

WAUSAU PAPER CORP.  
Form 10-Q  
May 06, 2011  
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## FORM 10-Q

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

**o**      **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: 1-13923

**WAUSAU PAPER CORP.**

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(Exact name of registrant as specified in charter)

**WISCONSIN**  
(State of incorporation)

**39-0690900**  
(I.R.S. Employer Identification Number)

**100 Paper Place**

**Mosinee, Wisconsin 54455-9099**

(Address of principal executive office)

Registrant's telephone number, including area code: **715-693-4470**

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 report), 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, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

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 number of common shares outstanding at April 30, 2011 was 49,176,197.

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**WAUSAU PAPER CORP.**

**AND SUBSIDIARIES**

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Wausau Paper Corp. and Subsidiaries

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

| (all amounts in thousands, except per share data)      | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2011                            | 2010       |
| <b>Net sales</b>                                       | \$ 248,915                      | \$ 255,862 |
| Cost of sales  | 227,288                         | 228,878    |
| <b>Gross profit</b>                                    | <b>21,627</b>                   | 26,984     |
| Selling and administrative                             | 22,061                          | 19,173     |
| <b>Operating (loss) profit</b>                         | <b>(434)</b>                    | 7,811      |
| Interest expense                                       | (1,739)                         | (1,301)    |
| Other income, net                                      | 33                              | 128        |
| <b>(Loss) earnings before income taxes</b>             | <b>(2,140)</b>                  | 6,638      |
| (Credit) provision for income taxes                    | (749)                           | 3,723      |
| <b>Net (loss) earnings</b>                             | <b>\$ (1,391)</b>               | \$ 2,915   |
| <b>Net (loss) earnings per share basic and diluted</b> | <b>\$ (0.03)</b>                | \$ 0.06    |
| Weighted average shares outstanding basic              | 49,130                          | 48,951     |
| Weighted average shares outstanding diluted            | 49,130                          | 49,228     |

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| (all dollar amounts in thousands)                | March 31,<br>2011<br>(unaudited) | December 31,<br>2010 |
|--|----------------------------------|----------------------|
| <b>Assets</b>                                    |                                  |                      |
| Current assets:                                  |                                  |                      |
| Cash and cash equivalents                        | \$ 1,186                         | \$ 2,003             |
| Receivables, net                                 | 98,632                           | 94,148               |
| Refundable income taxes                          | 6,404                            | 6,720                |
| Inventories                                      | 114,202                          | 106,328              |
| Spare parts                                      | 30,240                           | 29,582               |
| Other current assets                             | 4,903                            | 5,117                |
| Total current assets                             | \$ 255,567                       | \$ 243,898           |
| Property, plant, and equipment net               | 385,790                          | 380,801              |
| Other assets                                     | 51,787                           | 52,910               |
| <b>Total Assets</b>                              | <b>\$ 693,144</b>                | <b>\$ 677,609</b>    |
| <b>Liabilities and Stockholders Equity</b>       |                                  |                      |
| Current liabilities:                             |                                  |                      |
| Accounts payable                                 | \$ 71,830                        | \$ 70,289            |
| Deferred income taxes                            | 5,260                            | 5,228                |
| Accrued and other liabilities                    | 48,516                           | 59,242               |
| Total current liabilities                        | 125,606                          | 134,759              |
| Long-term debt                                   | 150,564                          | 127,382              |
| Deferred income taxes                            | 6,556                            | 3,765                |
| Post-retirement benefits                         | 84,110                           | 80,802               |
| Pension  | 35,132                           | 36,512               |
| Other noncurrent liabilities                     | 34,356                           | 34,723               |
| Total liabilities                                | 436,324                          | 417,943              |
| Stockholders equity                              | 256,820                          | 259,666              |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 693,144</b>                | <b>\$ 677,609</b>    |

