

WAUSAU PAPER CORP.  
Form 10-Q  
August 09, 2010

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 **June 30, 2010**

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: **1-13923**

**WAUSAU PAPER CORP.**

(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

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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 T 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         | T |
| Non-accelerated filer<br>(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 T

The number of common shares outstanding at July 30, 2010 was 49,023,940.

**WAUSAU PAPER CORP.**

**AND SUBSIDIARIES**

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## PART I. FINANCIAL INFORMATION

## Item 1.

## Financial Statements

Wausau Paper Corp. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

| (all amounts in thousands, except per share data)        | Three Months Ended |            | Six Months Ended  |            |
|--|--------------------|------------|-------------------|------------|
|  | June 30,           |            | June 30,          |            |
|  | 2010               | 2009       | 2010              | 2009       |
| <b>Net sales</b>   | <b>\$ 265,621</b>  | \$ 262,174 | <b>\$ 521,483</b> | \$ 500,945 |
| Cost of sales  | <b>235,109</b>     | 238,553    | <b>463,987</b>    | 457,076    |
| <b>Gross profit</b>                                      | <b>30,512</b>      | 23,621     | <b>57,496</b>     | 43,869     |
| Selling and administrative                               | <b>19,707</b>      | 20,514     | <b>38,880</b>     | 39,545     |
| Restructuring  |                    | 3,101      |                   | 3,890      |
| <b>Operating profit</b>                                  | <b>10,805</b>      | 6          | <b>18,616</b>     | 434        |
| Interest expense   | <b>(1,865)</b>     | (3,069)    | <b>(3,166)</b>    | (5,728)    |
| Other income (expense), net                              | <b>43</b>          | (1)        | <b>171</b>        | 65         |
| <b>Earnings (loss) before income taxes</b>               | <b>8,983</b>       | (3,064)    | <b>15,621</b>     | (5,229)    |
| Provision (credit) for income taxes                      | <b>3,414</b>       | (1,149)    | <b>7,137</b>      | (1,961)    |
| <b>Net earnings (loss)</b>                               | <b>\$ 5,569</b>    | \$ (1,915) | <b>\$ 8,484</b>   | \$ (3,268) |
| <b>Net earnings (loss) per share - basic and diluted</b> | <b>\$ 0.11</b>     | \$ (0.04)  | <b>\$ 0.17</b>    | \$ (0.07)  |
| Weighted average shares outstanding basic                | <b>48,967</b>      | 48,840     | <b>48,959</b>     | 48,825     |

|                                     |         |               |        |               |        |
|-------------------------------------|---------|---------------|--------|---------------|--------|
| Weighted average shares outstanding | diluted | <b>49,257</b> | 48,840 | <b>49,242</b> | 48,825 |
|-------------------------------------|---------|---------------|--------|---------------|--------|

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

**CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | <b>June 30,<br/>2010<br/>(unaudited)</b> | December 31,<br>2009 |
|--|--|----------------------|
| (all dollar amounts in thousands)          |  |                      |
| <b>Assets</b>                              |  |                      |
| Current assets:                            |  |                      |
| Cash and cash equivalents                  | \$ 4,625                                 | \$ 1,297             |
| Receivables, net                           | 97,811                                   | 98,531               |
| Refundable income taxes                    | 1,496                                    | 3,622                |
| Inventories                                | 100,773                                  | 90,004               |
| Spare parts                                | 28,531                                   | 27,932               |
| Other current assets                       | 5,532                                    | 5,574                |
| Total current assets                       | <b>238,768</b>                           | 226,960              |
| Property, plant, and equipment, net        | <b>378,634</b>                           | 379,483              |
| Other assets                               | <b>49,407</b>                            | 48,658               |
| <b>Total Assets</b>                        | <b>\$ 666,809</b>                        | \$ 655,101           |
| <b>Liabilities and Stockholders Equity</b> |  |                      |
| Current liabilities:                       |  |                      |
| Current maturities of long-term debt       | \$                                       | \$ 52                |
| Accounts payable                           | 72,715                                   | 70,957               |
| Deferred income taxes                      | 1,237                                    | 877                  |
| Accrued and other liabilities              | 57,529                                   | 62,952               |
| Total current liabilities                  | <b>131,481</b>                           | 134,838              |

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|   |                   |            |
|---|-------------------|------------|
| Long-term debt                                    | <b>124,801</b>    | 117,944    |
| Deferred income taxes                             | <b>27,380</b>     | 28,663     |
| Post-retirement benefits                          | <b>81,912</b>     | 81,255     |
| Pension   | <b>34,315</b>     | 35,798     |
| Other noncurrent liabilities                      | <b>29,856</b>     | 31,181     |
| Total liabilities                                 | <b>429,745</b>    | 429,679    |
| <br>  |                   |            |
| Stockholders' equity                              | <b>237,064</b>    | 225,422    |
| <br>  |                   |            |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 666,809</b> | \$ 655,101 |

