937)	302
(Increase)/decrease in prepaid expenses	(5,166)	(140)
Increase/(decrease) in accounts payable and accrued liabilities	(21,540)	(1,490)
Increase/(decrease) in income taxes	821	1,451
Increase/(decrease) in other liabilities	(5,389)	2,072
Increase/(decrease) in deferred income taxes	(15,787)	(19,305)
All other - net	14,124	4,267
Net cash provided by (used in) operating activities	24,897	40,576
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(42,590)	(135,852)
Timber and timberlands expenditures	(18,669)	(23,224)
Purchase of investments	(17,169)	(18,332)
Proceeds from redemption of investments	7,788	29,800
Proceeds from sales of property, plant and equipment and timber and timberlands	4,022	10,621

All other - net	(1,052)	(14,077)
	-----	-----
Net cash provided by (used in) investing activities	(67,670)	(151,064)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	202,117	258,834
Payments of current installments of long-term debt and long-term debt	(130,401)	(130,746)
Cash dividends paid	(11,588)	(11,580)
All other - net	2,031	829
	-----	-----
Net cash provided by (used in) financing activities	62,159	117,337
	-----	-----
Increase/(decrease) in cash and cash equivalents	19,386	6,849
Cash and Cash Equivalents:		
Beginning of period	55,653	36,678
	-----	-----
End of period	\$ 75,039	\$ 43,527
	=====	=====
Supplemental cash flow disclosures:		
Cash paid during the period for:		
Interest (net of capitalized amounts)	\$ 42,554	\$ 31,693
Income taxes (net of refunds)	3,910	(116)

</TABLE>

The accompanying notes are an integral part of this statement.

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CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

March 31, 1994

Note 1.

The unaudited information furnished in this report reflects all adjustments which are, in the opinion of management, necessary to present fairly a statement of the results for the interim periods reported. All such adjustments made were of a normal recurring nature.

Note 2.

Cumulative effect of accounting change for the three month period ended March 31, 1993 reflects the after-tax effect of adopting, retroactive to January 1, 1993, a new accounting standard for postemployment benefits.

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CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES

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

of Operations.

Results of Operations

Summary

The company reported a loss in the first quarter of 1994 of \$31 million or 41 cents per share, compared to last year's first quarter loss of \$36 million or 46 cents per share and last year's fourth quarter loss of \$45 million or 56 cents per share. In last year's first and fourth quarters, non-recurring items reduced earnings per share by approximately 8 cents and 21 cents, respectively. Excluding non-recurring items, the loss per share of 41 cents in the first quarter of 1994 compared to per share losses of 38 cents a year ago and 35 cents last quarter.

Operating income of \$17 million declined from \$30 million a year ago and \$19 million last quarter. The decline from last year was due to lower income in the wood products segment. The decline from last quarter was attributable to significantly lower prices for certain of the company's key paper grades, which more than offset higher income in the wood products segment, improved pulp prices and lower general corporate expense.

Other (income) expense - net improved substantially from a year ago due to foreign currency gains and lower miscellaneous expenses. However, other (income) expense - net declined from last quarter, which included non-recurring pre-tax income of \$10 million.

The income tax benefit attributable to the loss in the first quarter of 1994 was less favorable than last year due to changes in the ratio of foreign and domestic pre-tax income, but was more favorable than last quarter, which included a provision of \$11 million to reflect a one-time adjustment to the company's deferred tax liability.

Paper Segment

The first quarter loss from operations in the company's paper segment was \$40

million, compared to losses of \$52 million a year ago and \$24 million last quarter.

The domestic printing and writing papers business incurred a sizeable loss for the quarter. Results improved from the operating loss a year ago, but exceeded last quarter's operating loss. The improvement from last year was principally due to increased shipments. However, prices for coated and uncoated free sheet grades declined from last year and last quarter. Maintenance outages are scheduled at three of the four domestic printing and writing papers mills in the second quarter.

Operating income at the Brazilian subsidiary, Champion Papel e Celulose Ltda., declined from last year due to lower domestic and export prices resulting from increased industry capacity and weak demand in the export markets. However, operating income improved from last quarter, as lower prices were more than offset by reduced operating costs.

The small operating loss for the publication papers business improved from the loss a year ago due to increased shipments, but represented a significant decline from last quarter's operating income. Prices for all publication grades were lower than last year and last quarter and continued to decline in April. Maintenance outages are scheduled at two of the four publication papers mills in the second quarter.

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The modest operating loss for the company's U.S. and Canadian market pulp operations represented an improvement from the losses of last year and last quarter. Prices for southern and Canadian softwood grades improved from a year ago and last quarter primarily due to increased demand. In addition, a \$50 per ton price increase for most grades of market pulp went into effect April 1. The company's principal pulp operations have scheduled maintenance outages in the second quarter.

The newsprint business incurred a sizeable loss for the quarter. Results declined slightly from last year primarily due to lower prices, but improved slightly from last quarter primarily due to lower manufacturing costs. Maintenance outages are scheduled at the two newsprint mills in the second quarter.

Earnings for the packaging business were about even with last year and up slightly from last quarter. Shipments increased slightly from last year and last quarter. Linerboard prices were down from last year but up slightly from last quarter.

Wood Products Segment

The company's wood products segment, which includes the wood-related operations of the Canadian subsidiary, Weldwood of Canada Limited, reported first quarter income from operations of \$64 million, down from the record earnings of \$94 million a year ago but up from \$57 million last quarter. Lower shipments, higher wood costs and reduced timber stumpage sales were responsible for the decline in earnings from last year. Shipments and timber stumpage sales also declined from

last quarter, but this was more than offset by price increases for lumber and plywood. The lower shipments primarily reflect the fourth quarter 1993 sale of the company's Montana lumber and plywood operations. Lumber and plywood prices declined in April.