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

| <b>(all dollar amounts in thousands)</b>               | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| Net cash used in operating activities                  | \$ (9,011)                              | \$ (7,373)  |
| Cash flows from investing activities:                  |   |             |
| Capital expenditures                                   | (13,987)                                | (6,152)     |
| Grants received for capital expenditures               | 400                                     |             |
| Proceeds from property, plant, and equipment disposals | 26                                      | 118         |
| Net cash used in investing activities                  | (13,561)                                | (6,034)     |
| Cash flows from financing activities:                  |   |             |
| Issuances of commercial paper, net                     | 9,735                                   | 11,055      |
| Borrowings under credit agreements, net                | 13,500                                  | 2,000       |
| Payments under notes payable agreement                 |   | (28)        |
| Dividends paid   | (1,480)                                 | (4)         |
| Proceeds from stock option exercises                   |   | 186         |
| Net cash provided by financing activities              | 21,755                                  | 13,209      |
| Net decrease in cash and cash equivalents              | (817)                                   | (198)       |
| Cash and cash equivalents, beginning of period         | 2,003                                   | 1,297       |
| Cash and cash equivalents, end of period               | \$ 1,186                                | \$ 1,099    |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Note 1. Basis of Presentation**

The condensed consolidated financial statements include the results of Wausau Paper Corp. and our consolidated subsidiaries. All significant intercompany transactions have been eliminated. The accompanying condensed consolidated financial statements, in the opinion of management, reflect all adjustments, which are normal and recurring in nature and which are necessary for a fair statement of the results for the periods presented. Results for the interim period are not necessarily indicative of future results. In all regards, the financial statements have been presented in accordance with accounting principles generally accepted in the United States of America. Refer to notes to consolidated financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2010, for our accounting policies and other disclosures, which are pertinent to these statements.

**Note 2. Earnings Per Share**

The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares:

| (all amounts in thousands, except per share data)  | Three Months<br>Ended March 31, |          |
|--|---------------------------------|----------|
|  | 2011                            | 2010     |
| Net (loss) earnings                                | \$ (1,391)                      | \$ 2,915 |
| Basic weighted average common shares outstanding   | 49,130                          | 48,951   |
| Dilutive securities:                               |                                 |          |
| Stock compensation plans                           |                                 | 277      |
| Diluted weighted average common shares outstanding | 49,130                          | 49,228   |
| Net (loss) earnings per share basic and diluted    | \$ (0.03)                       | \$ 0.06  |

Stock options for which the exercise price exceeds the average market price over the applicable period have an antidilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS. Due to the net loss in the three months ended March 31, 2011, stock based grants for 2,063,748 shares were considered to be antidilutive. For the three months ended March 31, 2010, stock-based grants for 1,649,763 shares were excluded from the diluted EPS calculation because the shares were antidilutive.

Table of Contents**Note 3. Receivables**

Accounts receivable consisted of the following:

| (all dollar amounts in thousands)      | March 31,<br>2011 | December 31,<br>2010 |
|--|-------------------|----------------------|
| Trade                                  | \$ 94,027         | \$ 91,159            |
| Other                                  | 6,412             | 4,736                |
|  | <b>100,439</b>    | <b>95,895</b>        |
| Less: allowances for doubtful accounts | (1,807)           | (1,747)              |
|  | <b>\$ 98,632</b>  | <b>\$ 94,148</b>     |

**Note 4. Inventories**

The various components of inventories were as follows:

| (all dollar amounts in thousands)  | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------|-------------------|----------------------|
| Raw materials                      | \$ 42,158         | \$ 37,982            |
| Work in process and finished goods | 124,161           | 116,456              |
| Supplies                           | 6,084             | 6,093                |
| Inventories at cost                | 172,403           | 160,531              |
| Less: LIFO reserve                 | (58,201)          | (54,203)             |
|                                    | <b>\$ 114,202</b> | <b>\$ 106,328</b>    |

**Note 5. Property, Plant, and Equipment**

The accumulated depreciation on fixed assets was \$745.7 million as of March 31, 2011, and \$736.6 million as of December 31, 2010. The provision for depreciation, amortization, and depletion was \$14.1 million and \$14.0 million for the three months ended March 31, 2011 and 2010, respectively.

During the three months ended March 31, 2011, cost of sales included net losses of \$0.3 million on sales of property, plant, and equipment. Included in cost of sales for the three months ended March 31, 2010, were net gains of less than \$0.1 million on sales of property, plant, and equipment.