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

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

| (all dollar amounts in thousands)                      | Six Months Ended |                  |
|--|------------------|------------------|
|  | 2010             | June 30,<br>2009 |
| Net cash provided by operating activities              | <b>\$ 7,117</b>  | \$ 52,818        |
| Cash flows from investing activities:                  |                  |                  |
| Capital expenditures                                   | <b>(15,926)</b>  | (31,231)         |
| Proceeds from property, plant, and equipment disposals | <b>4,919</b>     | 900              |
| Net cash used in investing activities                  | <b>(11,007)</b>  | (30,331)         |
| Cash flows from financing activities:                  |                  |                  |
| Net payments of commercial paper                       | <b>(9,979)</b>   | (7,500)          |
| Net payments under credit agreement                    | <b>(33,000)</b>  | (8,110)          |
| Issuances of notes payable                             | <b>50,000</b>    |                  |
| Payments under note payable obligation                 | <b>(28)</b>      | (16)             |
| Dividends paid   | <b>(4)</b>       | (4,151)          |
| Proceeds from stock option exercises                   | <b>229</b>       |                  |
| Net cash provided by (used in) financing activities    | <b>7,218</b>     | (19,777)         |
| Net increase in cash and cash equivalents              | <b>3,328</b>     | 2,710            |
| Cash and cash equivalents, beginning of period         | <b>1,297</b>     | 4,330            |
| Cash and cash equivalents, end of period               | <b>\$ 4,625</b>  | \$ 7,040         |

See Notes to Condensed Consolidated Financial Statements.

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**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, 2009, for our accounting policies and other disclosures, which are pertinent to these statements.

**Note 2.**

**Restructuring**

In March 2009, we announced plans to permanently shut down all operations at our Paper segment's mill in Jay, Maine. The shutdown of the mill was completed in May 2009. The cost of sales in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009, includes \$17.9 million and \$21.2 million, respectively, in pre-tax charges for accelerated depreciation on assets and other associated closure costs. Pre-tax restructuring expense for the three and six months ended June 30, 2009, as reflected in the Condensed Consolidated Statements of Operations, includes \$2.8 million and \$3.3 million, respectively, related to severance and benefit continuation costs and other associated closure costs. No closure charges have been incurred or are expected to be incurred during 2010.

In December 2008, we announced plans to permanently close our Paper segment's converting operations at our Appleton, Wisconsin facility. The closure of the Appleton, Wisconsin facility was completed in December 2009. The cost of sales, as reflected in the Condensed Consolidated Statements of Operations, for the three and six months ended June 30, 2009, includes pre-tax charges of \$0.4 million and \$0.8 million, respectively, in related closure costs.

Restructuring expense in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009, includes \$0.1 million and \$0.3 million, respectively, in pre-tax charges related to severance and benefit continuation costs. No closure charges have been incurred or are expected to be incurred during 2010.

**Note 3.**

**Alternative Fuel Mixture Credits**

During 2009, the Internal Revenue Code provided for a tax credit for the use of qualified alternative fuel mixtures in a taxpayer's trade or business. The credit expired on December 31, 2009. We began mixing black liquor and diesel fuel in February 2009 and filed an application to be registered as an alternative fuel mixer with the Internal Revenue Service ( IRS ) in March 2009. In May 2009, our Paper segment's mill in Mosinee, Wisconsin, was approved by the IRS as a producer and consumer of a qualified alternative fuel mixture which is used as a fuel source to generate energy in the Mosinee mill. For the three and six months ended June 30,

2009, the cost of sales in the Condensed Consolidated Statements of Operations includes a credit for eligible alternative fuel mixture refunds of \$5.7 million, representing eligible alternative fuel mixture credits earned less \$0.4 million of associated expenses. At December 31, 2009, there were \$3.0 million in alternative fuel mixture tax credits included in receivables, net, on the Condensed Consolidated Balance Sheets. All of the refunds were collected during the first quarter of 2010.

#### Note 4.

##### Income Taxes

During the first quarter of 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.

#### Note 5.

##### 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 June 30,<br><b>2010</b> | Six Months<br>Ended June 30,<br><b>2010</b> |
|--|---|---|
| Net earnings                                       | <b>\$ 5,569</b>                               | <b>\$ 8,484</b>                             |
| Basic weighted average common shares outstanding   | <b>48,967</b>                                 | <b>48,959</b>                               |
| Dilutive securities:                               |   |   |
| Stock compensation plans                           | <b>290</b>                                    | <b>283</b>                                  |
| Diluted weighted average common shares outstanding | <b>49,257</b>                                 | <b>49,242</b>                               |
| Net earnings per share:                            |   |   |
| Basic  | <b>\$ 0.11</b>                                | <b>\$ 0.17</b>                              |
| Diluted  | <b>\$ 0.11</b>                                | <b>\$ 0.17</b>                              |

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. For the three and six months ended June 30, 2010, stock-based grants for 2,102,019 shares and 1,875,891 shares, respectively, were excluded from the diluted EPS calculation because the shares were antidilutive. Due to the net losses reported in the three and six months ended June 30, 2009, there were no dilutive securities from our stock-based compensation plans, as stock-based grants for 2,502,859 shares were considered to be antidilutive. Hence, there are no items that require reconciliation in the comparison of basic and diluted earnings per share for the three and six months ended June 30, 2009.

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**Note 6.****Receivables**

Accounts receivable consisted of the following:

| (all dollar amounts in thousands)      | <b>June 30,<br/>2010</b> | December 31,<br>2009 |
|--|--------------------------|----------------------|
| Trade                                  | <b>\$ 94,551</b>         | \$ 91,333            |
| Other                                  | <b>4,787</b>             | 8,709                |
|  | <b>99,338</b>            | 100,042              |
| Less: allowances for doubtful accounts | <b>(1,527)</b>           | (1,511)              |
|  | <b>\$ 97,811</b>         | \$ 98,531            |