Stumpage costs for wood cut on government-owned timberlands in British Columbia were increased effective May 1. While this increase is not expected to have a material impact on the company's wood products operations in the second quarter, it may adversely affect results thereafter.

Financial Condition

- - - - -

General

The company's current ratio was 1.5 to 1 at March 31, 1994 as compared to 1.4 to 1 at year-end 1993. Total debt to total capitalization was 45% at March 31, 1994 as compared to 44% at year-end 1993.

As discussed below, in the first three months of 1994 and 1993, the company's net cash provided by operating activities was not sufficient to meet the cash requirements of its investing activities (principally capital expenditures) and its financing activities (principally debt payments and cash dividends). Each year, borrowings by the company financed the difference and also resulted in an increase in cash and cash equivalents. Net borrowings generated cash proceeds of \$72 million in the first quarter of 1994, as compared to \$128 million in the first quarter of 1993.

Looking ahead, the company anticipates that net cash provided by operating activities supplemented by the proceeds of borrowings, including borrowings under or supported by its bank lines of credit, will be sufficient to meet the capital expenditure, debt payment and dividend requirements of the company. With the completion of the company's extensive capital improvement program in 1993, the company has reduced capital spending to levels required for routine capital replacements, environmental compliance and incremental improvements.

Operating Activities

For the first three months, net cash provided by operating activities of \$25 million declined from \$41 million a year ago. The decrease was primarily due to changes in certain components of working capital.

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Investing Activities

Net cash used in investing activities of \$68 million declined from \$151 million a year ago, principally due to substantially lower capital expenditures partially offset by reduced proceeds from asset sales and from sales of investments in marketable securities.

Financing Activities

Net cash provided by financing activities of \$62 million declined from \$117 million a year ago, principally as the result of a decrease in net borrowings, which reflected the lower capital expenditures discussed above.

At March 31, 1994, the company had \$556 million of U.S. commercial paper and other short-term obligations outstanding, all of which are classified as long-term debt, down from \$559 million at year-end 1993. In addition, at March 31, 1994, the company had \$260 million of notes outstanding under its U.S. bank lines of credit, up from \$224 million at year-end 1993. Domestically, at March 31, 1994, \$556 million of the company's unused bank lines of credit of \$755 million supported the classification of commercial paper and other short-term obligations as long-term debt.

On March 31, 1994, the company issued a \$30 million medium-term note in a private placement. The net proceeds were used to pay a portion of the company's commercial paper and short-term notes at maturity.

The annual principal payment requirements under the terms of all long-term debt agreements for the period from April 1 through December 31, 1994 are \$85 million and for the years 1995 through 1998 are \$308 million, \$937 million, \$245 million and \$326 million, respectively.

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PART II. OTHER INFORMATION

CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES

Item 6. Exhibits and Reports on Form 8-K.

- (a) See exhibit index following the signature page.
- (b) The company filed a Current Report on Form 8-K dated January 18, 1994 reporting certain consolidated results of the company for the three months and twelve months ended December 31, 1993, with the consolidated statement of income for the three months and twelve months ended December 31, 1993 and the consolidated balance sheet as of December 31, 1993 as exhibits thereto.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report

has been signed below by the undersigned on behalf of the registrant as duly authorized officers thereof and in their capacities as the chief accounting officers of the registrant.

Champion International Corporation

(Registrant)

Date: May 12, 1994

John M. Nimons

(Signature)

John M. Nimons
Vice President and Controller

Date: May 12, 1994

Kenwood C. Nichols

(Signature)

Kenwood C. Nichols
Vice Chairman

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EXHIBIT INDEX

Each exhibit is listed according to the number assigned to it in the Exhibit Table of Item 601 of Regulation S-K.

- 11 - Calculation of Primary Earnings Per Common Share and Fully Diluted Earnings per Common Share (unaudited).

CHAMPION INTERNATIONAL CORPORATION AND SUBSIDIARIES

Calculation of Primary Earnings (Loss) Per Common Share and Fully Diluted Earnings (Loss) Per Common Share (unaudited) (in thousands, except per share)

<TABLE>
<CAPTION>

	Three Months Ended	
	March 31,	
	1994	1993
<S>	<C>	<C>
Primary earnings (loss) per common share:		
Net Income (Loss)	\$ (30,986)	\$ (35,587)
Dividends on Preference Shares	6,938	6,938
	-----	-----
Net Income (Loss) Applicable to Common Stock	\$ (37,924)	\$ (42,525)
	=====	=====
Average number of common shares outstanding	92,946	92,692
	=====	=====
Per share	\$ (.41)	\$ (.46)
	=====	=====
Fully diluted earnings (loss) per common share:		
Net Income (Loss) Applicable to Common Stock	\$ (37,924)	\$ (42,525)
Add income effect, assuming conversion of dilutive convertible securities	---	---
	-----	-----
Net income (loss) on a fully diluted basis	\$ (37,924)	\$ (42,525)
	=====	=====
Average number of common shares outstanding	92,946	92,692
Add common share effect, assuming conversion of dilutive convertible securities	---	---
	-----	-----
Average number of common shares outstanding on a fully diluted basis	92,946	92,692

Per share

=====	=====
\$ (.41)	\$ (.46)
=====	=====

</TABLE>

NOTE:

- (1) The computation of fully diluted earnings per common share assumes that the average number of common shares outstanding during the period is increased by the conversion of securities having a dilutive effect, and that net income applicable to common stock is increased by dividends and after-tax interest on such securities.