Table of Contents**Note 6. Debt**

A summary of total debt is as follows:

| (all dollar amounts in thousands)                      | March 31,<br>2011 | December 31,<br>2010 |
|--|-------------------|----------------------|
| Unsecured private placement notes                      | \$ 85,000         | \$ 85,000            |
| Industrial development bonds                           | 19,000            | 19,000               |
| Revolving-credit agreement with financial institutions | 13,500            |                      |
| Commercial paper placement agreement                   | 32,975            | 23,240               |
| Subtotal   | 150,475           | 127,240              |
| Premium on unsecured private placement notes           | 89                | 142                  |
| Total debt   | 150,564           | 127,382              |
| Less: current maturities of long-term debt             |                   |                      |
| Total long-term debt                                   | \$ 150,564        | \$ 127,382           |

On March 31, 2010, we entered into a note purchase and private-shelf agreement. This agreement provided for the April 9, 2010, issuance of \$50 million of unsecured senior notes having an interest rate of 5.69%, and also established a three-year private shelf facility under which up to \$125 million of additional promissory notes may be issued at terms agreed upon by the parties at the time of issuance. At March 31, 2011, \$50 million was outstanding under the note purchase and private-shelf agreement. On April 4, 2011, we issued an additional aggregate principal amount of \$50 million of our senior notes under the terms of our existing note purchase and private-shelf agreement. The notes bear interest at 4.68% and mature on April 4, 2018.

On June 23, 2010, we entered into a \$125 million revolving-credit agreement with five financial institutions that will expire on June 23, 2014. This revolving-credit agreement retired a \$165 million facility that was scheduled to expire in July 2011. At March 31, 2011, there was \$13.5 million outstanding under the revolving-credit agreement.

We are subject to certain financial and other covenants under the revolving-credit agreement, the note purchase and private-shelf agreement, and the \$35 million unsecured private placement notes expiring in August 2011. At March 31, 2011, we were in compliance with all required covenants and expect to remain in full compliance throughout the remainder of 2011.

At March 31, 2011, the amount of commercial paper outstanding and the \$35 million of unsecured private placement notes maturing in August 2011 have been classified as long-term on our Condensed Consolidated Balance Sheets as we have the ability and intent to refinance the obligations under our existing credit agreements.

Table of Contents**Note 7. Pension and Other Post-retirement Benefit Plans**

The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010, are as follows:

|                                | Pension Benefits |          | Other Post-retirement Benefits |          |
|--------------------------------|------------------|----------|--------------------------------|----------|
|                                | 2011             | 2010     | 2011                           | 2010     |
| Service cost                   | \$ 753           | \$ 1,389 | \$ 377                         | \$ 366   |
| Interest cost                  | 3,166            | 3,061    | 1,093                          | 1,207    |
| Expected return on plan assets | (3,799)          | (3,740)  |                                |          |
| Amortization of:               |                  |          |                                |          |
| Prior service cost (benefit)   | 461              | 447      | (860)                          | (862)    |
| Actuarial loss                 | 959              | 642      | 545                            | 596      |
| Net periodic benefit cost      | \$ 1,540         | \$ 1,799 | \$ 1,155                       | \$ 1,307 |

We previously disclosed in our consolidated financial statements for the year ended December 31, 2010, that although we do not expect to have a minimum funding requirement for all of our defined benefit pension plans in 2011, we may elect to make contributions of up to \$3.9 million directly to pension plans. As of March 31, 2011, we have made payments of approximately \$1.5 million to our pension plans. In addition, as previously reported, we expect to contribute \$4.5 million, net of subsidy reimbursements, directly to other post-retirement plans in 2011. As of March 31, 2011, we have contributed approximately \$0.5 million to our other post-retirement plans.

**Note 8. Share-Based Compensation**

We account for stock-based compensation pursuant to the provisions of FASB ASC Subtopic 718-10.

***Stock Options, Restricted Stock Awards, and Performance Units***

During the three months ended March 31, 2011 and March 31, 2010, share-based compensation expense related to non-qualified stock option grants, restricted stock awards, and performance unit awards was approximately \$1.6 million and \$1.0 million, respectively. We recognize compensation expense on grants of stock options, restricted stock, and performance unit share-based compensation awards on a straight-line basis over the requisite service period of each award. Forfeiture rates are estimated based upon our historical experience for each grant type. As of March 31, 2011, total unrecognized compensation cost related to share-based compensation awards was approximately \$5.2 million, net of estimated forfeitures, which we expect to recognize over a weighted average period of approximately 1.0 years.



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During the three months ended March 31, 2011, we granted 5,000 non-qualified stock options with an exercise price of \$8.10.