**Note 7.****Inventories**

The various components of inventories were as follows:

| (all dollar amounts in thousands)  | <b>June 30,<br/>2010</b> | December 31,<br>2009 |
|------------------------------------|--------------------------|----------------------|
| Raw materials                      | <b>\$ 43,539</b>         | \$ 31,098            |
| Work in process and finished goods | <b>103,327</b>           | 100,251              |
| Supplies                           | <b>6,340</b>             | 6,356                |
| Inventories at cost                | <b>153,206</b>           | 137,705              |
| Less: LIFO reserve                 | <b>(52,433)</b>          | (47,701)             |
|                                    | <b>\$ 100,773</b>        | \$ 90,004            |

**Note 8.****Property, Plant, and Equipment**

The accumulated depreciation on fixed assets was \$723.9 million as of June 30, 2010, and \$705.7 million as of December 31, 2009. The provision for depreciation, amortization, and depletion for the three months ended June 30, 2010 and 2009 was \$14.1 million and \$31.3 million, respectively. The provision for depreciation, amortization, and

depletion for the six months ended June 30, 2010 and 2009 was \$28.1 million and \$47.0 million, respectively.

Included in cost of sales for the three and six months ended June 30, 2010, were net gains on sales of property, plant, and equipment of \$4.6 million, including gains on sales of timberlands of \$3.7 million. Included in cost of sales for the three and six months ended June 30, 2009, were net losses on sales of property, plant, and equipment of \$0.2 million and \$0.1 million, respectively, including gains on sales of timberlands of \$0.6 million during both the three and six months ended June 30, 2009.

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**Note 9.****Debt**

A summary of total debt is as follows:

| (all dollar amounts in thousands)                      | <b>June 30,<br/>2010</b> | December 31,<br>2009 |
|--|--------------------------|----------------------|
| Unsecured private placement notes                      | <b>\$ 85,000</b>         | \$ 35,000            |
| Industrial development bonds                           | <b>19,000</b>            | 19,000               |
| Revolving-credit agreement with financial institutions |                          | 33,000               |
| Commercial paper placement agreement                   | <b>20,535</b>            | 30,514               |
| Note payable   |                          | 127                  |
| Subtotal   | <b>124,535</b>           | 117,641              |
| Premium on unsecured private placement notes           | <b>266</b>               | 355                  |
| Total debt   | <b>124,801</b>           | 117,996              |
| Less: current maturities of long-term debt             |                          | (52)                 |
| <br>Total long-term debt                               | <br><b>\$ 124,801</b>    | <br>\$ 117,944       |

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 establishes 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 June 30, 2010, \$50 million was outstanding under the note purchase and private-shelf agreement.

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 retires a \$165 million facility scheduled to expire in July 2011. Under the new credit agreement, we will pay an annual facility fee (initially 0.425%). In addition to representations and warranties, covenants, and provisions for default customary for facilities of this nature for customers of the banks having similar creditworthiness, we are required to maintain a consolidated leverage ratio of not more than 55%, a consolidated interest coverage ratio of not less than 3.0 to 1, and an adjusted consolidated net worth of \$215 million (increased by 25% of net quarterly income and proceeds from equity sales).

In addition to the financial and other covenants under the revolving-credit agreement, we are subject to similar financial and other covenants under the note purchase and private-shelf agreement, as well as under terms of the \$35 million unsecured private placement notes expiring in August 2011. At June 30, 2010, we were in compliance with

all required covenants and expect to remain in full compliance throughout the remainder of 2010.

At June 30, 2010, the amount of commercial paper outstanding has been classified as long-term on our Condensed Consolidated Balance Sheets as we have the ability and intent to refinance the obligations under our revolving-credit agreement.

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**Note 10.****Pension and Other Post-retirement Benefit Plans**

The components of net periodic benefit cost (credit) recognized in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2010 and 2009, are as follows:

|                                    | Pension Benefits |          | Other Post-retirement Benefits |          |
|------------------------------------|------------------|----------|--------------------------------|----------|
|                                    | 2010             | 2009     | 2010                           | 2009     |
| Service cost                       | \$ 1,389         | \$ 1,355 | \$ 366                         | \$ 356   |
| Interest cost                      | 3,061            | 3,113    | 1,206                          | 1,136    |
| Expected return on plan assets     | (3,740)          | (3,752)  |                                |          |
| Amortization of:                   |                  |          |                                |          |
| Prior service cost (benefit)       | 447              | 494      | (862)                          | (874)    |
| Actuarial loss                     | 641              | 299      | 596                            | 453      |
| Curtailments                       |                  | 520      |                                | (1,500)  |
| Settlements                        |                  | 207      |                                |          |
| Net periodic benefit cost (credit) | \$ 1,798         | \$ 2,236 | \$ 1,306                       | \$ (429) |

The components of net periodic benefit cost recognized in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2010 and 2009, are as follows:

|                                | Pension Benefits |          | Other Post-retirement Benefits |         |
|--------------------------------|------------------|----------|--------------------------------|---------|
|                                | 2010             | 2009     | 2010                           | 2009    |
| Service cost                   | \$ 2,778         | \$ 2,756 | \$ 732                         | \$ 718  |
| Interest cost                  | 6,122            | 6,221    | 2,413                          | 2,281   |
| Expected return on plan assets | (7,480)          | (7,509)  |                                |         |
| Amortization of:               |                  |          |                                |         |
| Prior service cost (benefit)   | 894              | 993      | (1,725)                        | (1,747) |
| Actuarial loss                 | 1,283            | 594      | 1,193                          | 906     |
| Curtailments                   |                  | 520      |                                | (1,500) |
| Settlements                    |                  | 414      |                                |         |

|                           |                 |          |                 |        |
|---------------------------|-----------------|----------|-----------------|--------|
| Net periodic benefit cost | <b>\$ 3,597</b> | \$ 3,989 | <b>\$ 2,613</b> | \$ 658 |
|---------------------------|-----------------|----------|-----------------|--------|

For 2009, the curtailment recognized relates to the closure of our Specialty Products paper mill in Jay, Maine. We previously disclosed in our consolidated financial statements for the year ended December 31, 2009, that although we do not have a minimum funding requirement for defined benefit pension plans in 2010, we may elect to make contributions of up to \$14.0 million directly to pension plans. As of June 30, 2010, we have made payments of approximately \$2.8 million to our pension plans. In addition, as previously reported, we expected to contribute \$4.7 million directly to other post-retirement plans in 2010. As of June 30, 2010, we have

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contributed approximately \$3.0 million to our other post-retirement plans. We now expect to contribute approximately \$6.0 million to our other post-retirement plans in 2010.

