WAUSAU PAPER CORP.
Form 10-K
March 02, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

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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)

100 Paper Place

Wisconsin

Mosinee, Wisconsin 54455

(State of incorporation)

(Address of principal executive office)

39-0690900

(I.R.S. Employer Identification Number)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common stock, no par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No S

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes £ No S

Indicate by check 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 S

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 S

No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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 S

Non-accelerated filer £

Smaller reporting company £

(Do not check if a 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 S

As of June 30, 2010, the aggregate market value of the common stock shares held by non-affiliates was approximately $309,605,616. For purposes of this calculation, the registrant has assumed its directors and executive officers are affiliates. As of February 15, 2011, 49,143,871 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for use in connection with 2011 annual meeting of shareholders

(to the extent noted herein): Part III

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Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements. A cautionary statement regarding forward-looking statements is set forth under the caption Information Concerning Forward-Looking Statements in Item 7. This report should be considered in light of such cautionary statement and the risk factors disclosed in Item 1A.

PART I

Item 1. BUSINESS

General

Wausau Paper Corp. (Wausau Paper) manufactures, converts, and sells paper and paper products. At December 31, 2009, and during the year then ended, our operations were classified into three principal operating segments: Specialty Products, Printing & Writing, and Towel & Tissue, with all three business segments marketing their products under the Wausau Paper® trademark. On September 16, 2009, we announced a plan to consolidate our Specialty Products and Printing & Writing businesses into a single strategic operating segment. The consolidation was effective on January 1, 2010, and did not impact the organization of the Tissue operating segment. The 2010 consolidation of our Specialty Products and Printing & Writing businesses into the Paper segment aligns our manufacturing capacity with four core sectors Food, Industrial & Tape, Coated & Liner, and Print & Color. Our headquarters is located in Mosinee, Wisconsin. At December 31, 2010, we employed approximately 2,400 at six operating facilities located in four states.

Financial Information About Segments

Information relating to our sales, a measure of operating profit or loss, and total assets by segment is set forth in Note 13 of the Notes to Consolidated Financial Statements.

Narrative Description of Business

We compete in different markets within the paper industry. Both of our business segments serve distinct market niches. The various markets for our products are highly competitive, with competition based on service, quality, and price.

At December 31, 2010, our six operating facilities were organized into two business segments as described below.

Tissue

Tissue produces a broad line of paper towel and tissue products, which are marketed along with soap and dispensing system products for the industrial and commercial away-from-home" market.

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Under the Wausau Paper® trademark, Bay West® towel and tissue products, made primarily from recycled material, are marketed under a number of brands including DublSoft®, EcoSoft™, OptiCore®, Revolution®, Dubl-Nature®, and Dubl-Tough®. These products include washroom roll and folded towels, tissue products, a variety of towel, tissue, and soap dispensers, windshield folded towels, industrial wipers, dairy towels, household roll towels, and other premium towel and tissue products. Products are sold to paper and sanitary supply distributors in North America that serve factories and other commercial and industrial locations, health service facilities, office buildings, restaurants, theme parks, airports, and hotels. Tissue operates a paper mill located in Middletown, Ohio, and it operates a converting facility and its main distribution warehouse in Harrodsburg, Kentucky. In addition, Tissue currently maintains distribution warehouses in Danville, Kentucky, and Los Angeles, California.

Competition comes from major integrated paper companies and smaller converters who service consumer and food service markets as well as the industrial and institutional markets concentrated on by Tissue. Our major competitors include Georgia-Pacific LLC, Kimberly Clark Corporation, and SCA Hygiene Products.

Paper

The Paper segment is a producer of specialty papers focused in four core market sectors - Food, Industrial & Tape, Coated & Liner, and Print & Color. The products of the Paper segment are manufactured at facilities located in Brainerd, Minnesota, and in Rhinelander, Mosinee and Brokaw, Wisconsin.

The Food sector includes products for food processing, food packaging, and foodservice including products used for baking applications, microwave popcorn, and other cheese and meat processing products.

The Industrial & Tape sector includes products for interleaving, saturating, coating, unsaturated crepe base, and a range of micro markets. The company s Board of Directors approved a $27 million capital project to rebuild an existing paper machine in Brainerd, Minnesota to provide additional crepe capacity and to make available capacity to support other industrial sector growth.

Products in the Coated & Liner sector include high-performance specialty liners (a base from which peel-and-stick pressure sensitive labels are dispensed), and siliconized release papers for use in pressure sensitive tapes, specialty label applications, the production of fiber composite applications, and casting sheets used in the production of solar cells.

The Print & Color sector provides a breadth of products including premium uncoated printing, writing, text, cover, and board grades in a wide range of weights, colors, sizes, and finishes. Distribution centers are located in Dallas, Texas; Allentown, Pennsylvania; Bedford Park, Illinois; and Los Angeles, California. Products are sold to both traditional paper distributors who sell to commercial printers, in-plant print shops, quick printers, and copy centers; as well as through retail channels such as office supply stores, and mass merchandisers. The sector also produces a range of custom color products which include matte board, end leaf, and niche luxury packaging applications.

Under the Wausau Paper® trademark, products are marketed under a variety of brands including EcoSelect™, ExperTec®, DuraTec®, InvenTec®, ProGard®, ProRedi®, ProPly®, ProTec®, Astrobrights®, Royal, Exact®, Professional Series™, Intrigue™, and Creative Collection™.

Competition for the Paper segment comes from a wide range of paper producing companies, of which our principal competitors include Ahlstrom Corporation, Packaging Dynamics Corporation, Nordic Paper, Nippon Paper Group, Inc., UPM, Boise Cascade, LLC, International Paper Company, Domtar, Inc., Mohawk Fine Papers, Inc., Finch Paper, Gascogne Paper, and Neenah Paper, Inc.

Export Sales

Currently, foreign sales represent approximately 9% of our consolidated net sales, with sales to Canada representing 6% of consolidated net sales. Refer to Note 13 of the Notes to Consolidated Financial Statements for our geographic data.

Raw Materials

Fiber is the basic raw material used to manufacture our finished product and includes the following categories: market pulp (from wood and recycled paper or paper products), internally produced pulp, wastepaper, and purchased towel and tissue parent rolls. Fiber represents approximately 50% of our total cost of sales in 2010. Market pulp (an aggregate of approximately 390,000 air-dried metric tons in 2010) was purchased on the open market, principally from producers in the United States and Canada. From time to time we may purchase pulp futures contracts as a hedge against significant future increases in the price of market pulp.

Approximately 87,000 standard tons of pulp was produced at our pulp mill in Mosinee, Wisconsin. In 2010, 11% of the pulpwood consumed in our pulping operation was produced from our own timberlands with the remainder purchased in the form of pulpwood and chips. Pulpwood was purchased from approximately 200 independent loggers at market prices while chips were purchased from independent sawmills.

During 2010 we purchased 140,000 standard tons of wastepaper from domestic suppliers at prevailing market prices. This wastepaper represents substantially all of the fiber required to manufacture 57% of our Tissue segment s 2010 parent roll requirement. The balance of our parent roll requirements, or approximately 76,000 tons, was purchased from other towel and tissue manufacturers at market prices.

Various chemicals are used in the pulping and papermaking processes. These industrial chemicals are available from a number of suppliers and are purchased at current market prices.

Energy

Our paper mills consume significant amounts of electrical and steam energy, which are adequately supplied by public utilities or generated at facilities operated by us. We generate approximately 33% of our electrical power needs from spent pulping liquor, fuel oil, coal, wood chips, fiber cake, natural gas, and hydropower. Spent pulping liquor, wood chips, and fiber cake are byproducts of mill operations.

We contract for the supply and delivery of natural gas at some of our facilities. Under these contracts, we are committed to the transportation of a fixed volume of natural gas from our natural gas suppliers to our facilities. We are not required to buy or sell minimum gas volumes under the agreements, but we are required to pay a minimum transportation fee for the contracted period. Contracts expire at various times between 2011 and 2013. At December 31, 2010, we also have volume commitments for the supply of fuel oil, natural gas, paper, and certain raw materials. These obligations expire between 2011 and 2015. We may also purchase, from time to time, natural gas contracts with fixed prices for a certain portion of our facility requirements.

Patents and Trademarks

Wausau Paper develops and maintains trademarks and patents in the conduct of our business. Trademarks include Wausau Paper®, EcoSelect™, ProPly®, ExperTec®, DuraTec®, InvenTec®, ProGard®, ProRedi®, ProTec®, Astrobrights®, Exact®, Bay West®, EcoSoft™, EcoSelect™, DublSoft®, OptiCore®, OptiServ®, Revolution®, Dubl-Nature®, Dubl-Tough®, Wave 'N Dry®, and the Royal family of marks (e.g., Royal Fiber®), among others. Our patents cover various paper towel and tissue dispensers, metering or other mechanisms for towel and tissue dispensers and cabinets, and certain silicone release papers. We consider our trademarks and patents, in the aggregate, to be material to our business, although we believe the loss of any one such mark or patent right would not have a material adverse effect on our business. We do not own or hold material licenses, franchises, or concessions.

Seasonal Nature of Business

The markets for some of the grades of paper we produce tend to be somewhat seasonal. However, the marketing seasons for these grades are not necessarily the same. Overall, we experience moderately lower sales in the first quarter, in comparison to the rest of the year, primarily due to reduced business activity for many customers during this period.

Working Capital

As is customary in the paper industry, we carry adequate amounts of raw materials and finished goods inventory to facilitate the manufacture and rapid delivery of paper products to our customers.

Major Customers

No single customer accounted for 10% or more of our consolidated net sales during 2010. On a segment basis, one customer accounted for approximately 13% of Tissue net sales. No single customer accounted for 10% or more of Paper net sales.

Backlog

Consolidated order backlogs at December 31, 2010, decreased to approximately 31,000 tons, representing $48.4 million in sales, compared to 42,300 tons, or $63.5 million in sales, at December 31, 2009. Consolidated order backlogs at December 31, 2008, were approximately 25,000 tons, or $37.6 million in sales. A backlog of unmade customer orders is monitored to optimize paper machine production. The change in customer backlog at December 31, 2010, compared to December 31, 2009, does not necessarily indicate a change in business conditions, as a large portion of orders is shipped directly from inventory upon receipt and does not impact backlog numbers. The entire backlog at December 31, 2010, is expected to be shipped during fiscal 2011. Information on backlogs by business segment is included in Item 7 of this report.

Research and Development

Research and development projects for the last three fiscal years primarily involved development of a variety of new release liners for peel-and-stick paper applications, food-packaging/food-service papers, tape base, papers for industrial applications, new color and writing grades, and new towel, tissue, and soap dispensers. Expenditures for product development were $3.1 million, $2.4 million, and $2.5 million in 2010, 2009, and 2008, respectively.