During the first quarter of 2011, as part of compensation for our directors and certain employees of Wausau Paper, we granted awards of performance units. Of the awards granted, 33,482 performance units were granted to directors. The grants to certain employees were comprised of three types of awards. The first type of award included 82,532 performance units with vesting based upon the completion of a requisite period of service. The second type of award was comprised of 626,359 performance units with vesting contingent on (1) achieving certain operating profit levels and (2) completion of a service requirement. The third type of award included 346,201 performance units with vesting of the award subject to the achievement of a targeted shareholder return on our common stock over a three-year period.

*Stock Appreciation Rights and Dividend Equivalents*

Share-based compensation provisions or credits related to stock appreciation rights and dividend equivalents are determined based upon a remeasurement to their fair value at each interim reporting period in accordance with the provisions of ASC Subtopic 718-10. During the three months ended March 31, 2011 and 2010, we recognized credits of approximately \$0.1 million and \$0.3 million, respectively, in share-based compensation related to stock appreciation rights and dividend equivalents.

**Note 9. Interim Segment Information**

*Factors Used to Identify Reportable Segments*

We have evaluated our disclosures of our business segments in accordance with ASC Subtopic 280-10, and as a result we have classified our operations into two principal reportable segments: Tissue and Paper, each providing different products. Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies.

*Products from which Revenue is Derived*

The Tissue segment produces a complete line of towel and tissue products that are marketed along with soap and dispensing systems for the away-from-home market. Tissue operates a paper mill in Middletown, Ohio, and a converting facility in Harrodsburg, Kentucky. The Paper segment produces specialty and fine printing and writing papers within four core markets Food, Industrial & Tape, Coated & Liner, and Print & Color. These products are produced at manufacturing facilities located in Brainerd, Minnesota, and in Rhinelander, Mosinee, and Brokaw, Wisconsin.

Table of Contents**Reconciliations**

The following are reconciliations to corresponding totals in the accompanying condensed consolidated financial statements.

| (all dollar amounts in thousands)    | Three Months<br>Ended March 31, |                      |
|--------------------------------------|---------------------------------|----------------------|
|                                      | 2011                            | 2010                 |
| <b>Net sales external customers:</b> |                                 |                      |
| Tissue                               | \$ 76,891                       | \$ 79,867            |
| Paper                                | 172,024                         | 175,995              |
|                                      | \$ 248,915                      | \$ 255,862           |
| <b>Operating profit (loss):</b>      |                                 |                      |
| Tissue                               | \$ 6,311                        | \$ 11,070            |
| Paper                                | (1,358)                         | 2,022                |
| Corporate & eliminations             | (5,387)                         | (5,281)              |
|                                      | \$ (434)                        | \$ 7,811             |
|                                      | March 31,<br>2011               | December 31,<br>2010 |
| <b>Segment assets:</b>               |                                 |                      |
| Tissue                               | \$ 209,700                      | \$ 208,988           |
| Paper                                | 446,078                         | 431,512              |
| Corporate & Unallocated*             | 37,366                          | 37,109               |
|                                      | \$ 693,144                      | \$ 677,609           |

\* Segment assets do not include intersegment accounts receivable, cash, deferred tax assets, and certain other assets, which are not identifiable with segments.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Critical Accounting Policies and Estimates**

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Please refer to the notes to the financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2010, for our accounting policies and other disclosures which are pertinent to these statements.

**Operations Review***Overview*

| <b>Consolidated</b><br><b>(all dollar amounts in thousands, except per share data)</b> | <b>Three Months Ended</b> |                  |             |
|--|---------------------------|------------------|-------------|
|  | <b>2011</b>               | <b>March 31,</b> | <b>2010</b> |
| Net (loss) earnings  | \$                        | <b>(1,391)</b>   | \$ 2,915    |
| Net (loss) earnings per share – basic and diluted                                      | \$                        | <b>(0.03)</b>    | \$ 0.06     |

For the first quarter of 2011, we reported a net loss of \$1.4 million, or \$0.03 per share, compared to prior year net earnings of \$2.9 million, or \$0.06 per share. The net loss in the first quarter of 2011 includes after-tax capital-related expenses of \$2.3 million, or \$0.05 per share, due to a paper machine rebuild within our Paper segment and a planned expansion to the converting facility in our Tissue segment. In addition, the first three months of 2011 include after-tax expenses of \$0.4 million, or \$0.01 per share, related to the transition to a reduced operating schedule at a paper mill in our Paper segment. Net earnings during the first quarter of 2010 were impacted by income tax charges of \$1.2 million, or \$0.02 per share, related to the passage of the Patient Protection and Affordable Care and Health Care and Education Reconciliation Acts of March 2010, which eliminated the income tax deduction for federal subsidies received for providing retiree prescription drug benefits.