**Note 11.**

**Share-Based Compensation**

We have adopted the provisions of FASB ASC Subtopic 718-10, which requires that certain share-based compensation awards be remeasured at their fair value at each interim reporting period until final settlement.

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

During the three and six months ended June 30, 2010, share-based compensation expense related to fixed option grants, restricted stock awards, and performance unit awards was approximately \$0.9 million and \$1.9 million, respectively. During the three and six months ended June 30, 2009, share-based compensation expense related to fixed option grants, restricted stock awards, and performance unit awards was approximately \$0.6 million and \$1.9 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 June 30, 2010, total unrecognized compensation cost related to share-based compensation awards was approximately \$2.4 million, net of estimated forfeitures, which we expect to recognize over a weighted average period of approximately 0.8 years.

During the six months ended June 30, 2010, we granted 398,000 fixed stock options with an average exercise price of \$11.55 per share. Also, as a component of the director compensation policy, we awarded 15,437 performance units during the six months ended June 30, 2010.

On an annual basis, we generally grant performance unit awards as part of a performance-based compensation award to certain employees of Wausau Paper. The vesting of these performance-based awards is subject to (1) achieving certain operating profit levels and (2) completion of a service requirement. During the first six months of 2010, we granted 181,830 performance unit awards as part of a performance-based compensation award for the year ended December 31, 2010.

In addition, during the first half of 2010, we granted 59,572 performance unit awards as part of a retention-based compensation award to certain employees of Wausau Paper. The vesting of these performance unit awards is subject to the completion of a service requirement.

***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 and six months ended June 30, 2010, we recognized a credit of approximately \$0.1 million and \$0.4 million, respectively, in

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share-based compensation related to stock appreciation rights and dividend equivalents. During the three and six months ended June 30, 2009, we recognized a charge of approximately \$0.2 million and a credit of approximately \$0.7 million, respectively, in share-based compensation related to stock appreciation rights and dividend equivalents.

**Note 12.**

**Interim Segment Information**

*Factors Used to Identify Reportable Segments*

In September 2009, we announced plans to consolidate our Specialty Products and Printing & Writing businesses into a single strategic operating unit. The consolidation was effective on January 1, 2010, and did not impact the organization of the Tissue business segment. 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: Paper and Tissue, 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 Paper segment produces specialty and fine printing and writing papers within four core sectors – 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. 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.

**Reconciliations**

The following are reconciliations to corresponding totals in the accompanying condensed consolidated financial statements. The reconciliations for 2009 have been restated to display the information in accordance with the segment structure that became effective January 1, 2010.

| (all dollar amounts in thousands) | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |              |
|-----------------------------------|--------------------------------|------------|------------------------------|--------------|
|                                   | 2010                           | 2009       | 2010                         | 2009         |
| Net sales external customers:     |                                |            |                              |              |
| Paper                             | \$ 179,036                     | \$ 178,048 | \$ 355,031                   | \$ 343,042   |
| Tissue                            | 86,585                         | 84,126     | 166,452                      | 157,903      |
|                                   | \$ 265,621                     | \$ 262,174 | \$ 521,483                   | \$ 500,945   |
| Operating profit (loss):          |                                |            |                              |              |
| Paper                             | \$ 1,422                       | \$ (9,806) | \$ 3,444                     | \$ (13,040)  |
| Tissue                            | 10,542                         | 13,771     | 21,612                       | 21,051       |
| Corporate & eliminations          | (1,159)                        | (3,959)    | (6,440)                      | (7,577)      |
|                                   | \$ 10,805                      | \$ 6       | \$ 18,616                    | \$ 434       |
|                                   |                                |            | <b>June 30,</b>              | December 31, |
|                                   |                                |            | <b>2010</b>                  | 2009         |
| Segment assets:                   |                                |            |                              |              |
| Paper                             |                                |            | \$ 418,672                   | \$ 410,901   |
| Tissue                            |                                |            | 212,465                      | 215,607      |
| Corporate & unallocated*          |                                |            | 35,672                       | 28,593       |
|                                   |                                |            | \$ 666,809                   | \$ 655,101   |

\*

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





**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, 2009, for our accounting policies and other disclosures which are pertinent to these statements.