Environment

We are subject to extensive regulation by various federal, state, and local agencies concerning compliance with environmental control statutes and regulations. These regulations impose limitations, including effluent and emission limitations, on the discharge of materials into the environment, as well as require us to obtain and operate in compliance with conditions of permits and other governmental authorizations. Future regulations could materially increase our capital requirements and certain operating expenses in future years.

We have a strong commitment to protecting the environment. Like our competitors in the paper industry, we face increasing capital investments and operating expenses to comply with expanding and more stringent environmental regulations. We estimate that our capital expenditures for environmental compliance purposes will approximate $1.1 million in 2011.

We believe that capital expenditures related to compliance with environmental regulations will not have a material adverse effect on our competitive position, consolidated financial condition, liquidity, or results of operations.

We are not involved in any proceedings under the Comprehensive Environmental Response, Compensation and Liability Act. In 1986, the Wisconsin Department of Natural Resources (DNR) named a subsidiary of Wausau Paper as a potentially responsible party (PRP) for the Gorski landfill in Mosinee, Wisconsin. In 2010, we were notified by the DNR that the only long-term activities remaining related to the former Gorski Landfill are long-term groundwater monitoring and routine cap inspection and repairs. The remediation and water replacement costs associated with the remaining long-term activities are not material. We are of the opinion that our share of these costs will not have a material adverse effect on our operations, financial condition, or liquidity.

Note 10 of the Notes to Consolidated Financial Statements discusses our policies with respect to the accrual of remediation costs. Estimates of costs for future remediation are necessarily imprecise due to, among other things, the identification of presently unknown remediation sites and the allocation of costs among PRPs. As is the case with most manufacturing and many other entities, there can be no assurance that we will not be named as a PRP at additional sites in the future or that the costs associated with such additional sites would not be material.

Employees

We employed approximately 2,400 at the end of 2010. Most hourly mill employees are covered under collective bargaining agreements. We negotiated a 5-year umbrella agreement with the United Steelworkers that was ratified on February 4, 2011. The agreement covers all five collectively bargained mills and includes competitive increases in wages and retirement income benefits.

Executive Officers of the Company

The following information relates to executive officers of Wausau Paper as of March 1, 2011. Unless otherwise specified, current positions listed for an executive officer have been held for a minimum of five years.

Thomas J. Howatt, 61

President and Chief Executive Officer. Previously, Senior Vice President, Printing & Writing (1997-2000), Vice President and General Manager, Printing & Writing Division (1994-1997), Vice President and General Manager, Wausau Papers of New Hampshire (1993-1994), Vice President Operations, Brokaw Division (1990-1993), and prior thereto, Vice President, Administration, Brokaw Division.

Henry C. Newell, 53

Executive Vice President, Chief Operating Officer, since March 2011. Previously, Senior Vice President, Paper (2010-2011), Senior Vice President Specialty Products (2008-2009), and Vice President Business Development (2007-2008). Also, Vice President and Chief Financial Officer, Atlas Industries (2006-2007), Vice President and Chief Financial Officer, Forest Resources LLC (2005-2006), and Vice President and Chief Financial Officer, Packaging Dynamics Corporation (2002-2005).

Michael R. Wildenberg, 68

Senior Vice President, Tissue since January 2009. Previously, Vice President, Sales and Marketing, Tissue Division (1984-2008).

Scott P. Doescher, 51

Executive Vice President, Finance, Secretary and Treasurer. Previously, Vice President, Finance, Printing & Writing Group (1998-2001), Director of Finance, Printing & Writing Division (1992-1998) and Corporate Director Financial Analysis and Internal Audit and Assistant Secretary/Treasurer (1988-1992).

Available Information

Information regarding our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, are available, free of charge, on our website by going to Investors SEC Filings at wausaupaper.com. These reports are available as soon as reasonably practicable after we electronically file such reports with or furnish them to the Securities and Exchange Commission (SEC).

Item 1A. RISK FACTORS

An investment in Wausau Paper stock involves risk. You should carefully consider the following risk factors and the other information contained in this Annual Report on Form 10-K and in other reports that we file from time to time with the SEC. Our business, financial condition and results of operations could be harmed if any of the following risks occur. In that case, the trading price of our common stock may decline. In addition to the following risk factors, you should carefully review the cautionary statement made under Information Concerning Forward-Looking Statements in Item 7.

The segments of the paper industry in which we operate are highly competitive and increased competition could reduce our sales and profitability.

We compete in different markets within the paper industry on the basis of the quality of our products, customer service, product development activities, price, and distribution. All of our markets are highly competitive. Our competitors vary in size, and many have greater financial and marketing resources than we do. In some of our markets, the industry s capacity to make products exceeds current demand levels. Competitive conditions in some of our segments have caused us to incur lower net selling prices and reduced gross margins and net earnings. These conditions may continue indefinitely. See Item 1 of this report for information regarding the number and identities of our competitors in our operating segments. See Item 7 concerning recent competitive conditions in the markets we serve.

As a producer of specialty papers, we target markets in which our relative size, equipment and product development capabilities, and customer service emphasis provide us a competitive advantage. We work to limit our exposure to commodity products where larger competitors with more efficient equipment generally have production cost advantages. Recent improvements in some commodity products have narrowed the quality differential between these products and our specialty products. Changes of this nature could further commoditize and reduce the size of our target markets.

Our business and financial performance may be adversely affected by downturns in the target markets that we serve or reduced demand for the types of products we sell.

Demand for our products is often affected by general economic conditions as well as product-use trends in our target markets. These changes may result in decreased demand for our products. For example, our Paper segment s Industrial & Tape sector s business usually declines during periods of economic slowdowns as industrial and housing activity is curtailed. Also, demand for uncoated free-sheet papers, the broad market category in which our Paper segment s Print & Color sector competes, has generally declined over the last eleven years due to such factors as economic conditions, office employment trends, and the increased use of electronic communications. There may be periods during which demand for our products is insufficient to enable us to operate our production facilities in an economical manner. The occurrence of these conditions is beyond our ability to control and, when they occur, they may have a significant impact on our sales and results of operations.

Changes within the paper industry may adversely affect our financial performance.

Changes in the identity, ownership structure, and strategic goals of our competitors and the emergence of new competitors in our target markets may harm our financial performance. New competitors may include foreign-based companies and commodity-based domestic producers who could enter our specialty markets if they are unable to compete in their traditional markets. The paper industry has also experienced consolidation of producers and distribution channels. Further consolidation could unite other producers with distribution channels through which we currently sell, limiting access to our target markets.

The cost of raw materials and energy used to manufacture our products could increase.

Raw materials and packaging comprise approximately 60% of our cost of sales, with market pulp, purchased parent rolls, and wastepaper accounting for over three-quarters of this total. Raw material prices will change based on worldwide supply and demand. Pulp price changes can occur due to worldwide consumption levels of pulp, pulp production capacity, expansions or curtailments, inventory building or depletion, and pulp producer cost changes related to wood availability, environmental issues, or other variables.

We purchase the majority of our energy needs. Energy costs may fluctuate significantly due to increased worldwide consumption levels, disruptions in supply due to natural catastrophes or political turmoil, or decreased production capacity.

We may not be able to pass increased cost for raw materials or energy on to our customers if the market or existing agreements with our customers do not allow us to raise the prices of our finished products. Even if we are able to pass through increased cost of raw materials or energy, the resulting increase in the selling prices for our products could reduce the volume of products we sell and decrease our revenues. While we may try, from time to time, to hedge against price increases, we may not be successful in doing so.

In 2011, we expect to purchase approximately 40%, or 80,000 tons, of our towel and tissue parent roll requirements from other producers in the paper industry. A disruption in supply of these parent rolls could have an adverse affect on our ability to meet demand for our products and a significant increase in the cost of these parent rolls could unfavorably impact profitability.

The failure to develop new products could reduce the overall demand for our products and our net income.

We have a goal of generating at least 25% of our annual revenue from products introduced within the previous three years. Our sales volume and net earnings may decrease if we do not satisfy new customer product preferences or fail to meet new technology demands of our customers.

If we fail to maintain satisfactory relationships with our larger customers, our business may be harmed.

We do not have long-term, fixed quantity supply agreements with our customers. Due to competition or other factors we may lose business from our customers, either partially or completely. The loss of one or more of our significant customers, or a substantial reduction of orders by any of our significant customers, could harm our business and results of operations. Moreover, our customers may vary their order levels significantly from period to period, and customers may not continue to place orders with us in the future at the same levels as in prior periods. In the event we lose any of our larger customers, we may not be able to replace that revenue source, which could harm our financial results.

We may be unable to maintain our relationships with organized labor unions.

The majority of our hourly production workforce is represented by labor unions. While we believe we enjoy satisfactory relationships with all of the labor organizations that represent our employees, we cannot guarantee that labor-related disputes will not arise. Labor disputes could result in disruptions in production and could also cause increases in production costs, which could damage our relationships with our customers and adversely affect our business and financial results.

The costs of complying with environmental regulations may increase substantially and adversely affect our consolidated financial condition, liquidity, or results of operations.

We are subject to various environmental laws and regulations that govern discharges into the environment and the handling and disposal of hazardous substances and wastes. Environmental laws impose liability and clean-up responsibility for releases of hazardous substances into the environment. We will continue to incur substantial capital and operating expenses in order to comply with current law. Any changes in these laws or their interpretation by government agencies or the courts may significantly increase our capital expenditures and operating expenses and decrease the amount of funds available for investment in other areas of operation. In addition, we may be required to eliminate or mitigate any adverse effects on the environment caused by the release of hazardous materials, whether or not we had knowledge of, or were responsible for, such release. We may also incur liability for personal injury and property damages as a result of discharges into the environment. The costs of remediation of known environmental sites, such as described in Note 10 of the Notes to Consolidated Financial Statements, may exceed current estimates and there may be additional sites not now known to us that may require significant remediation expenses in the future. If costs or liabilities related to environmental compliance increase significantly, our consolidated financial condition, liquidity, or results of operations may be adversely affected.

We may be unable to generate sufficient cash flow or secure sufficient credit to simultaneously fund our operations, finance capital expenditures, and satisfy other obligations.

Our business is capital intensive and requires significant expenditures for equipment maintenance and new or enhanced equipment for environmental compliance matters, and to

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support our business strategies. We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, execution of our previously announced timberland sales program, our existing credit facility or other bank lines of credit, and other long-term debt. If we are unable to generate sufficient cash flow from these sources or if we are unable to secure needed credit due to our performance or tighter credit markets, we could be unable to meet our near- and longer-term cash needs.

If we have a catastrophic loss or unforeseen or recurring operational problems at any of our facilities, we could suffer significant lost production and/or cost increases.