Table of Contents*Net Sales and Gross Profit on Sales*

| <b>Consolidated</b><br><b>(all dollar amounts in thousands, except tons sold)</b> | <b>Three Months Ended</b> |                                 |
|---|---------------------------|---------------------------------|
|   | <b>2011</b>               | <b>March 31,</b><br><b>2010</b> |
| Net sales   | \$ 248,915                | \$ 255,862                      |
| Tons sold   | 152,128                   | 168,218                         |
| Gross profit on sales   | \$ 21,627                 | \$ 26,984                       |
| Gross profit margin   | 9%                        | 11%                             |

Consolidated net sales and shipments decreased 3% and 10%, respectively, during the first quarter of 2011 as compared to the first quarter of 2010, due to particularly strong first quarter shipments in 2010, which were positively impacted by certain customer restocking activities as the economy began to recover. In addition, our shipments in the first quarter of 2011 decreased due to our decision to reduce our activities within certain commoditized markets in order to improve our product mix. We also anticipated volume reductions due to downtime associated with the rebuild of a paper machine at our Paper segment, and the transition to a reduced operating schedule at a paper mill in our Paper segment. During the same comparative periods, average net selling price increased 7%, or approximately \$17 million.

Gross profit for the three months ended March 31, 2011, was \$21.6 million compared to \$27.0 million for the three months ended March 31, 2010. Gross profit in the first quarter of 2011 included capital-related charges of \$3.5 million, mostly due to a paper machine rebuild within our Paper segment, and \$0.6 million of costs related to the transition to a reduced operating schedule at a paper mill in our Paper segment. Gross profit was also impacted by an increase in fiber prices of approximately \$6 million in the first quarter of 2011 as compared to the first quarter of 2010. Energy prices remained relatively stable over the same comparative periods.

| <b>Consolidated Order Backlogs</b> | <b>2011</b> | <b>March 31,</b><br><b>2010</b> |
|------------------------------------|-------------|---------------------------------|
| Order backlogs in tons:            |             |                                 |
| Tissue                             | 2,800       | 3,700                           |
| Paper                              | 30,200      | 47,100                          |
|                                    | 33,000      | 50,800                          |

Backlog tons at March 31, 2011, represent \$58.6 million in sales compared to \$82.2 million in sales at March 31, 2010. The large backlog at March 31, 2010 is due to certain customer restocking activities and the beginnings of an economic recovery in the first quarter of 2010, while order backlogs at March 31, 2011 represent a more normal demand pattern. The entire backlog at March 31, 2011, is expected to be shipped during the remainder of 2011.



Table of Contents**Tissue**

| (all dollar amounts in thousands,<br>except tons sold) | Three Months<br>Ended March 31, |           |
|--|---------------------------------|-----------|
|  | 2011                            | 2010      |
| Net sales  | \$ 76,891                       | \$ 79,867 |
| Tons sold  | 40,244                          | 41,768    |
| Gross profit on sales                                  | \$ 12,578                       | \$ 16,446 |
| Gross profit margin                                    | 16%                             | 21%       |
| Operating profit                                       | \$ 6,311                        | \$ 11,070 |

Tissue's net sales and product shipments decreased 4% in the first quarter of 2011 compared to the same period in the prior year, primarily a result of weather-related weakness that adversely affected volume in our larger end-use market categories early in 2011. Average net selling price remained stable over the same comparative period. Gross profit margin for Tissue in the first quarter of 2011 decreased 5 percentage points compared to the first quarter of 2010. During the first quarter of 2011 as compared to the same period in 2010, increases in the price of wastepaper, purchased parent rolls, and energy negatively affected gross profit margin.