**Operations Review***Overview*

| <b>Consolidated</b><br>(all dollar amounts in thousands, except<br>per share data) | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | <b>2010</b>                    | 2009       | <b>2010</b>                  | 2009       |
| Net sales  | <b>\$ 265,621</b>              | \$ 262,174 | <b>\$ 521,483</b>            | \$ 500,945 |
| Tons sold  | <b>167,688</b>                 | 176,864    | <b>335,906</b>               | 331,555    |
| Net earnings (loss)  | <b>\$ 5,569</b>                | \$ (1,915) | <b>\$ 8,484</b>              | \$ (3,268) |
| Net earnings (loss) per share – basic and diluted                                  | <b>\$ 0.11</b>                 | \$ (0.04)  | <b>\$ 0.17</b>               | \$ (0.07)  |

In the second quarter of 2010, we reported net earnings of \$5.6 million, or \$0.11 per share, compared to a prior year net loss of \$1.9 million, or \$0.04 per share. The net loss for the second quarter of 2009 includes after-tax facility closure charges of \$13.4 million, or \$0.27 per share, primarily related to the closures of the Jay, Maine paper mill and the Appleton, Wisconsin converting facility. In addition, the second quarter of 2009 includes an after-tax credit of \$3.6 million, or \$0.07 per share, related to a tax credit for the use of alternative fuel mixtures at the Mosinee, Wisconsin facility. The second quarter of 2010 includes after-tax gains on sales of timberlands of \$2.3 million, or \$0.05 per share. The second quarter of 2009 included after-tax gains on sales of timberlands of \$0.4 million, or \$0.01 per share. In the second quarter of 2010 compared to the same period in 2009, net sales increased slightly, while

product shipments decreased, mostly due to facility closures completed in 2009 and a modest demand decline in some market categories. For additional information on the facility closures and the tax credit, please refer to Note 2 Restructuring and Note 3 Alternative Fuel Mixture Credits, respectively, in the Notes to Condensed Consolidated Financial Statements.

For the six months ended June 30, 2010, we reported net earnings of \$8.5 million, or \$0.17 per share, compared to a net loss of \$3.3 million, or \$0.07 per share, in the first six months of 2009. Net earnings during the first six months 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. For additional

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information on income taxes, please refer to Note 4 Income Taxes in the Notes to Condensed Consolidated Financial Statements. The net loss for the first six months of 2009 includes after-tax facility closure charges of \$16.2 million, or \$0.33 per share, related primarily to the closures of the Jay, Maine paper mill and the Appleton, Wisconsin converting facility, and after-tax charges of \$2.0 million, or \$0.04 per share, related to the rebuild of a towel machine at the Middletown, Ohio mill and the start-up of a distribution center in Bedford Park, Illinois. In addition, the first six months of 2009 include an after-tax credit of \$3.6 million, or \$0.07 per share, related to a tax credit for the use of alternative fuel mixtures at the Mosinee, Wisconsin facility. The first half of 2010 includes after-tax gains on sales of timberlands of \$2.3 million, or \$0.05 per share. The first half of 2009 included after-tax gains on sales of timberlands of \$0.4 million, or \$0.01 per share. For additional information on the facility closures and the tax credit, please refer to Note 2 Restructuring and Note 3 Alternative Fuel Mixture Credits, respectively, in the Notes to Condensed Consolidated Financial Statements.

In September 2009, we announced plans to consolidate our Specialty Products and Printing & Writing businesses into a single strategic operating unit. The consolidation was effective on January 1, 2010, and did not impact the organization of the Tissue segment. The January 1, 2010 consolidation of our Printing & Writing and Specialty Product business units was the final step in a multi-year restructuring initiative which included the closure of certain manufacturing facilities, consolidation of converting and distribution activities, and the sale of non-core manufacturing businesses. 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: Paper and Tissue. The segment information for 2009 has been restated to display the information in accordance with the segment structure that became effective January 1, 2010.

#### *Net Sales and Gross Profit on Sales*

| <b>Consolidated</b><br>(all dollar amounts in thousands) | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | <b>2010</b>                    | 2009       | <b>2010</b>                  | 2009       |
| Net sales  | <b>\$ 265,621</b>              | \$ 262,174 | <b>\$ 521,483</b>            | \$ 500,945 |
| Tons sold  | <b>167,688</b>                 | 176,864    | <b>335,906</b>               | 331,555    |
| Gross profit on sales                                    | <b>\$ 30,512</b>               | \$ 23,621  | <b>\$ 57,496</b>             | \$ 43,869  |
| Gross profit margin                                      | <b>11%</b>                     | 9%         | <b>11%</b>                   | 9%         |

Consolidated net sales increased by 1% during the three months ended June 30, 2010, as compared to the same period in 2009. Shipments decreased 5% quarter-over-quarter, due to facility closures completed in 2009 and modest demand decline in some market categories. During the same comparative periods, average net selling price increased approximately 8%, or \$20 million, with actual selling price increases and improvements in product mix contributing nearly equally to the increase.

Comparing the six months ended June 30, 2010 and 2009, consolidated net sales increased by 4% year-over-year, while shipments increased by 1% over the same comparative period. The increase in net sales was primarily due to a 4%, or \$19 million, increase in average net selling price for the six months ended June 30, 2010, compared to the same period in 2009. Actual

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selling price increases and improvements in product mix contributed nearly equally to the increase in average net selling price.

Gross profit for the three months ended June 30, 2010, was \$30.5 million compared to \$23.6 million for the three months ended June 30, 2009. Gross profit margins in the second quarter of 2009 were negatively impacted by pre-tax facility closure charges of approximately \$18.3 million primarily related to the shutdown of the Jay, Maine mill and the closure of the Appleton, Wisconsin converting facility. There were no facility closure charges incurred during the second quarter of 2010. For additional information on the facility closures, refer to Note 2 Restructuring in the Notes to Consolidated Financial Statements. Also, during the second quarter of 2009, gross profit was positively impacted by \$5.7 million related to the alternative fuel mixture tax credit earned at the Mosinee, Wisconsin paper mill. For additional information on the tax credit, refer to Note 3 Alternative Fuel Mixture Credits in the Notes to Consolidated Financial Statements. Our timberland sales program favorably impacted gross profit in the three months ended June 30, 2010 and 2009, by \$3.7 million and \$0.6 million, respectively. Comparing the three months ended June 30, 2010 with the same period in 2009, sales price and mix improvements, combined with energy price declines of \$2 million, were unable to offset fiber cost increases of \$22 million and increases in maintenance and other manufacturing costs.