Our papermaking and converting facilities and distribution warehouses may suffer catastrophic loss due to fire, flood, terrorism, mechanical failure, or other natural or man-made events. If any of these facilities were to experience a catastrophic loss, it could disrupt our operations, delay production, delay or reduce shipments, reduce revenue, and result in significant expenses to repair or replace the facility. These expenses and losses may not be adequately covered by property or business interruption insurance. Even if covered by insurance, our inability to deliver our products to customers, even on a short-term basis, may cause us to lose market share on a more permanent basis.

Our acquisitions, major capital investments, facility closings, or other structural changes may result in financial results that are different than expected.

Prior to 2010, we closed or disposed of certain businesses and assets in response to changes in market conditions or strategic plans. In the normal course of business, we engage in discussions with third parties relating to the possible acquisition of additional facilities and may consider, from time to time, the acquisition of another business. We also continually review and may implement structural changes or invest in major capital projects designed to improve our operations or to reflect anticipated changes in long-term market conditions. As a result of recent or similar future transactions, our financial results may differ from the investment community s expectations in a given quarter, or over the long term. We may have difficulty integrating the acquisition of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. We may also have difficulty integrating a new manufacturing facility into current operations. These difficulties can arise for a variety of reasons, including, the size and complexity of the acquisition, the retention of key employees, the retention of key customers, and the ability to integrate manufacturing systems and transfer our corporate culture to new employees and facilities.

If we incur a material weakness in our internal control over financial reporting, it could have a material adverse effect on our business, operating results, and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 and related rules and regulations promulgated by the SEC (collectively, Section 404) require us to assess and report on our internal control over financial reporting as of the end of each fiscal year. In our most recent report under Section 404, which is included in Item 8 of this report, we have concluded that our internal control over financial reporting is effective. Our auditors have concurred with that assessment.

If we should develop a material weakness in our control over financial reporting, it could have a material adverse effect on the company. A material weakness is a control deficiency, or a combination of control deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions. If a material weakness occurs, it could adversely affect our financial reporting process and our financial statements. If we fail to maintain an effective internal control environment it could have a material adverse effect on our business, operating results, and our stock price.

Future changes in financial accounting standards may adversely affect our reported results of operations.

A change in financial accounting standards can have a significant effect on our reported results. New accounting pronouncements may adversely affect our reported financial results in the future or require us to restate results we have already reported. New financial accounting standards or interpretations may require us to recognize additional expenses in the future or change the manner in which amounts currently recognized are determined. Such additional expense recognition may result in lower reported net earnings or increased balance sheet liabilities, either of which may reduce the market price of our common stock or affect our compliance with various covenants relating to our indebtedness.

We may incur significant, unexpected liabilities from current or future claims, including matters now threatened or in litigation.

We deal with claims that are threatened or made by third parties in the normal course of our business. Some claims result in formal administrative or legal proceedings in which the amounts claimed are significant. We assess each claim and make a judgment whether the claim will have a material adverse effect on our consolidated financial condition, liquidity, or results of operations. Claims that we believe could have material adverse effect if not resolved in our favor, or other claims that we believe to be significant, are discussed in Item 3 of this report and in Note 10 of the Notes to Consolidated Financial Statements for the most recent fiscal year, which are included in Item 8 of this report. Our reports do not disclose or discuss all claims of which we are aware. Our assessment of the materiality of any claim is based upon the amount involved, the underlying facts, and our assessment of the likelihood of a material adverse outcome. If our assessment of a claim as immaterial is not correct, we may not have made adequate provision for such loss and our consolidated financial condition, liquidity, or results of operations could be harmed.

We may become involved in claims concerning intellectual property rights, and we could suffer significant litigation or related expenses in defending our own intellectual property rights or defending claims that we infringed the rights of others.

None of our product trademarks or patents is, in itself, considered to be material to our business. However, taken together, we consider our intellectual property to be a material asset. We may lose market share and suffer a decline in our revenue and net earnings if we cannot successfully defend one or more trademarks or patents.

We do not believe that any of our products infringe the valid intellectual property rights of third parties. However, we may be unaware of intellectual property rights of others that may cover some of our products or services. In that event, we may be subject to significant claims for damages.

Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert our management and key personnel from our business operations. Claims of intellectual property infringement might also require us to enter into license agreements, which would reduce our operating margins, or in some cases, we may not be able to obtain license agreements on terms acceptable to us.

Some anti-takeover provisions in our articles of incorporation and bylaws, as well as provisions of Wisconsin law, could impair a takeover attempt.

Our articles of incorporation and bylaws, and our shareholders rights plan, could have the effect of rendering more difficult or discouraging an acquisition of Wausau Paper that is deemed undesirable by our Board of Directors. These include provisions that:

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require that, in many potential takeover situations, rights issued under our shareholder rights plan become exercisable to purchase our common stock and potentially other securities at a price substantially discounted from the then applicable market price;

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permit our Board of Directors to issue one or more series of preferred stock with rights and preferences designated by our board, including stock with voting, liquidation, dividend, and other rights superior to our common stock;

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impose advance notice requirements for shareholder proposals and nominations of directors to be considered at shareholder meetings;

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divide our Board of Directors into three classes of directors serving staggered terms;

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allow the Board of Directors to fill any vacancies on our board;

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under our articles of incorporation, prohibit us from entering into a business combination transaction with any person who acquires 10% of our voting stock at any time (an interested 10% shareholder) unless certain fair price requirements are met or, in the alternative, either (a) two-thirds of the shares entitled to vote that are not held by the interested shareholder are voted for the transaction, or (b) the Board of Directors has approved the transaction;

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under Wisconsin law, require that two-thirds of our voting stock must vote to approve any merger with another corporation, a share exchange, or the sale of substantially all of our assets;

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under Wisconsin law, prohibit us from entering into a business combination transaction with an interested 10% shareholder for a period of three years from the date such person makes such an acquisition unless our Board of Directors had approved the business combination or the acquisition of shares before the date of the acquisition;

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under Wisconsin law, prohibit us from entering into a business combination transaction with an interested 10% shareholder at any time after a period of three years from the date of becoming an interested 10% shareholder unless our Board of Directors had approved the acquisition of shares before the date of the acquisition, the business combination meets certain fair price requirements, or the business combination is approved by a majority of the shares entitled to vote which are not beneficially owned by the interested 10% shareholder;

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under Wisconsin law, reduce the voting power of any shares held by a shareholder who holds in excess of 20% of the shares outstanding to 10% of the full voting power of the excess shares; and

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require a vote by the holders of four-fifths of our outstanding shares to amend the provisions of our articles or bylaws described above.

These provisions and similar provisions that could apply to us in the future may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price, or otherwise adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors other than the candidates nominated by our Board of Directors.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable

Item 2. PROPERTIES

Our headquarters is located in Mosinee, Wisconsin. Executive officers and corporate staff who perform corporate accounting, financial, and human resource services are located in the corporate headquarters, as are certain business segment personnel. Our operating facilities consist of the following:

Facility	Product	Number of Paper Machines	Practical Capacity* (tons)	2010 Actual (tons)
Paper				
Rhinelander, WI	Paper	4	152,000	140,700
Mosinee, WI	Paper	4	119,000	109,200
	Pulp		96,000	87,200
Brokaw, WI	Paper	4	178,000	166,400
Brainerd, MN	Paper	2	176,000	89,700
Tissue				
Middletown, OH	Tissue	2	120,000	110,200
	Deink Pulp		110,000	101,300
Harrodsburg, KY	Converted Tissue	N/A	190,000	170,400

* Practical capacity is the amount of finished product a mill can produce with existing papermaking equipment, grade mix and workforce and usually approximates maximum, or theoretical, capacity. Practical capacity at the Brainerd facility includes one paper machine that would require substantial capital resources and time to start up.

We currently maintain warehouse distribution facilities in order to provide prompt delivery of our products. The facilities are:

Segment	Location	Square Feet	Owned or Leased (Expiration Date)
Paper	Allentown, PA	60,000	Leased (January 2012)
	Dallas, TX	35,000*	Leased (December 2011)
	Los Angeles, CA	36,000*	Leased (December 2011)
	Bedford Park, IL	382,000	Leased (January 2014)
Tissue	Los Angeles, CA	36,000*	Leased (December 2011)
	Harrodsburg, KY	460,000	Owned
	Danville, KY	506,000	Leased (January 2013)

*

guaranteed space

Paper and Tissue also lease limited space in various warehouses to facilitate deliveries to customers.

We own approximately 85,000 acres of timberland in the state of Wisconsin. The growing stock inventory on our timberlands is an estimated 6.7 million board feet of saw timber and an estimated 500,000 cords of pulpwood. During 2010, we sold approximately 6,700 acres of our timberlands, resulting in an after-tax gain of $4.9 million. Of the 85,000 acres of timberlands owned, approximately 7,900 acres of non-strategic timberlands are listed for sale. We expect that it will take several years to complete the sale of the timberlands offered. We have not committed to timberland sales beyond those lands identified.

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Item 3. LEGAL PROCEEDINGS

Wausau Paper has been named as a potentially responsible party with respect to a Mosinee, Wisconsin, landfill. See Environment in Item 1 and Note 10 in Notes to Consolidated Financial Statements included in Item 8 of this report.

We strive to maintain compliance with applicable environmental discharge regulations at all times. However, from time to time, our operating facilities may exceed permitted levels of materials into the environment or inadvertently discharge other materials. Such discharges may be caused by equipment malfunction, prevailing environmental conditions, or other factors. It is our policy to report any violation of environmental regulations to the appropriate environmental authority as soon as we become aware of such an occurrence and to work with such authorities to take appropriate remediatory or corrective actions.

We may be involved from time to time in various other legal and administrative proceedings or subject to various claims in the normal course of business. Although the ultimate disposition of legal proceedings cannot be predicted with certainty, in the opinion of management, the ultimate disposition of any threatened or pending matters, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial condition, liquidity, or results of operations. See Item 1A, page 12, concerning the possible effect of unexpected liabilities from current or future claims.

Item 4. RESERVED

PART II

Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and Dividend Information

Wausau Paper common stock is listed on the New York Stock Exchange under the symbol WPP.

As of the record date of the annual meeting, February 15, 2011, (the Record Date) there were approximately 2,200 holders of record of Wausau Paper common stock. We estimate that as of the Record Date there were approximately 26,000 additional beneficial owners whose shares were held in street name or in other fiduciary capacities. As of the Record Date, there were 49,143,871 shares of common stock outstanding.

The following table sets forth the range of high and low sales price information of Wausau Paper common stock and the dividends declared on the common stock, for the calendar quarters indicated.