We continue to focus our efforts on our value-added and Green Seal -certified product categories to further improve our operating margins. In April 2011, the Company's Board of Directors approved plans to expand the Tissue segment's production capabilities in response to growing demand for its environmentally-friendly products. The expansion includes a new paper machine, located at our Harrodsburg, Kentucky converting facility, which will be capable of producing premium towel and tissue products from 100 percent recycled fiber. The new paper machine is expected to begin production in the first quarter of 2013.

**Paper**

| (all dollar amounts in thousands,<br>except tons sold) | Three Months<br>Ended March 31, |            |
|--|---------------------------------|------------|
|  | 2011                            | 2010       |
| Net sales  | \$ 172,024                      | \$ 175,995 |
| Tons sold  | 111,884                         | 126,450    |
| Gross profit on sales                                  | \$ 9,112                        | \$ 11,677  |
| Gross profit margin                                    | 5%                              | 7%         |
| Operating (loss) profit                                | \$ (1,358)                      | \$ 2,022   |

Paper's first quarter 2011 net sales decreased 2% as compared to the same period in 2010. A decrease of 12% in product shipments was primarily due to a decision in the first quarter of 2011 to reduce our participation in more commoditized markets, downtime associated with a paper machine rebuild at our Brainerd, Minnesota paper mill, and the transition from a 7-day to a 5-day weekly operating schedule at our Brokaw, Wisconsin paper mill. In addition, the first quarter of 2010 was positively impacted by certain customer restocking activities as the economy started to recover. The decrease in product shipments was partially offset by an increase of approximately 10%, or \$15 million, in average net selling prices in the first quarter of 2011 as compared to the first quarter of 2010.



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Gross profit margin for the Paper segment was 5% in the first quarter of 2011 compared to 7% in the first quarter of 2010. Gross profit in the first quarter of 2011 included expenses of \$3.3 million related to the rebuild of a paper machine at our Brainerd, Minnesota paper mill, as well as charges of \$0.6 million related to the transition from a 7-day to a 5-day weekly operating schedule at our Brokaw, Wisconsin paper mill. Gross profit margins for the three months ended March 31, 2011 compared to the three months ended March 31, 2010, were also unfavorably impacted by an increase in fiber prices of approximately \$5 million, while energy prices remained stable.

During the first quarter of 2010, the Board of Directors approved a \$27 million capital project to rebuild a paper machine in Brainerd, Minnesota, to add tape-backing paper production capabilities. The rebuild was completed in the first quarter of 2011, and provides capabilities to produce a wide range of unsaturated tape-backing paper while retaining the flexibility to produce premium printing and writing products. This capital investment is expected to improve the overall cost-efficiency and manufacturing flexibility of the Paper segment's operations.

*Selling and Administrative Expenses*

| (all dollar amounts in thousands)  | Three Months Ended<br>March 31, |           |
|------------------------------------|---------------------------------|-----------|
|                                    | 2011                            | 2010      |
| Selling and administrative expense | \$ 22,061                       | \$ 19,173 |
| Percent increase                   | 15%                             | 1%        |
| As a percent of net sales          | 9%                              | 7%        |

Selling and administrative expenses in the first quarter of 2011 were \$22.1 million compared to \$19.2 million in the same period of 2010. Stock-based incentive compensation programs resulted in expense of \$1.4 million during the first quarter of 2011 compared to expense of \$0.2 million during the first quarter of 2010. The majority of the remaining quarter-over-quarter increase in selling and administrative expense was primarily a result of increased compensation and legal expenses over the same comparative periods.

*Other Income and Expense*

| (all dollar amounts in thousands) | Three Months Ended<br>March 31, |          |
|-----------------------------------|---------------------------------|----------|
|                                   | 2011                            | 2010     |
| Interest expense                  | \$ 1,739                        | \$ 1,301 |
| Other income, net                 | 33                              | 128      |

Interest expense in the first quarter of 2011 was \$1.7 million compared to interest expense of \$1.3 million in the first quarter of 2010. The increase in interest expense is due to an increase in average debt balances outstanding during the respective periods combined with a higher average interest rate on debt. Total debt was \$150.6 million and \$130.9 million at March 31, 2011 and 2010, respectively. Total debt at

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December 31, 2010, was \$127.4 million. Interest expense during the remainder of 2011 is expected to continue to be moderately higher than 2010 levels.