Year-to-date, gross profit increased to \$57.5 million in 2010, from \$43.9 million reported in 2009. Fiber related costs increased by approximately \$34 million in the first half of 2010 compared to the first half of 2009, while energy prices decreased by approximately \$4 million over the same comparative period. In addition, gross profit margins in the first six months of 2009 were negatively impacted by combined charges of approximately \$22.0 million related to the closures of the Jay, Maine paper mill and the Appleton, Wisconsin converting facility. For additional information on the facility closures, refer to Note 2 Restructuring in the Notes to Condensed Consolidated Financial Statements.

During the first half of 2009, gross profit was positively impacted by a \$5.7 million alternative fuel mixture tax credit earned at the Mosinee, Wisconsin paper mill. For additional information on the tax credit, refer to Note 3 Alternative Fuel Mixture Credits in the Notes to Consolidated Financial Statements. Our timberland sales program favorably impacted gross profit in the six months ended June 30, 2010 and 2009, by \$3.7 million and \$0.6 million, respectively.

| <b>Consolidated Order Backlogs</b> |               | June 30,    |      |
|------------------------------------|---------------|-------------|------|
|                                    |               | <b>2010</b> | 2009 |
| Order backlogs in tons:            |               |             |      |
| Paper                              | <b>48,600</b> | 29,400      |      |
| Tissue                             | <b>2,800</b>  | 3,600       |      |
|                                    | <b>51,400</b> | 33,000      |      |

Backlog tons at June 30, 2010 represent \$48.8 million in sales compared to \$46.1 million in sales at June 30, 2009. The entire backlog at June 30, 2010 is expected to be shipped during the remainder of 2010.

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**Paper**

| (all dollar amounts in thousands) | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |             |
|-----------------------------------|--------------------------------|------------|------------------------------|-------------|
|                                   | 2010                           | 2009       | 2010                         | 2009        |
| Net sales                         | \$ 179,036                     | \$ 178,048 | \$ 355,031                   | \$ 343,042  |
| Operating profit (loss)           | \$ 1,422                       | \$ (9,806) | \$ 3,444                     | \$ (13,040) |
| Tons sold                         | 123,124                        | 132,180    | 249,574                      | 247,876     |
| Gross profit on sales             | \$ 11,431                      | \$ 4,264   | \$ 23,108                    | \$ 12,350   |
| Gross profit margin               | 6%                             | 2%         | 7%                           | 4%          |

The Paper segment's net sales for the second quarter of 2010 increased 1% compared to the same period in 2009, while shipments declined 7% over the same comparative period. The decline in shipments quarter-over-quarter was due to the closure of the paper mill in Jay, Maine and modest demand decline in some product categories. Average net selling price increased 10%, or \$15 million, and more than offset a 7% decrease in product shipped in the quarter ended June 30, 2010, as compared to the same period in 2009. The increase in average net selling price was due to actual selling price improvements and product mix enhancements which contributed nearly equally to the overall increase. In addition, the Paper segment's financial performance in the second quarter of 2010 as compared to the same period in 2009 was impacted by a substantial increase in fiber costs. Operating loss in the second quarter of 2009 included pre-tax charges of approximately \$21.2 million related to the closures of the Jay, Maine paper mill and the Appleton, Wisconsin converting facility.

For the first half of 2010, the Paper segment's net sales increased 3% from net sales in the first half of 2009. The increase in net sales was mainly a result of an increase of 4%, or \$14 million, in average net selling price which combined with a 1% increase in product shipped for the six months ended June 30, 2010, as compared to the same period in 2009. The improvement in average net selling price was due to actual selling price improvements and product mix enhancements which contributed nearly equally to the overall increase. In addition, the Paper segment's financial performance in the first half of 2010 as compared to the same period in 2009 was impacted by substantially higher fiber costs. Operating loss in the first half of 2009 included pre-tax charges of \$25.6 million related to the closures of the Jay, Maine paper mill and the Appleton, Wisconsin converting facility.

Paper recorded a gross profit margin of 6% in the second quarter of 2010 compared to a gross profit margin of 2% in the second quarter of 2009. During the second quarter of 2009, gross profit was positively impacted by \$5.7 million, or approximately 3 percentage points, related to the alternative fuel mixture tax credit earned at the Mosinee, Wisconsin paper mill. In addition, gross profit during the second quarter of 2009 was unfavorably impacted by charges of \$18.3 million to cost of sales due to the closures of the Jay, Maine paper mill and the Appleton, Wisconsin



converting facility. These charges, which impacted gross profit margins by approximately 10 percentage points, primarily consisted of depreciation on related assets and an adjustment of mill inventory to net realizable value.

Comparing the second quarter of 2010 to the same period in 2009, an increase in fiber costs of approximately \$19 million was partially

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offset by sales price and mix improvements of approximately \$15 million and a \$2 million decline in energy costs.

Paper's gross profit margin increased to 7% during the first six months of 2010, from a gross profit margin of 4% during the first six months of 2009. Gross profit during the first six months of 2009 was unfavorably impacted by charges of \$22.0 million to cost of sales due to the closures of the Jay, Maine paper mill and the Appleton, Wisconsin converting facility. These charges, which impacted gross profit margins by approximately 6 percentage points, primarily consisted of depreciation on related assets and an adjustment of mill inventory to net realizable value.