	Market Price		Cash Dividend
Calendar Quarter	High	Low	Declared
2010*			
First Quarter	**$11.89**	**$ 8.00**	
Second Quarter	**$10.26**	**$ 6.73**	
Third Quarter	**$ 8.53**	**$ 6.01**	
Fourth Quarter	**$ 9.19**	**$ 7.63**	**$.06**
2009**			
First Quarter	$11.86	$ 3.75	
Second Quarter	$ 9.61	$ 5.00	
Third Quarter	$10.55	$ 5.98	
Fourth Quarter	$12.21	$ 8.01	

2008***			
First Quarter	$10.12	$ 6.97	
Second Quarter	$ 9.74	$ 7.30	$.17
Third Quarter	$10.90	$ 7.08	
Fourth Quarter	$11.70	$ 6.51	$.17

* Two dividends of $.03 per share were declared in the fourth quarter in 2010.

** No cash dividends were declared in 2009.

***Two dividends of $.085 per share were declared in the second and fourth quarters in 2008.

Item 6. SELECTED FINANCIAL DATA

Wausau Paper Corp. and Subsidiaries Selected Financial Data

(all amounts in thousands, except per share data)	For the Year Ended December 31,				
	2010*	2009**	2008***	2007****	2006*****
FINANCIAL RESULTS					
Net sales	**$ 1,055,688**	$ 1,032,144	$ 1,191,764	$ 1,240,438	$ 1,188,178
Depreciation, depletion, and amortization	**56,529**	75,160	69,468	94,330	57,913
Operating profit (loss)	**43,841**	44,073	(16,754)	(13,767)	39,497
Interest expense	**6,587**	8,986	10,283	11,080	11,252
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	**37,488**	35,198	(26,670)	(24,054)	28,869
Net earnings (loss)	**36,856**	20,563	(15,834)	(1,825)	17,619
Cash dividends paid	**1,475**	4,151	16,713	17,205	17,335
Cash flows from operating activities	**22,753**	110,914	(2,520)	54,813	37,982
PER SHARE					
Net earnings (loss) basic	**$ 0.75**	$ 0.42	$ (0.32)	$ (0.04)	$ 0.35
Net earnings (loss) diluted	**0.75**	0.42	(0.32)	(0.04)	0.34
Cash dividends declared	**0.06**		0.34	0.34	0.34
Stockholders equity	**5.30**	4.62	4.23	5.57	5.38
Basic average number of shares outstanding	**48,965**	48,834	49,033	50,477	50,935
Price range (low and high closing)	**$6.12-11.66**	$3.80-11.87	$6.69-11.44	$8.60-15.52	$11.27-15.34
FINANCIAL CONDITION					
Working capital	**$ 109,139**	$ 92,122	$ 118,830	$ 112,922	$ 139,065
Total assets	**677,609**	655,101	710,850	744,197	799,114
Long-term debt	**127,382**	117,944	191,963	139,358	160,287
Stockholders equity	**259,666**	225,422	207,581	280,915	274,074
Capital expenditures	**42,990**	45,948	48,324	30,088	23,856

RATIOS

Percent net earnings (loss) to sales	**3.5%**	2.0%	(1.3%)	(0.1%)	1.5%
Percent net earnings (loss) to average stockholders equity	**15.2%**	9.5%	(6.5%)	(0.7%)	6.0%
Ratio of current assets to current liabilities	**1.8 to 1**	1.7 to 1	1.8 to 1	1.7 to 1	1.9 to 1
Percent of long-term debt to total capitalization	**32.9%**	34.4%	48.0%	33.2%	36.9%

* In 2010, includes after-tax expense of $2.4 million ($3.8 million pre-tax) or $0.05 per share related to a rate adjustment associated with a natural gas transportation contract for the former manufacturing facility in Groveton, New Hampshire, and after-tax expense of $1.9 million ($3.1 million pre-tax) or $0.04 per share related to the freezing of benefits associated with a cash balance pension plan. Also, includes charges of $1.2 million or $0.02 per share related to the Patient Protection and Affordable Care and Health Care and Education Reconciliation Acts of March 2010. Further, 2010 includes a credit for income taxes of $13.6 million or $0.28 per share related to the conversion of the previously claimed alternative fuel mixture tax credit to the cellulosic biofuel producers tax credit.

** In 2009, includes after-tax expense of $17.3 million ($27.9 million pre-tax) or $0.35 per share related to closure costs and restructuring expenses as a result of the closure of Paper s Groveton, New Hampshire and Jay, Maine mills, Appleton, Wisconsin converting facility, and the sale and closure of roll wrap operations. In addition, includes after-tax expense of $1.9 million ($3.1 million pre-tax) or $0.04 per share related to expenses associated with the towel machine rebuild at Tissue s Middletown, Ohio mill and the start-up of Paper s distribution center in Bedford Park, Illinois. Also in 2009, includes after-tax gains of $8.4 million ($13.5 million pre-tax) or $0.17 per share related to a tax credit for the use of alternative fuel mixtures at Paper s Mosinee, Wisconsin facility. Further, includes an after-tax gain of $1.7 million ($2.7 million pre-tax) or $0.03 per share related to the sale of Paper s non-core yeast business.

*** In 2008, includes after-tax expense of $21.1 million ($33.8 million pre-tax) or $0.43 per share for closure costs and restructuring expenses as a result of the ceasing of papermaking operations at Paper s Groveton, New Hampshire mill, the sale and closure of the roll wrap portion of our Paper business, the permanent machine shutdown at Paper s Jay, Maine mill, and the planned closure of converting operations at Paper s Appleton, Wisconsin facility. In addition, includes the settlement of an ongoing examination by the Internal Revenue Service for our 1998 to 2003 tax years. The settlement of the ongoing examination, interest costs, and closure of the 1998 to 2003 tax years resulted in a credit for income taxes of $1.1 million or $0.02 per share.

**** In 2007, includes after-tax expense of $28.8 million ($45.9 million pre-tax) or $0.57 per share for closure costs and restructuring expenses as a result of the ceasing of papermaking operations at Paper s Groveton, New Hampshire mill. In addition, effective January 1, 2007, we reorganized the various subsidiaries which comprised our operating segments to align more closely to our operating structure resulting in state tax benefits of $11.6 million or $0.23 per share primarily related to the release of valuation allowances on state net operating loss and credit carryovers of certain subsidiaries.

***** In 2006, includes impact to accumulated other comprehensive loss of $36.6 million ($58.1 million pre-tax) for the adoption of Accounting Standards Codification Subtopic 715-10 (originally issued as Statement of Financial Accounting Standards No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans.)

Item 7. MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information Concerning Forward-Looking Statements

The following 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, 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.

Critical Accounting Policies and Estimates

The 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 consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. We believe the following are the accounting policies which could have the most significant effect on our reported results and require subjective or complex judgments by management.

Sales Rebates

In certain circumstances, we will grant sales rebates to help stimulate sales of some of our products. The expense for such rebates is accrued for and recorded as a deduction in arriving at our net sales amount at the time of the sale of the product to the customer. The amount of rebates to be paid is estimated based upon historical experience, announced rebate programs, and competitive pricing, among other things. In the future, we may take actions to increase customer rebates, possibly resulting in an increase in the deduction recorded in arriving at our net sales amount at the time the incentive is offered.

Impairment of Long-Lived Assets

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 360-10 (originally issued as Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets), we evaluate the recoverability of the carrying amount of long-lived assets, including dispenser systems, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We use judgment when applying the impairment rules to determine when an impairment test is necessary. Factors we consider that could trigger an impairment review include significant underperformance relative to historical or forecasted operating results, a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used, and significant negative or industry trends.

Impairment losses are measured as the amount by which the carrying value of an asset exceeds its estimated fair value. We are required to make estimates of our future cash flows related to the asset subject to review. These estimates require assumptions about demand for our products, future market conditions, and technological developments. Other assumptions include determining the discount rate and future growth rates. In the year ended December 31, 2010, we recorded an impairment loss of $0.5 million, while no impairment loss was recorded in 2009, and an insignificant loss was recorded in 2008.

Pension Benefits

Defined benefit pension costs and obligations are actuarially determined and are affected by assumptions including discount rate, the expected rate of return on plan assets, and assumed annual rate of compensation increase for plan employees, among other factors. Changes in discount rate and differences from actual and assumed asset returns as well as changes in other assumptions will affect the amount of pension expense recognized in future periods. For example, fluctuation in the discount rate assumption of 25 basis points would have impacted 2010 defined benefit pension obligations by approximately $6.6 million. Additional information regarding pension benefits is available in Note 7 Pension and Other Post-retirement Benefit Plans in the Notes to Consolidated Financial Statements.

Other Post-retirement Benefits

The costs and obligations for post-retirement benefits other than pension are also actuarially determined and are affected by assumptions including the discount rate and expected future increase in per capita costs of covered post-retirement health care benefits. Changes in the discount rate and differences between actual and assumed per capita health care costs may affect the recorded amount of the expense in future periods. For example, fluctuation in the discount rate assumption of 25 basis points would have impacted the 2010 obligations for post-retirement benefits other than pension by approximately $2.5 million. Additional information regarding post-retirement benefits is available in Note 7 Pension and Other Post-retirement Benefit Plans in the Notes to Consolidated Financial Statements.

Environmental Matters

We record environmental liabilities based on estimates for known environmental remediation exposures utilizing information received from third-party experts and our past experience with these matters. At third-party sites where more than one potentially responsible party has been identified, we record a liability for its estimated allocable share of costs related to our involvement with the site as well as an estimated allocable share of costs related to the involvement of insolvent or unidentified parties. Environmental liability estimates may be affected by changing determinations of what constitutes an environmental exposure or acceptable level of cleanup. To the extent that remediation procedures change or the financial condition of other potentially responsible parties is adversely affected, the estimate of our environmental liabilities may change. Additional information regarding environmental matters is available in Note 10 Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Other significant accounting policies, not involving the same level of uncertainties as those previously discussed, are important to an understanding of the consolidated financial statements. Additional information regarding significant accounting policies is available in Note 1 Description of the Business and Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements.

Operations Review

Overview

Consolidated

(all dollar amounts in thousands, except per share data)

	2010	2009	2008
Net earnings (loss)	**$ 36,856**	$ 20,563	$ (15,834)
Net earnings (loss) per share basic and diluted	**$ 0.75**	$ 0.42	$ (0.32)

In 2010, we reported net earnings of $36.9 million, or $0.75 per share, compared to prior-year net earnings of $20.6 million, or $0.42 per share.

Net earnings for 2010 were impacted by a credit for income taxes of $13.6 million, or $0.28 per share, related to the conversion of the previously claimed alternative fuel mixture tax credit to the cellulosic biofuel producers tax credit, and 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. Also included in 2010 are after-tax charges of $2.4 million, or $0.05 per share, related to a rate adjustment associated with a natural gas transportation contract for a former manufacturing facility in Groveton, New Hampshire, and after-tax charges of $1.9 million, or $0.04 per share, related to the freezing of benefits associated with a cash balance pension plan. Additionally, 2010 included after-tax gains on sales of timberlands of $4.9 million, or $0.10 per share.