Table of Contents*Income Taxes*

| (all dollar amounts in thousands)   | Three Months Ended<br>March 31, |          |
|-------------------------------------|---------------------------------|----------|
|                                     | 2011                            | 2010     |
| (Credit) provision for income taxes | \$ (749)                        | \$ 3,723 |
| Effective tax rate                  | 35.0%                           | 56.1%    |

During the three months ended March 31, 2010, we recorded an additional provision for deferred income taxes of \$1.2 million related to the passage of the Patient Protection and Affordable Care and Health Care and Education Reconciliation Acts of March 2010. The passage of these Acts eliminated the income tax deduction for retiree health care costs beginning in 2013 equal to the federal subsidies received for providing retiree prescription drug benefits. The passage of these acts increased the effective tax rate for the first quarter of 2010 by approximately 18.1%. The effective tax rate for the remainder of 2011 is expected to continue to be 35%.

**Liquidity and Capital Resources***Cash Flows and Capital Expenditures*

| (all dollar amounts in thousands)     | Three Months Ended<br>March 31, |            |
|---------------------------------------|---------------------------------|------------|
|                                       | 2011                            | 2010       |
| Net cash used in operating activities | \$ (9,011)                      | \$ (7,373) |
| Capital expenditures                  | 13,987                          | 6,152      |

Comparing the first three months of 2011 with the same period in 2010, the increase in cash used in operating activities primarily reflects lower cash earnings that were partially offset by fluctuations in working capital during the comparative periods.

In April 2011, our Board of Directors approved a \$220 million project, \$207 million of which is capital-related, that will expand the Tissue segment's production capabilities in response to growing demand for its environmentally-friendly products. The expansion includes a new paper machine capable of producing premium towel and tissue products from 100 percent recycled fiber. We anticipate capital spending related to this project to be approximately \$61 million in 2011, \$133 million in 2012, and \$13 million in 2013. We expect to fund the project primarily from future cash flow from operations and available credit from our established \$300 million borrowing base. The new paper machine will be located at our converting facility in Harrodsburg, Kentucky, with construction scheduled to begin this summer and startup expected in the first quarter of 2013.

Capital spending for the first three months of 2011 was \$14.0 million compared to \$6.2 million during the first three months of 2010. The increase in capital expenditures in the first quarter of 2011 as compared to the same period in 2010 is primarily due to the \$27 million paper machine rebuild in our Paper segment that was completed during the first quarter of 2011. Total capital spending for the full-year of 2011 is

expected to be approximately \$97 million, including capital spending related to the Tissue expansion project.

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During the first quarter of 2011, we did not sell any timberlands, compared to sales of approximately 80 acres of timberlands, resulting in an after-tax gain of less than \$0.1 million, during the same period of 2010. A total of approximately 7,900 acres remains in the timberland sales program and we expect to sell these timberlands over the next two years. We have not committed to implement additional timberland sales programs in the future.

*Debt and Equity*

| (all dollar amounts in thousands) | March 31,<br>2011 | December 31,<br>2010 |
|-----------------------------------|-------------------|----------------------|
| Total debt                        | \$ 150,564        | \$ 127,382           |
| Stockholders equity               | 256,820           | 259,666              |
| Total capitalization              | 407,384           | 387,048              |
| Total debt/capitalization ratio   | 37%               | 33%                  |

As of March 31, 2011, total debt increased \$23.2 million from the \$127.4 million borrowed at December 31, 2010. The increase in debt in the first quarter of 2011 is due, in part, to seasonal variation in working capital levels. Overall, we generally experience lower sales in the first quarter, in comparison to the rest of the year, primarily due to reduced business activity for many customers following the year-end holiday season.

On March 31, 2010, we entered into a note purchase and private-shelf agreement. This agreement provided for the April 9, 2010, issuance of \$50 million of unsecured senior notes having an interest rate of 5.69%, and also established a three-year private shelf facility under which up to \$125 million of additional promissory notes may be issued at terms agreed upon by the parties at the time of issuance. At March 31, 2011, \$50 million was outstanding under the note purchase and private-shelf agreement. On April 4, 2011, we issued an additional aggregate principal amount of \$50 million of our senior notes under the terms of our existing note purchase and private-shelf agreement. The notes bear interest at 4.68% and mature on April 4, 2018.