During the six months ended June 30, 2009, gross profit was positively impacted by \$5.7 million, or approximately 2 percentage points, related to the alternative fuel mixture tax credit earned at the Mosinee, Wisconsin paper mill. In the year-over-year six month comparison, improvements in average net selling price and a \$5 million decline in energy costs partially offset a \$28 million increase in fiber costs, as well as increases in scheduled maintenance and other manufacturing costs.

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 is scheduled for completion in the first quarter of 2011, and will provide 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.

## Tissue

| (all dollar amounts in thousands) | Three Months<br>Ended June 30, |           | Six Months<br>Ended June 30, |            |
|-----------------------------------|--------------------------------|-----------|------------------------------|------------|
|                                   | 2010                           | 2009      | 2010                         | 2009       |
| Net sales                         | <b>\$ 86,585</b>               | \$ 84,126 | <b>\$ 166,452</b>            | \$ 157,903 |
| Operating profit                  | <b>\$ 10,542</b>               | \$ 13,771 | <b>\$ 21,612</b>             | \$ 21,051  |
| Tons sold                         | <b>44,564</b>                  | 44,684    | <b>86,332</b>                | 83,679     |
| Gross profit on sales             | <b>\$ 16,110</b>               | \$ 18,853 | <b>\$ 32,556</b>             | \$ 31,310  |
| Gross profit margin               | <b>19%</b>                     | 22%       | <b>20%</b>                   | 20%        |

Tissue net sales increased by 3% for the three-month period ended June 30, 2010, as compared to the same period in 2009. Total shipments during the second quarter of 2010 remained flat as compared to the same period last year.

Average net selling price increased approximately 4%, or more than \$3 million, in the second quarter of 2010 over the second quarter of 2009, with actual selling price increases causing approximately two-thirds of the improvement, and the remaining increase due to product mix enhancements. We continue to focus our efforts on our value-added

product lines, such as our Green Seal™ –certified products, to improve our competitive strength and drive increased operating margins.

Net sales and shipments for the first six months of 2010, as compared to the same period in 2009, increased 5% and 3%, respectively. Average net selling price increased approximately 3%, or

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more than \$4 million, in the first half of 2010 compared to the first half of 2009. Actual selling price increases and product mix improvements contributed nearly equally to the increase.

Gross profit margins for Tissue were 19% in the second quarter of 2010 compared to 22% in the second quarter of 2009. In the quarter-over-quarter comparison, a 4%, or \$3 million, increase in average net selling price was more than offset by combined unfavorable fiber and energy cost increases of \$3 million and increased costs due to a scheduled maintenance outage at the Middletown, Ohio mill.

The gross profit margin for Tissue remained flat at 20% in the first half of 2010 and the same period in 2009. Year-over-year, an increase in average net selling price and an increase in shipments offset combined unfavorable increases in fiber and energy prices of \$6 million.

#### *Selling and Administrative Expenses*

| (all dollar amounts in thousands)  | Three Months                  |           | Six Months                    |           |
|------------------------------------|-------------------------------|-----------|-------------------------------|-----------|
|                                    | Ended June 30,<br><b>2010</b> | 2009      | Ended June 30,<br><b>2010</b> | 2009      |
| Selling and administrative expense | <b>\$ 19,707</b>              | \$ 20,514 | <b>\$ 38,880</b>              | \$ 39,545 |
| Percent decrease                   | <b>(4%)</b>                   | (6%)      | <b>(2%)</b>                   | (7%)      |
| As a percent of net sales          | <b>7%</b>                     | 8%        | <b>7%</b>                     | 8%        |

Selling and administrative expenses in the second quarter of 2010 were \$19.7 million compared to \$20.5 million in the same period of 2009. Stock-based incentive compensation programs resulted in expense of \$0.4 million for the three months ended June 30, 2010, compared to expense of \$1.1 million for the three months ended June 30, 2009. After adjusting for stock-based incentive compensation programs, selling and administrative expenses remained relatively stable in the second quarter of 2010 compared to the same period in 2009.

Selling and administrative expenses for the six months ended June 30, 2010 were \$38.9 million compared to \$39.5 million in the same period of 2009. Stock-based incentive compensation programs resulted in expense of \$0.6 million for the first six months of 2010, compared to an expense of \$0.4 million for the first six months of 2009. After adjusting for stock-based incentive compensation programs, the majority of the decrease in selling and administrative expense for the first six months of 2010 as compared to the same period in 2009 was primarily due to a decline in compensation expense.

*Other Income and Expense*

| (all dollar amounts in thousands) | Three Months   |          | Six Months     |          |
|-----------------------------------|----------------|----------|----------------|----------|
|                                   | Ended June 30, |          | Ended June 30, |          |
|                                   | 2010           | 2009     | 2010           | 2009     |
| Interest expense                  | \$ 1,865       | \$ 3,069 | \$ 3,166       | \$ 5,728 |
| Other income (expense), net       | 43             | (1)      | 171            | 65       |

Interest expense in the second quarter of 2010 was \$1.9 million, compared to interest expense of \$3.1 million in the second quarter of 2009. For the first six months of 2010, interest expense

decreased to \$3.2 million from \$5.7 million of interest expense recorded during the same period in 2009. The decrease in both the quarter-over-quarter and year-over-year comparisons is due to a significant reduction in average debt balances outstanding during the respective periods combined with a lower average interest rate on outstanding debt. Total debt was \$124.8 million and \$176.0 million at June 30, 2010 and 2009, respectively. Total debt at December 31, 2009 was \$118.0 million. Interest expense during the remainder of 2010 is expected to continue to be lower than 2009 levels.