Net earnings for 2009 included after-tax facility closure charges of $17.3 million, or $0.35 per share, primarily related to the closure of the Paper segment s Jay, Maine paper mill and Appleton, Wisconsin converting facility. Also included in 2009 is after-tax expense of $1.9 million, or $0.04 per share, related to the rebuild of a towel machine at our Tissue segment s Middletown, Ohio mill and the start-up of our Paper segment s new distribution center in Bedford Park, Illinois. Additionally, 2009 included charges related to a tax audit settlement and other permanent tax items of $1.0 million, or $0.02 per share. Finally, net earnings for 2009 included after-tax credits of $8.4 million, or $0.17 per share, related to a tax credit for the use of qualified alternative fuel mixtures at our Paper segment s mill in Mosinee, Wisconsin, $1.7 million, or $0.03 per share, related to the sale of our Paper segment s non-core yeast manufacturing operations, and $2.0 million, or $0.04 per share, related to the sale of timberlands.

For additional information on facility closures, please refer to Note 2 Restructuring in the Notes to Consolidated Financial Statements. For additional information on the tax credit for the use of qualified alternative fuel mixtures, please refer to Note 3 Alternative Fuel Mixture Credits in the Notes to Consolidated Financial Statements. For additional information on the additional income tax charges and credits, please refer to Note 8 Income Taxes in the Notes to Consolidated Financial Statements.

Consolidated Outlook

Although sustained economic recovery is still uncertain, in the short term we anticipate encountering more stable and predictable growth across our core markets. However, we continue to be faced with market demand fluctuations and elevated input costs. Despite these factors, we are determined to push toward our long-term return-on-capital-employed target of 15%. Our ability to achieve this target will continue to be influenced by additional internal initiatives, general economic conditions, the price of energy and raw materials, competitive factors, and changes in market demand and product pricing.

Segment Overview

In September 2009, we announced plans to consolidate our former 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 former Printing & Writing and Specialty Products 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: Tissue and Paper. The segment information for 2009 and 2008 has been restated to display the information in accordance with the segment structure that became effective January 1, 2010.

Our Tissue business segment s financial performance remained strong in 2010, with operating margins exceeding 13 percent. Despite sluggish demand in the away-from-home market, elevated input costs, and a constrained pricing environment, Tissue s operating profits approached record levels as we continued to increase shipments of higher-margin, value-added products. We continue to focus our efforts on our value-added product categories to improve our competitive strength and operating margins.

Although below long-term target levels, the Paper segment demonstrated a degree of earnings stability in the face of record-high fiber costs and continued demand weakness in certain market segments in which we compete. The relative stability reflects the benefits achieved through restructuring initiatives and our strategy to focus on core markets. In the process of restructuring, we closed high-cost facilities, divested non-strategic businesses, repositioned certain product offerings, and selectively invested to lower costs and enhance competitive position. We remain focused on our growth within our core markets, product innovation, and containing costs to drive further profitability improvements.

Net Sales and Gross Profit on Sales

Consolidated

(all dollar amounts in thousands)	**2010**	2009	2008
Net sales	**$1,055,688**	$1,032,144	$1,191,764
Tons sold	**666,614**	685,045	781,959
Gross profit on sales	**$ 130,645**	$ 132,834	$ 88,688
Gross profit margin	**12%**	13%	7%

Net sales for the year ended December 31, 2010, were $1,055.7 million compared with net sales of $1,032.1 million for the year ended December 31, 2009, an increase of 2%. Total shipments in 2010 of 666,614 tons decreased 3% from the 685,045 tons shipped in 2009, primarily due to volume reductions associated with facility closures. Net sales in 2008 were $1,191.8 million, and total tons shipped were 781,959 tons.

Comparing 2010 to 2009, average net selling price increased over 5%, or almost $53 million, with actual net selling price increases contributing to more than half of the improvement, and the remaining increase a result of enhancements in overall product mix. Compared to 2008, 2009 average net selling price declined approximately 1%, decreasing net sales by $11 million, with the decline nearly evenly split between actual selling price decreases and deterioration in overall product mix.

Gross profit margin decreased to $130.6 million, or 12.4% of net sales in 2010, compared with $132.8 million, or 12.9% of net sales in 2009. Gross profit margin in 2008 was $88.7 million, or

7.4% of net sales. Our timberland sales program favorably impacted gross profit by $8.0 million in 2010, $3.2 million in 2009, and $6.2 million in 2008.

During the year ended December 31, 2010, as compared to the same period in 2009, a significant increase in fiber costs more than offset a decrease in energy costs, an increase in average net selling price, and increased gains from our timberland sales program. In 2009 as compared to 2008, significant declines in fiber and energy prices more than offset the decline in average net selling price, decreased gains from our timberland sales program, and the impact of increased market related downtime.

In addition, 2009 gross profit margins were negatively impacted by combined charges of $22.4 million related to facility closure charges primarily due to the closure of our Paper segment s Jay, Maine mill and Appleton, Wisconsin converting facility. Further, 2009 gross profit margins were positively impacted by gains totaling $16.2 million related to a tax credit for the use of qualified alternative fuel mixtures at our Paper segment s mill in Mosinee, Wisconsin, and the sale of our Paper segment s non-strategic yeast manufacturing operations.

Raw materials and packaging comprise approximately 60% of our total cost of sales, with market pulp, wastepaper, and purchased towel and tissue parent rolls accounting for over three-quarters of this total. Labor and fringes are approximately 20% of our total cost of sales, while utilities account for approximately 10%. Other operating expenses, including outbound freight, depreciation, and maintenance, comprise the remaining 10% of our cost of sales.

Fiber prices consisting primarily of market pulp, wastepaper, pulpwood, and purchased towel and tissue parent rolls increased significantly during 2010. As compared to 2009, 2010 fiber costs increased approximately $63 million after decreasing approximately $57 million in 2009 as compared with 2008.

During the first half of 2009, pulp and wastepaper prices trended lower as a result of a weakened world economy and a decline in paper and pulp demand. During the second half of 2009, however, pulp and wastepaper prices steadily increased, and continued their upward trend through the first six months of 2010, reaching record-high levels. Although pulp and wastepaper prices declined modestly late in 2010, they remained at elevated levels. Pulp prices have continued to remain steady early in 2011, while wastepaper prices have increased moderately.

In 2010, we consumed approximately 390,000 air-dried metric tons of market pulp and 140,000 standard tons of wastepaper. Approximately 380,000 air-dried metric tons of market pulp and 120,000 standard tons of wastepaper were consumed in 2009. The average consumption price of market pulp, the primary raw material used in the production of paper, increased approximately $114 per air-dried metric ton, or over $54 million, in 2010 as compared to 2009. As compared with 2008, the average price of market pulp declined approximately $106 per air-dried metric ton, or nearly $49 million in 2009. The average price of wastepaper, used in the production of towel and tissue products, increased $71 per standard ton, or almost $10 million, in 2010 as compared to 2009. As compared with 2008, the average price of wastepaper decreased $69 per standard ton, or more than $8 million, in 2009. Purchased towel and tissue parent rolls, used in our Tissue segment s converting operation, remained relatively flat in 2010 as compared to 2009,

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after decreasing $6 per standard ton, or less than $1 million, the year before. The average prices of pulpwood have remained relatively flat since 2008.

Energy-related prices consisting primarily of natural gas, electricity, coal, fuel oil, and transportation declined slightly in 2010 as compared to 2009, with decreases in prices of natural gas, electricity, and coal more than offsetting an increase in the prices of fuel oil and transportation. During 2009, overall energy prices declined moderately in comparison with 2008, with decreases in prices of natural gas, fuel oil, and transportation more than offsetting an increase in the price of coal. In total, energy-related costs, including transportation, decreased approximately $5 million in 2010 as compared with 2009, after decreasing nearly $17 million in 2009 as compared with 2008.

We currently consume approximately 3.6 million decatherms of natural gas annually. The average price of natural gas decreased almost 13%, or nearly $3 million, in 2010 as compared to 2009 after decreasing approximately 42%, or more than $15 million, in 2009 compared with the prior year. We price protect, from time to time, certain volumes of natural gas through fixed-price contracts. Our policy allows for the price protection of up to 50% of our expected use on a rolling 12-month basis. Early in 2011, we had no volumes price protected beyond the first quarter.

Price fluctuations were experienced in 2010 with other sources of energy that are significant to our operations. As compared with 2009, 2010 electricity costs decreased 9%, or more than $2 million, and coal costs decreased 12%, or over $3 million. Fuel oil costs remained flat in 2010 as compared with 2009. As compared with 2008, 2009 fuel oil costs decreased approximately 37% or nearly $1 million, electricity costs remained flat, and coal costs increased 33% or approximately $7 million. In addition, transportation prices increased nearly $4 million in 2010 as compared with 2009, after decreasing nearly $8 million from the prior year.

Labor and fringe costs increased 4% in 2010 as compared to 2009, after decreasing 9% in 2009 as compared to 2008. The increase in labor and fringe costs in 2010 was partially due to the cessation of the hiring freeze that had been implemented during 2009. The decrease in labor and fringe costs in 2009 was primarily related to the closure of our Paper segment s Jay, Maine and Groveton, New Hampshire mills, in addition to the hiring freeze. Depreciation expenses decreased 36% in 2010 as compared to 2009. Depreciation expenses increased 4% in 2009 as compared to 2008. The decrease in 2010, as compared to both 2009 and 2008, is due to the impact of accelerated depreciation related to facility closures in 2009 and 2008. For additional information, refer to Note 2 Restructuring in the Notes to Consolidated Financial Statements.

Discussion of market conditions and trends is included in the segment summaries that follow. If published market data is available, it is referenced in the discussion. Certain markets within which we compete are small and highly fragmented. Where industry data is not available, our analysis is based on more subjective market indicators, such as order patterns for our products and discussions with customers regarding overall industry volumes.

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Tissue

(all dollar amounts in thousands)	**2010**	2009	2008
Net sales	**$343,309**	$336,215	$333,411
Operating profit	**$ 46,150**	$ 49,469	$ 32,793
Tons sold	**176,758**	176,562	178,351
Gross profit on sales	**$ 69,192**	$ 72,020	$ 55,472
Gross profit margin	**20%**	21%	17%

Tissue 2010 net sales were $343.3 million, an increase of 2% from 2009 net sales of $336.2 million. Shipments remained flat comparing the year ended December 31, 2010 to the same period in 2009. In 2008, net sales were $333.4 million on shipments of 178,351 tons. Average net selling price increased approximately 2% in 2010 as compared to 2009, favorably impacting net sales by nearly $8 million. Actual net selling price increases accounted for approximately one-third of the average net selling price gain, while the remaining increase resulted from product mix improvements. Average net selling price increased nearly 3% in 2009 as compared to 2008, favorably impacting net sales by $9 million. Actual net selling price increases accounted for approximately $7 million of the average net selling price gain, while $2 million of the average net selling price gain was attributable to enhancements in product mix.