On June 23, 2010, we entered into a \$125 million revolving-credit agreement with five financial institutions that will expire on June 23, 2014. This revolving-credit agreement retired a \$165 million facility that was scheduled to expire in July 2011. At March 31, 2011, there was \$13.5 million outstanding under the revolving-credit agreement.

We are subject to certain financial and other covenants under the revolving-credit agreement, the note purchase and private-shelf agreement, and the \$35 million unsecured private placement notes expiring in August 2011. At March 31, 2011, we were in compliance with all required covenants and expect to remain in full compliance throughout the remainder of 2011.

At March 31, 2011, the \$33.0 million of commercial paper outstanding and the \$35 million of unsecured private placement notes maturing in August 2011 have been classified as long-term on our Condensed Consolidated Balance Sheets as we have the ability and intent to refinance the obligations under our existing credit agreements.

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At December 31, 2010, there were approximately 2.0 million shares available for repurchase through an authorization approved by our Board of Directors in 2008. There were no repurchases during the first quarter of 2011 or 2010. Repurchases may be made from time to



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time in the open market or through privately negotiated transactions. We do not intend to repurchase shares in the near future.

*Dividends*

On December 17, 2010, the Board of Directors declared a quarterly cash dividend of \$0.03 per common share. The dividend was paid on February 15, 2011, to shareholders of record on February 1, 2011. On April 21, 2011, the Board of Directors declared a quarterly cash dividend of \$0.03 per common share. The dividend is payable May 16, 2011 to shareholders of record on May 2, 2011.

**Information Concerning Forward-Looking Statements**

The foregoing discussion and analysis of our financial condition and results of operations contains forward-looking statements that involve risks, uncertainties, and assumptions. Forward-looking statements are not guarantees of performance. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Wausau Paper and our consolidated subsidiaries may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements may be identified by, among other things, beliefs or expectations that certain events may occur or are anticipated and projections or statements of expectations with respect to various aspects of our business, our plans or intentions, our stock performance, the industry within which we operate, the markets in which we compete, the economy, and any other expressions of similar import or covering other matters relating to our business and operations. Risks, uncertainties, and assumptions relating to our forward-looking statements include the level of competition for our products, downturns in our target markets, changes in the paper industry, changes in the price or availability of raw materials and energy, the failure to develop new products that meet customer needs, adverse changes in our relationships with large customers and our labor unions, costs of compliance with environmental regulations, our ability to fund our operations, unforeseen operating problems, changes in strategic plans or our ability to execute such plans, maintenance of adequate internal controls, changes in financial accounting standards, unforeseen liabilities arising from current or prospective claims, and the effect of certain organizational anti-takeover provisions. These and other risks, uncertainties, and assumptions are described under the caption *Risk Factors* in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, and from time to time in our other filings with the Securities and Exchange Commission after the date of such annual report. We assume no obligation, and do not intend, to update these forward-looking statements.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no material change in the information provided in response to Item 7A of our Form 10-K for the year ended December 31, 2010.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, management, under the supervision, and with the participation, of our President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e)) under the Securities and Exchange Act of 1934, as amended (the Exchange Act ) pursuant to Exchange Act Rule 13a-15. Based upon, and as of the date of such evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective. There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, this report should be considered in light of the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition, or future results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing Wausau Paper. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

**Item 6. Exhibits**

Exhibits required by Item 601 of Regulation S-K

31.1 Certification of CEO pursuant to Section 302 of Sarbanes-Oxley Act of 2002

31.2 Certification of CFO pursuant to Section 302 of Sarbanes-Oxley Act of 2002

32.1 Certification of CEO and CFO pursuant to Section 906 of Sarbanes-Oxley Act of 2002

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**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.

WAUSAU PAPER CORP.

May 6, 2011

SCOTT P. DOESCHER  
Scott P. Doescher  
Executive Vice President-Finance,  
Secretary and Treasurer

(On behalf of the Registrant and as  
Principal Financial Officer)

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**EXHIBIT INDEX**

**to**

**FORM 10-Q**

**of**

**WAUSAU PAPER CORP.**

**for the quarterly period ended March 31, 2011**

Pursuant to Section 102(d) of Regulation S-T

(17 C.F.R. Section 232.102(d))

The following exhibits are filed as part of this report:

- 31.1 Certification of CEO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32.1 Certification of CEO and CFO pursuant to Section 906 of Sarbanes-Oxley Act of 2002