

MERCER INTERNATIONAL INC.
Form 10-Q
November 01, 2013

UNITED STATES
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 September 30, 2013

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 No.: 000-51826

MERCER INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)
Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8

47-0956945
(I.R.S. Employer
Identification No.)

(Address of office)

(604) 684-1099

(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 NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The Registrant had 55,853,704 shares of common stock outstanding as at October 31, 2013.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(Unaudited)

FORM 10-Q

QUARTERLY REPORT - PAGE 2

MERCER INTERNATIONAL INC.**INTERIM CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands of Euros)**

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	134,168	104,239
Receivables	97,303	110,087
Inventories (Note 2)	122,604	118,300
Prepaid expenses and other	12,395	7,907
Deferred income tax	4,235	4,465
Total current assets	370,705	344,998
Long-term assets		
Property, plant and equipment	777,415	808,878
Deferred note issuance and other	14,138	12,162
Deferred income tax	14,226	17,565
	805,779	838,605
Total assets	1,176,484	1,183,603
LIABILITIES		
Current liabilities		
Accounts payable and other	103,155	89,950
Pension and other post-retirement benefit obligations (Note 4)	767	813
Debt (Note 3)	43,802	45,662
Total current liabilities	147,724	136,425
Long-term liabilities		
Debt (Note 3)	676,447	665,741
Unrealized interest rate derivative losses (Note 10)	36,759	50,678
Pension and other post-retirement benefit obligations (Note 4)	30,737	32,141
Capital leases and other	14,505	13,936
Deferred income tax	7,639	5,757
	766,087	768,253
Total liabilities	913,811	904,678

EQUITY

Shareholders' equity		
Share capital (Note 5)	248,923	248,371
Paid-in capital	(10,425)	(3,547)
Retained earnings	13,244	25,800
Accumulated other comprehensive income	18,630	25,181
Total shareholders' equity	270,372	295,805
Noncontrolling interest (deficit) (Note 9)	(7,699)	(16,880)
Total equity	262,673	278,925
Total liabilities and equity	1,176,484	1,183,603
Commitments and contingencies (Note 12)		

The accompanying notes are an integral part of these interim consolidated financial statements.

FORM 10-Q

QUARTERLY REPORT - PAGE 3

MERCER INTERNATIONAL INC.**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands of Euros, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Pulp	186,100	205,122	559,879	590,597
Energy and chemicals	17,021	18,153	51,660	55,098
	203,121	223,275	611,539	645,695
Costs and expenses				
Operating costs	166,054	191,083	518,032	531,470
Operating depreciation and amortization	14,632	14,972	44,107	43,784
	22,435	17,220	49,400	70,441
Selling, general and administrative expenses	9,437	10,006	27,695	28,688
Restructuring expenses (Note 8)	2,926		2,926	
Operating income (loss)	10,072	7,214	18,779	41,753
Other income (expense)				
Interest expense	(13,018)	(14,084)	(39,305)	(42,080)
Gain (loss) on derivative instruments (Note 10)	1,978	(883)	12,091	1,336
Other income (expense)	172	517	108	(261)
Total other income (expense)	(10,868)	(14,450)	(27,106)	(41,005)
Income (loss) before income taxes	(796)	(7,236)	(8,327)	748
Income tax benefit (provision)				
Current	(1,057)	(870)	2,022	(7,207)
Deferred	115	(1,040)	(4,456)	2,300
Net income (loss)	(1,738)	(9,146)	(10,761)	(4,159)
Less: net income attributable to noncontrolling interest	(482)	(566)	(1,795)	(2,865)
Net income (loss) attributable to common shareholders	(2,220)	(9,712)	(12,556)	(7,024)
Net income (loss) per share attributable to common shareholders (Note 7)				
Basic and diluted	(0.04)	(0.17)	(0.23)	(0.13)

The accompanying notes are an integral part of these interim consolidated financial statements.

FORM 10-Q

QUARTERLY REPORT - PAGE 4

MERCER INTERNATIONAL INC.**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)****(In thousands of Euros)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	(1,738)	(9,146)	(10,761)	(4,159)
Other comprehensive income (loss), net of taxes				
Foreign currency translation adjustments (net of tax effects of (843), (328), (554), 197)	3,778	7,582	(7,453)	8,395
Change in unrecognized losses and prior service costs related to defined benefit plans (net of tax effects of nil in all periods)	268	(327)	920	(663)
Unrealized gains (losses) on marketable securities, arising during the period (net of tax effects of nil in all periods)	(1)	35	(18)	37
Other comprehensive income (loss), net of taxes	4,045	7,290	(6,551)	7,769
Total comprehensive income (loss)	2,307	(1,856)	(17,312)	3,610
Comprehensive income attributable to noncontrolling interest	(482)	(566)	(1,795)	(2,865)
Comprehensive income (loss) attributable to common shareholders	1,825	(2,422)	(19,107)	745

INTERIM CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**(Unaudited)****(In thousands of Euros)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss) attributable to common shareholders	(2,220)	(9,712)	(12,556)	(7,024)
Retained earnings, beginning of period	15,464	40,673	25,800	37,985
Retained earnings, end of period	13,244	30,961	13,244	30,961

The accompanying notes are an integral part of these interim consolidated financial statements.

FORM 10-Q

QUARTERLY REPORT - PAGE 5

MERCER INTERNATIONAL INC.**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands of Euros)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cash flows from (used in) operating activities				
Net income (loss)	(1,738)	(9,146)	(10,761)	(4,159)
Adjustments to reconcile net income (loss) to cash flows from operating activities				
Unrealized loss (gain) on derivative instruments	(2,398)	883	(12,774)	(1,336)
Depreciation and amortization	14,694	15,054	44,298	43,992
Deferred income taxes	(115)	1,040	4,456	(2,300)
Stock compensation expense	621	891	1,194	1,753
Pension and other post-retirement expense, net of funding	124	(73)	457	(128)
Other	461	1,412	2,614	2,278
Changes in working capital				
Receivables	(696)	(14,122)	11,349	901
Inventories	(15,248)	5,834	(7,355)	9,276
Accounts payable and accrued expenses	9,061	9,692	18,088	13,146
Other	77	(2,239)	(6,413)	(901)
Net cash from (used in) operating activities	4,843	9,226	45,153	62,522
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(6,991)	(9,152)	(29,368)	(27,455)
Proceeds on sale of property, plant and equipment	233	48	248	387
Proceeds on maturity of marketable securities		10,213		12,221
Net cash from (used in) investing activities	(6,758)	1,109	(29,120)	(14,847)
Cash flows from (used in) financing activities				
Repayment of debt and purchase of notes	(22,174)	(15,544)	(42,719)	(27,254)
Proceeds from issuance of notes and borrowings of debt	39,607		56,607	
Repayment of capital lease obligations	(396)	(508)	(1,497)	(1,567)
Proceeds from (repayment of) credit facilities, net	(12,226)		728	
Payment of note issuance costs	(1,794)		(1,794)	(1,621)
Proceeds from government grants		778	4,147	3,100