Market demand for away-from-home towel and tissue products decreased 1% in 2010 after decreasing 6% in 2009. Shipments of Tissue s higher-priced, value-added products increased 7% in 2010 and 6% in 2009, while shipments of lower-priced standard products decreased 4% in 2010 after decreasing 7% in 2009. As 2011 began, away-from-home towel and tissue prices have remained relatively stable.

Tissue gross profit margin was 20.2% in 2010, 21.4% in 2009, and 16.6% in 2008. Increases in the cost of wastepaper, pulp, and purchased towel and tissue parent rolls more than offset an increase in average net selling price and the reduced cost of electricity and coal, resulting in decreased margins in 2010 as compared to 2009. Wastepaper, pulp, and purchased towel and tissue parent roll prices increased $12 million, while energy prices decreased almost $1 million in 2010 as compared with 2009. Selling price increases in 2009, combined with reduced prices of energy, wastepaper, and purchased towel and tissue parent rolls, resulted in improved margins compared to 2008. Wastepaper and purchased towel and tissue parent roll prices decreased $11 million and energy prices declined more than $2 million in 2009 as compared with 2008.

In 2010, approximately 43%, or 76,000 tons, of Tissue s total parent roll consumption was purchased from other towel and tissue manufacturers, compared to the 95,000 tons of parent rolls purchased in 2009. The decrease was primarily due to the completion of the 2009 towel machine rebuild at the Middletown, Ohio mill. Industry supply of these parent rolls was readily available throughout 2010 and 2009.

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Paper

(all dollar amounts in thousands)	**2010**	2009	2008
Net sales	**$712,379**	$695,929	$858,353
Operating profit (loss)	**$ 12,301**	$ 9,602	$(38,592)
Tons sold	**489,856**	508,483	603,608
Gross profit on sales	**$ 55,621**	$ 58,335	$ 27,519
Gross profit margin	**8%**	8%	3%

The Paper segment recorded net sales of $712.4 million for the year ended December 31, 2010, compared to $695.9 million for the year ended December 31, 2009, an increase of 2%. Shipments decreased 4% over the same time period, from 508,483 tons in 2009 to 489,856 tons in 2010, due primarily to volume reductions associated with the 2009 facility closures. Net sales and shipments in 2008 were $858.4 million and 603,608 tons, respectively. Product shipments in 2009 declined approximately 16% from 2008, partially a result of anticipated volume reductions resulting from facility closures.

Comparing 2010 with 2009, average net selling price increased approximately 6%, or $42 million, with actual price increases contributing more than two-thirds of the increase, and the remaining increase a result of enhancements in overall product mix. Average net selling price decreased approximately 4%, or $30 million, in 2009 as compared to 2008. Actual net selling price decreases accounted for approximately $13 million of the average net selling price decline, while $17 million of the average net selling price decline was attributable to changes in product mix.

Demand for industrial and tape papers decreased significantly late in 2008 with demand weakness spreading to most other product categories early in 2009. Uncoated free sheet demand, the broad market category in which our Print & Color sector competes, impacted by such factors as employment trends and increased electronic data communications, has generally declined over the last eleven years. As a result, we took market-related downtime amounting to approximately 40,000 tons during 2009 compared with approximately 16,000 tons of market-related downtime in 2008. No market-related downtime was taken in 2010. Although market demand data is not available for the specific market segments in which we compete, the following table summarizes our estimated changes in market demand for the major market segments:

	Estimated Change in Market Demand	
	2010	2009
Food	**4%**	
Industrial & Tape	**7%**	(8%)
Coated & Liner	**4%**	(6%)

Print & Color	**(5%)**	(11%)

The following table summarizes the changes in shipments of our primary product categories:

	Change in Shipments	
	2010	2009
Food	**(2%)**	(10%)
Industrial & Tape	**(2%)**	(9%)
Coated & Liner	**(13%)**	(26%)
Print & Color	**(2%)**	(8%)

In 2010, the shutdown of the Jay, Maine mill led to the majority of the decline in shipments within our Food and Industrial & Tape sectors. Volume performance in our Coated & Liner sector reflects our market shift away from label base categories to highly technical, coated liners for alternative energy markets. Shipments in our Print & Color sector outperformed the broader market, demonstrating share growth. In 2009, the majority of the decline in shipments within our Print & Color sector was anticipated due to the shutdown of the Groveton mill, which reduced total annual capacity by approximately 105,000 tons. The Paper segment s core markets remain competitive with competition coming from paper-based products as well as other film-based substrates. Product pricing has remained very competitive despite the industry-wide capacity rationalization that has occurred in recent years. As 2011 began, prices were relatively stable despite continued weak market conditions.

	2010	2009	2008
Gross profit margin	**7.8%**	8.4%	3.2%
Specific items impacting gross profit margin:			
Impact of alternative fuel mixture credit		2%	
Impact of facility closures		(3%)	(2%)

The Paper segment s gross profit margin was 7.8% in 2010, 8.4% in 2009, and 3.2% in 2008. Excluding the alternative fuel mixture tax credit and facility closures, increases in the cost of pulp, and transportation were greater than the increase in average net selling price and the reduced cost of natural gas, electricity, and coal, resulting in lower margins in comparison to 2009. Pulp prices increased $51 million, while energy prices decreased by $4 million in 2010 as compared to 2009.

Excluding the alternative fuel mixture tax credit and closure of the Jay, Maine and Groveton, New Hampshire mills, Paper s gross profit margin improved in 2009 compared to 2008. Lower market pulp and energy costs and benefits associated with the closure of the Jay, Maine mill, more than offset the impact of lower average net selling prices and additional market-related downtime to result in improved margins. Fiber prices decreased approximately $46 million in 2009 as compared with 2008 while energy prices declined approximately $14 million over the same period.

In 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 was equal to $0.50 per gallon of alternative fuel contained in the mixture and was refundable in cash. 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 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 year ended December 31, 2009, operating profits were positively impacted by $13.5 million due to the alternative fuel mixture tax credit.

In October 2010, we were approved by the IRS to be registered as a producer of cellulosic biofuel under the Internal Revenue Code. The cellulosic biofuel credit is equal to $1.01 per gallon of black liquor produced in our pulp and paper mill operations. After approval by the IRS, we made the decision to convert the previously utilized alternative fuel mixture credit to the cellulosic biofuel credit and claimed the credit for all black liquor gallons produced in 2009. The conversion to the cellulosic biofuel credit resulted in a credit for income taxes in the fourth quarter of 2010 of $13.6 million.

Additional information regarding facility closures is available in Note 2 Restructuring in the Notes to Consolidated Financial Statements. For additional information on the tax credit for the use of qualified alternative fuel mixtures and the cellulosic biofuel credit, please refer to Note 3 Alternative Fuel Mixture Credits and Note 8 Income Taxes in the Notes to Consolidated Financial Statements.

Backlog

Consolidated customer order backlogs decreased to approximately 31,000 tons, representing $48.4 million in sales at December 31, 2010, compared to 42,300 tons, or $63.5 million in sales, as of December 31, 2009. Consolidated customer order backlogs were 25,000 tons, or $37.6 million in sales as of December 31, 2008. The decrease in customer order backlogs as of December 31, 2010, compared to December 31, 2009, was due to a decrease in backlogs in both our Paper and Tissue segments. Our Paper segment backlog totaled 29,300 tons at December 31, 2010, compared to 39,400 tons at December 31, 2009. Our Tissue segment s backlog tons declined to 1,700 tons at December 31, 2010, from 2,900 tons at December 31, 2009. The change in customer backlog at December 31, 2010, compared to December 31, 2009, does not necessarily indicate a change in business conditions, as a large portion of orders is shipped directly from inventory upon receipt and does not impact backlog numbers. The entire backlog at December 31, 2010, is expected to be shipped during 2011.

Labor

We employed approximately 2,400 at the end of 2010. Most hourly mill employees are covered under collective bargaining agreements. We negotiated a 5-year umbrella agreement with the United Steelworkers that was ratified on February 4, 2011. The agreement covers all five collectively bargained mills and includes competitive increases in wages and retirement income benefits.

Selling and Administrative Expenses

(all dollar amounts in thousands)	**2010**	2009	2008
Selling and administrative expense	**$86,804**	$83,229	$89,111
Percent increase (decrease)	**4%**	(7%)	6%
As a percent of net sales	**8%**	8%	7%

Selling and administrative expenses for the year ended December 31, 2010, were $86.8 million compared to $83.2 million in the same period of 2009. Selling and administrative expenses were $89.1 million for the year ended December 31, 2008.

In 2010, stock-based incentive compensation programs resulted in expense of $2.3 million compared to expense of $3.1 million in 2009. In 2008, selling and administrative expenses were impacted by stock incentive program credits of $2.2 million. Also in 2010, selling and administrative expenses were impacted by charges of $3.8 million related to a rate adjustment associated with a natural gas transportation contract and $3.1 million related to the freezing of benefits associated with a cash balance pension plan.

After adjusting for stock-based incentive compensation programs and other one-time charges, declines in advertising and compensation expenses accounted for the majority of the decrease in selling and administrative expenses during the year ended December 31, 2010, as compared with the same period in 2009. In 2009 as compared with 2008, after adjusting for stock-based incentive compensation programs, declines in advertising and travel and entertainment expenses accounted for approximately half of the decrease in selling and administrative expenses. For additional information on our stock incentive programs, refer to Note 9 Stock Compensation Plans in the Notes to Consolidated Financial Statements.

Restructuring Charges

For the year ended December 31, 2009, we recorded pre-tax restructuring charges of $5.5 million related to employee severance and benefit continuation costs and other associated closure costs primarily related to the closure of our Paper segment s converting operations in Appleton, Wisconsin, and the closure of our Paper segment s paper mills in Jay, Maine and Groveton, New Hampshire. We did not incur any additional pre-tax restructuring charges related to these closures in 2010.

In 2008, we recorded pre-tax restructuring charges of $16.3 million related to employee severance and benefit continuation costs, contract termination costs, and other associated closure costs directly related to the closure of converting operations at our Paper segment s Appleton, Wisconsin facility, the permanent machine shutdown at our Paper segment s Jay, Maine mill, the sale and closure of the roll wrap portion of our Paper segment s business, and the shutdown of papermaking operations at our Paper segment s Groveton, New Hampshire mill.

For additional information, refer to Note 2 Restructuring in the Notes to Consolidated Financial Statements.

Other Income and Expense

(all dollar amounts in thousands)	**2010**	2009	2008
Interest expense	**$6,587**	$8,986	$10,283
Other income, net	**234**	111	367

Interest expense decreased for the year ended December 31, 2010, to $6.6 million compared to $9.0 million for the year ended December 31, 2009, due primarily to a reduction in average debt balances outstanding during the respective years. Interest expense for the year ended December 31, 2008, was $10.3 million. In 2011, interest expense is expected to be similar to 2010 levels.