### *Income Taxes*

| (all dollar amounts in thousands)   | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|-------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                     | 2010                           | 2009       | 2010                         | 2009       |
| Provision (credit) for income taxes | \$ 3,414                       | \$ (1,149) | \$ 7,137                     | \$ (1,961) |
| Effective tax rate                  | 38.0%                          | 37.5%      | 45.7%                        | 37.5%      |

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 full year of 2010 is expected to be 40.5%.

### **Liquidity and Capital Resources**

#### *Cash Flows and Capital Expenditures*

| (all dollar amounts in thousands)         | Six Months Ended June 30, |           |
|---|---------------------------|-----------|
|   | 2010                      | 2009      |
| Net cash provided by operating activities | \$ 7,117                  | \$ 52,818 |
| Capital expenditures                      | 15,926                    | 31,231    |

Net cash provided by operating activities was \$7.1 million for the six months ended June 30, 2010, compared to \$52.8 million during the same period in 2009. The decline in year-over-year comparisons of cash provided by operating activities was mainly related to the levels of inventory, amounts of depreciation, depletion, and amortization, which is

included in income but does not affect cash, and net earnings during the respective time periods.

For the first half of 2010, inventories increased approximately \$11 million compared to a decline in inventory of approximately \$26 million during the first half of 2009. In addition, depreciation, depletion, and amortization decreased to \$28 million in the six months ended June 30, 2010, compared to \$47 million in the same period of 2009. These unfavorable impacts were partially offset by an increase in net earnings to \$8 million in the first half of 2010 compared to a loss of \$3 million in the first half of 2009.

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Capital spending for the first six months of 2010 was \$15.9 million compared to \$31.2 million during the first six months of 2009. The decrease in capital expenditures in the first half of 2010 as compared to the same period in 2009 is due to the \$32 million towel machine rebuild in our Tissue segment and \$15 million fiber handling project at the Brokaw, Wisconsin mill. The towel machine rebuild and the fiber handling project were either completed or in process during the first half of 2009. The previously announced \$27 million capital project to rebuild a paper machine at the Brainerd, Minnesota mill is scheduled for completion in the first quarter of 2011. Approximately \$12 million related to the rebuild will be spent in 2010, with the remaining amount anticipated to be spent in 2011. Total capital spending for the full year of 2010 is expected to be approximately \$41 million.

During 2005, we announced our intent to sell approximately 42,000 acres of timberlands, at values expected to result in an after-tax gain of \$29 million. Since introducing the timberland sales program, we have sold approximately 32,000 acres and have realized after-tax earnings of approximately \$26.1 million. During the second quarter of 2010, we sold approximately 2,200 acres of timberlands, resulting in an after-tax gain of \$2.3 million, compared to sales of approximately 700 acres of timberlands, resulting in an after-tax gain of \$0.4 million, during the same period of 2009. Year-to-date, we have sold approximately 2,200 acres of timberlands, resulting in an after-tax gain of \$2.3 million, compared to sales of approximately 800 acres of timberlands, resulting in an after-tax gain of \$0.4 million, during the first six months of 2009. A total of approximately 10,000 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)    | <b>June 30,<br/>2010</b> | December 31,<br>2009 |
|--------------------------------------|--------------------------|----------------------|
| Current maturities of long-term debt | \$                       | \$ 52                |
| Long-term debt                       | <b>124,801</b>           | 117,944              |
| Total debt                           | <b>124,801</b>           | 117,996              |
| Stockholders' equity                 | <b>237,064</b>           | 225,422              |
| Total capitalization                 | <b>361,865</b>           | 343,418              |
| Long-term debt/capitalization ratio  | <b>34%</b>               | 34%                  |

As of June 30, 2010, total debt increased to \$124.8 million from the \$118.0 million borrowed at December 31, 2009. The increase in debt in the first six months of 2010 is primarily due to increases in inventory levels during the first half of 2010 to support customer demand and production levels during the last six months of 2010.

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 establishes 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 June 30, 2010, \$50 million was outstanding under the note purchase and private-shelf agreement.

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 retires a \$165 million facility scheduled to expire in July 2011. Under the new credit agreement, we will pay an annual facility fee (initially 0.425%). In addition to representations and warranties, covenants, and provisions for default customary for facilities of this nature for customers of the banks having similar creditworthiness, we are required to maintain a consolidated leverage ratio of not more than 55%, a consolidated interest coverage ratio of not less than 3.0 to 1, and an adjusted consolidated net worth of \$215 million (increased by 25% of net quarterly income and proceeds from equity sales).

In addition to the financial and other covenants under the revolving-credit agreement, we are subject to similar financial and other covenants under the note purchase and private-shelf agreement, as well as under terms of the \$35 million unsecured private placement notes expiring in August 2011. At June 30, 2010, we were in compliance with all required covenants and expect to remain in full compliance throughout the remainder of 2010.

At June 30, 2010, the amount of commercial paper outstanding has been classified as long-term on our Condensed Consolidated Balance Sheets as we have the ability and intent to refinance the obligations under our revolving-credit agreement.

At December 31, 2009, 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 six months of 2010. Repurchases may be made from time to time in the open market or through privately negotiated transactions.

### **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, changes in the paper industry, downturns in our target markets, 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, 2009, 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.

### **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, 2009.

### **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, 2009, 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



**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.

August 9, 2010

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 June 30, 2010**

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