Income Taxes

(all dollar amounts in thousands)	**2010**	2009	2008
Income tax provision (credit)	**$ 632**	$14,635	$(10,836)
Effective tax rate	**1.7%**	41.6%	(40.6%)

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.

Additionally, in October 2010, we were approved by the IRS to be registered as a producer of cellulosic biofuel under the Internal Revenue Code. The cellulosic biofuel credit is equal to $1.01 per gallon of black liquor produced in our pulp and paper mill operations. After approval by the IRS, we made the decision to convert the alternative fuel mixture credit to the cellulosic biofuel credit and claimed the credit for all black liquor gallons produced in 2009. The conversion to the cellulosic biofuel credit resulted in a credit for income taxes in the fourth quarter of 2010 of $13.6 million.

The effective tax rate for the year ended December 31, 2010, excluding these additional items, was approximately 35%. The effective tax rate for 2011 is expected to remain at approximately 35%.

In 2009, we incurred additional state income tax charges related to changes in state tax laws, a tax audit settlement, and other permanent tax items. The effective tax rate excluding these additional charges was 38%.

During the third quarter of 2008, we settled an ongoing examination by the Internal Revenue Service for our 1998 to 2003 tax years. The examination related to certain research and development credits recorded for these respective tax years. The settlement of the ongoing examination, interest costs, and closure of the 1998 to 2003 tax years resulted in a credit for income taxes of $1.1 million in 2008. The effective tax rate, excluding the credit for income taxes as a result of the settlement, was 37.5%.

Liquidity and Capital Resources

Cash Flows and Capital Expenditures

(all dollar amounts in thousands)	**2010**	2009	2008
Cash provided by (used in) operating activities	**$ 22,753**	$ 110,914	$ (2,520)
Working capital	**$ 109,139**	$ 92,122	$ 118,830
Percent increase (decrease)	**18%**	(22%)	5%
Current ratio	**1.8:1**	1.7:1	1.8:1
Capital expenditures	**$ 42,990**	$ 45,948	$ 48,324
Percent (decrease) increase	**(6%)**	(5%)	61%

Cash provided by operating activities was $22.8 million during the year ended December 31, 2010, compared to cash provided by operating activities of $110.9 million for the year ended December 31, 2009. Cash provided by operating activities decreased in 2010 as compared to 2009, primarily due to an increase in inventories and a decline in cash net earnings, which includes the impact of income tax credits and provisions. The improvement in cash provided by operating activities in 2009, as compared to 2008, was primarily due to an increase in net earnings, a reduction in inventories, and the impact of income tax refunds and provisions in 2009 as compared to 2008.

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.

In 2010, we completed several major capital projects while targeting a composite 17% internal rate of return on all projects approved during the year. The expected composite return for projects approved in 2010 was approximately 14%. Capital expenditures totaled $43.0 million, $45.9 million, and $48.3 million in 2010, 2009, and 2008, respectively. It is expected that capital spending will be approximately $40.0 million in 2011.

During 2010, we sold approximately 6,700 acres of timberlands for an after-tax gain of $4.9 million. We sold approximately 5,000 acres of timberlands for an after-tax gain of $2.0 million in 2009, and approximately 4,600 acres of timberlands for an after-tax gain of $3.9 million in 2008. 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.

We believe that the available credit under our credit agreements and cash provided by operations will be sufficient to meet our cash flow needs for debt maturities, capital, working capital, and investing activities in 2011.

Debt and Equity

(all dollar amounts in thousands)	**2010**	2009	2008
Short-term debt	**$**	$ 52	$ 51
Long-term debt	**127,382**	117,944	191,963
Total debt	**127,382**	117,996	192,014
Stockholders equity	**259,666**	225,422	207,581
Total capitalization	**387,048**	343,418	399,595
Long-term debt/capitalization ratio	**33%**	34%	48%

At December 31, 2010, total debt was $127.4 million, an increase of $9.4 million from the $118.0 million reported at December 31, 2009. The majority of the increase is due to the December 2010 conversion of the alternative fuel mixture credit to the cellulosic biofuel credit, which required repayment of approximately $15 million of the previously recognized credit.

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 December 31, 2010, $50 million was outstanding under the note purchase and private-shelf agreement.

In addition, the total amount of long-term debt outstanding as of December 31, 2010, includes $35.0 million in unsecured private placement notes. A total of $138.5 million of private placement notes were issued on August 31, 1999. On August 31, 2009, $68.5 million of these notes matured and were repaid. On August 31, 2007, $35.0 million of the unsecured private placement notes matured and were repaid. The remaining notes mature on August 31, 2011.

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. Under this agreement, we may elect the base for interest from either domestic or offshore rates. In addition, the agreement provides for sublimits of $50 million for the issuance of standby letters of credit and $10 million for certain short-term bid loans among the bank group. In addition, under the new credit agreement, we pay an annual facility fee (initially 0.425%). Total facility fees paid under this agreement and previous agreements were $581,000 in 2010, $815,000 in 2009, and $351,000 in 2008. At December 31, 2010, there were no amounts outstanding under this agreement. There was $33.0 million and $52.5 million in outstanding borrowings under a revolving-credit agreement at December 31, 2009 and December 31, 2008, respectively.

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). Also, 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 maturing in August

2011. At December 31, 2010, 2009, and 2008, we were in compliance with all required covenants.

We maintain an unrated commercial paper placement agreement with a bank to issue up to $50 million of unsecured debt obligations. The agreement requires unused credit availability under our revolving-credit agreement equal to the amount of outstanding commercial paper. Outstanding borrowings under this agreement at December 31, 2010, 2009, and 2008 were $23.2 million, $30.5 million, and $15.9 million, respectively.

At December 31, 2010, under the $125 million revolving-credit facility, we have the ability and the intent to refinance on a long-term basis the amount of outstanding commercial paper and the $35.0 million of unsecured private placement notes maturing in August 2011. As a result, we have classified the amounts as long-term on our Consolidated Balance Sheets.

In August 1995, we obtained $19 million in industrial development bond financing to fund an upgrade of the Brokaw mill wastewater treatment plant. The bonds mature in 2023 and bear interest at short-term rates. The bonds are supported by a letter of credit that is issued under our revolving-credit agreement.

On December 31, 2010, we had a total of approximately $82 million available for borrowing under existing credit facilities.

We do not have material market risk associated with derivative instruments, including interest-rate risk, foreign currency exchange risk, or commodity-price risk.

In February 2008, our Board of Directors authorized the repurchase of 2,500,000 shares of Wausau Paper common stock. This authorization added to the balance remaining on a 2000 authorization to repurchase 2,571,000 shares of Wausau Paper common stock. There were no repurchases of common stock during 2010 and 2009. We repurchased 1,033,000 shares of common stock during 2008. Repurchases may be made from time to time in the open market or through privately negotiated transactions. At December 31, 2010, there were 2,009,774 shares available for purchase under the existing authorization.

In 2010, the Board of Directors declared cash dividends of $0.06 per share of common stock. In 2009, no cash dividends on our common stock were declared. In 2008, the Board of Directors declared cash dividends of $0.34 per share of common stock. The decrease in declared cash dividends in 2009 was due to the suspension of cash dividends on March 31, 2009. The Board of Directors reinstated cash dividends on October 20, 2010.

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Commitments and Contractual Obligations

The following is a summary of our contractual obligations and payments due by period subsequent to December 31, 2010:

			Payments Due by Period				
(all dollar amounts in thousands)	Total	2011	2012	2013	2014	2015	Thereafter
Long-term debt	$127,240	$ 58,240	$	$	$	$	$ 69,000
Interest on debt	24,498	5,650	3,916	3,916	3,430	2,976	4,610
Operating leases	2,365	1,047	1,047	168	59	44	
Capital spending commitments	12,879	12,879					
Retirement plan contributions	3,900	3,900					
Post-retirement benefit plan contributions	4,500	4,500					
Purchase obligations	687,202	274,720	183,767	107,797	70,255	42,332	8,331
	$862,584	$360,936	$188,730	$111,881	$73,744	$45,352	$81,941

As discussed in Note 8 Income Taxes in the Notes to Consolidated Financial Statements, on January 1, 2007, we adopted the provisions of FASB ASC Subtopic 740-10 (originally issued as FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109). At December 31, 2010, we had a liability for unrecognized tax benefits, including related interest and penalties, totaling $1.3 million, of which approximately $0.2 million is expected to be paid within one year. For the remaining liability, due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

The interest on debt with variable rates of interest has been calculated utilizing the interest rate in effect at December 31, 2010. For additional information on debt and interest obligations, please refer to Note 5 Debt in the Notes to Consolidated Financial Statements. For additional information on operating leases, please refer to Note 6 Lease Commitments in the Notes to Consolidated Financial Statements. Commitments for capital spending and additional information with respect to the purchase obligations are described in Note 10 Commitments and Contingencies in the Notes to Consolidated Financial Statements. We also have various employee benefit plan obligations that are described in Note 7 Pension and Other Post-retirement Benefit Plans.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not have a material market risk associated with derivative instruments, including interest rate risk, foreign currency exchange risk, or commodity-price risk. We conduct U.S. dollar denominated export transactions or immediately exchange all foreign currency attributable to export sales for U.S. dollars. On August 31, 1999, we issued notes in the amount of $138.5 million. The principal amounts, maturities, and interest rates on the notes are: (1) $35 million, 8 years, 7.20%; (2) $68.5 million, 10 years, 7.31%; and (3) $35 million, 12 years, 7.43%. The amount of outstanding notes was $35.0 million at December 31, 2010, and 2009. The estimated fair value of this fixed rate debt was $36.2 million at December 31, 2010, and $37.1 million at December 31, 2009. 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%. At December 31, 2010, $50 million was outstanding under the note purchase and private-shelf agreement. The estimated fair value of this fixed-rate debt was $53.9 million.

The potential loss in fair value on such fixed-rate debt obligations from a hypothetical 10% increase in market interest rates would not be material to the overall fair value of the debt. We currently have no plans to repurchase our outstanding fixed-rate instruments and, therefore, fluctuations in market interest rates would not have an effect on our results of operations or stockholders equity.

We also have $19,000,000 of Industrial Development Bonds due July 1, 2023, at variable rates of interest. The fair value of these obligations approximated their carrying values at December 31, 2010 and 2009, and would not have been materially affected by a 10% hypothetical change in market interest rates.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management s Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment, we believe that, as of December 31, 2010, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued a report on internal control over financial reporting. This report appears on page 39.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Wausau Paper Corp.

Mosinee, Wisconsin

We have audited the internal control over financial reporting of Wausau Paper Corp. and subsidiaries (the Company) as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated March 1, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

March 1, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Wausau Paper Corp

Mosinee, Wisconsin

We have audited the accompanying consolidated balance sheets of Wausau Paper Corp. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Wausau Paper Corp. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

March 1, 2011

Wausau Paper Corp. and Subsidiaries

Consolidated Balance Sheets

	As of December 31,	
(all dollar amounts in thousands)	**2010**	2009
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,003**	$ 1,297
Receivables, net	**94,148**	98,531
Refundable income taxes	**6,720**	3,622
Inventories	**106,328**	90,004
Spare parts	**29,582**	27,932
Other current assets	**5,117**	5,574
Total current assets	**243,898**	226,960
Property, plant, and equipment net	**380,801**	379,483
Other assets	**52,910**	48,658
Total Assets	**$ 677,609**	$ 655,101
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	**$**	$ 52
Accounts payable	**70,289**	70,957
Deferred income taxes	**5,228**	877
Accrued and other liabilities	**59,242**	62,952
Total current liabilities	**134,759**	134,838
Long-term debt	**127,382**	117,944
Deferred income taxes	**3,765**	28,663
Post-retirement benefits	**80,802**	81,255
Pension	**36,512**	35,798
Other noncurrent liabilities	**34,723**	31,181
Total liabilities	**417,943**	429,679
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, no par value (500,000 shares authorized; no shares issued)		

Common stock, no par value (100,000,000 shares authorized; issued 60,122,812 shares in 2010 and 2009)	**178,089**	175,945
Retained earnings	**287,664**	253,757
Accumulated other comprehensive loss	**(66,179)**	(63,123)
Treasury stock, at cost (11,098,872 and 11,197,900 shares in 2010 and 2009, respectively)	**(139,908)**	(141,157)
Total stockholders equity	**259,666**	225,422
Total Liabilities and Stockholders Equity	**$ 677,609**	$ 655,101

See accompanying Notes to Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

Consolidated Statements of Operations

(all amounts in thousands, except per share data)	For the Year Ended December 31, **2010**	2009	2008
Net sales	**$1,055,688**	$1,032,144	$1,191,764
Cost of sales	**925,043**	899,310	1,103,076
Gross profit	**130,645**	132,834	88,688
Selling and administrative	**86,804**	83,229	89,111
Restructuring		5,532	16,331
Operating profit (loss)	**43,841**	44,073	(16,754)
Other income (expense):			
Interest expense	**(6,587)**	(8,986)	(10,283)
Interest income			153
Other, net	**234**	111	214
Earnings (loss) before income taxes	**37,488**	35,198	(26,670)
Provision (credit) for income taxes	**632**	14,635	(10,836)
Net earnings (loss)	**$ 36,856**	$ 20,563	$ (15,834)
Net earnings (loss) per share-basic and diluted	**$ 0.75**	$ 0.42	$ (0.32)
Weighted average shares outstanding basic	**48,965**	48,834	49,033
Weighted average shares outstanding diluted	**49,292**	49,117	49,033
Dividends declared per common share	**$ 0.06**	$	$ 0.34

See accompanying Notes to Consolidated Financial Statements.

Wausau Paper Corp. and Subsidiaries

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
(all dollar amounts in thousands)	**2010**	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	**$ 36,856**	$ 20,563	$ (15,834)
Provision for depreciation, depletion, and amortization	**56,529**	75,160	69,468
Provision for losses on accounts receivable	**607**	729	328
Gain on sale of assets	**(9,059)**	(5,062)	(4,304)
Impairment of long-lived assets	**536**		21
Compensation expense for stock-based awards	**3,133**	3,291	1,600
Deferred income taxes	**(22,327)**	12,344	(9,404)
Changes in operating assets and liabilities:			
Receivables	**3,776**	(2,520)	13,046
Inventories	**(16,324)**	28,191	(9,663)
Other assets	**(21,412)**	(22,561)	(15,225)
Accounts payable and other liabilities	**(6,424)**	(682)	(27,149)
Accrued and refundable income taxes	**(3,138)**	1,461	(5,404)
Net cash provided by (used in) operating activities	**22,753**	110,914	(2,520)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(42,990)**	(45,948)	(48,324)
Grants received for capital expenditures	**1,838**		
Proceeds from sale of assets	**10,653**	9,615	9,056
Net cash used in investing activities	**(30,499)**	(36,333)	(39,268)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (payments) issuances of commercial paper	**(7,274)**	14,604	15,910
Net (payments) borrowings under credit agreements	**(33,000)**	(19,500)	37,500
Issuances of notes payable	**50,000**		
Payments of notes payable	**(28)**	(68,567)	(66)
Payments under capital lease obligation			(138)
Dividends paid	**(1,475)**	(4,151)	(16,713)
Proceeds from stock option exercises	**229**		
Payments for purchase of company stock			(8,496)
Net cash provided by (used in) financing activities	**8,452**	(77,614)	27,997

Net increase (decrease) in cash and cash equivalents	**706**	(3,033)	(13,791)
Cash and cash equivalents at beginning of year	**1,297**	4,330	18,121
Cash and cash equivalents at end of year	**$ 2,003**	$ 1,297	$ 4,330
	,		
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid net of amount capitalized	**$ 4,567**	$ 8,967	$ 9,271
Income taxes paid	**$ 11,334**	$ 5,524	$ 6,587

Noncash investing activities: For the years ended December 31, 2010, 2009, and 2008, capital expenditures that are included in accounts payable were $5.0 million, $3.7 million, and $11.5 million, respectively.

See accompanying Notes to Consolidated Financial Statements.

Wausau Paper Corp. and Subsidiaries

Consolidated Statements of Stockholders Equity

(all dollar amounts in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balances December 31, 2007	$173,950	$268,062	$(26,225)	$(134,872)	$280,915
Comprehensive loss, 2008:					
Net loss		(15,834)			(15,834)
Retirement and other post-retirement plans (Net of $17,890 deferred tax)			(31,883)		(31,883)
Comprehensive loss, 2008					(47,717)
Adoption of measurement date provisions of ASC 715-10 (Net of $1,066 deferred tax)		(2,274)	408		(1,866)
Cash dividends declared		(16,715)			(16,715)
Restricted stock grant	(147)			235	88
Settlement of performance unit grant	(499)			359	(140)
Stock-based award compensation	1,512				1,512
Purchases of treasury stock				(8,496)	(8,496)
Balances December 31, 2008	174,816	233,239	(57,700)	(142,774)	207,581
Comprehensive earnings, 2009:					
Net earnings		20,563			20,563
Retirement and other post-retirement plans (Net of $2,643 deferred tax)			(5,423)		(5,423)
Comprehensive earnings, 2009					15,140
Dividends on stock-based awards		(45)			(45)
Restricted stock grant	(267)			832	565
Settlement of performance unit grant	(1,330)			785	(545)
Stock-based award compensation	2,726				2,726

Balances December 31, 2009	**175,945**	**253,757**	**(63,123)**	**(141,157)**	**225,422**
Comprehensive earnings, 2010:					
Net earnings		**36,856**			**36,856**
Retirement and other post-retirement plans (Net of $271 deferred tax)			**(3,056)**		**(3,056)**
Comprehensive earnings, 2010					**33,800**
Cash dividends declared		**(2,949)**			**(2,949)**
Stock options exercised	**(87)**			**316**	**229**
Restricted stock grant	**203**			**(51)**	**152**
Settlement of performance unit grant	**(952)**			**984**	**32**
Stock-based award compensation	**2,980**				**2,980**
Balances December 31, 2010	**$178,089**	**$287,664**	**$(66,179)**	**$(139,908)**	**$259,666**

See accompanying Notes to Consolidated Financial Statements.

Wausau Paper Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1

Description of the Business and Summary of Significant Accounting Policies

Wausau Paper Corp. manufactures, converts, and sells paper and paper products within two principal segments: Tissue and Paper. The majority of our products are sold within the United States and Canada.

The Tissue segment produces a complete line of towel and tissue products that are marketed along with soap and dispensing systems for the industrial and commercial away-from-home market.

The Paper segment manufactures, converts, and markets a broad line of premium printing and writing grades, as well as produces a wide variety of technical specialty papers that include supercalendered backing papers for pressure-sensitive labeling applications, tape backing, and packaging materials for a broad range of food, medical, and industrial applications.

Basis of Presentation

The consolidated financial statements include the accounts of Wausau Paper Corp. and our subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Cash and Cash Equivalents

We define cash equivalents as highly liquid, short-term investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates market.

There were approximately $1.9 million and $1.2 million of cash and cash equivalents on deposit with one bank at December 31, 2010 and 2009, respectively.

Inventories

Pulpwood, finished paper products, and approximately 97% of raw materials are valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market. All other inventories are valued at the lower of average cost or market. Liquidations in individual LIFO inventory pools decreased cost of sales by $0.2 million and $4.1 million for the years ended December 31, 2010 and 2009, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and are depreciated over the estimated useful lives of the assets using the straight-line method for financial statement purposes. Land and construction in progress are stated at cost. The cost and related accumulated depreciation of all plant and equipment retired or otherwise disposed of are removed from the accounts, and any resulting gains or losses are included in the Consolidated Statements of Operations.

Buildings are depreciated over a 20 to 45 year period; machinery and equipment over a 3 to 20 year period. Maintenance and repair costs are charged to expense as incurred. Improvements that extend the useful lives of the assets are added to the plant and equipment accounts.

Interest capitalized on long-term projects in 2010, 2009, and 2008 totaled $0.2 million, $0.7 million, and $0.2 million, respectively.

We assess the recoverability of assets to be held and used by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets, based on a discounted cash flow analysis. In 2010, we recorded an impairment loss of $0.5 million. No impairment loss was recorded in 2009. In 2008, we recorded an impairment loss of less than $0.1 million.

Timber and timberlands are stated at net depleted value. We capitalize the cost of purchasing timberlands and reforestation costs. Interest and taxes related to timberlands are expensed as incurred. Reforestation costs include site preparation, planting, fertilizing, herbicide application, and thinning. Temporary logging roads are expensed while long-term logging roads are capitalized and amortized over the estimated useful lives of the roads, which is generally 15 to 20 years. Depletion is recorded as timber is harvested and included in inventory until conversion into saleable product. Depletion is calculated using the block and units-of-production methods. Under these methods, the capitalized costs of large land tracts are divided by the estimated volume of timber anticipated to be harvested on each tract. Depletion is either recorded as each block is harvested or as a percentage of each block harvested. The cost and related depletion of timberlands sold under our timberland sales program are removed from the accounts, and any resulting gains or losses are included as a component of cost of sales in the Consolidated Statements of Operations. Timberland sales gains of $8.0 million, $3.2 million, and $6.2 million were included in cost of sales in the Consolidated Statements of Operations for the years ended December 31, 2010, 2009, and 2008, respectively.

Income Taxes

Estimates of income taxes refundable and payable, deferred income tax assets and liabilities, and the effective tax rate are based on an analysis of many factors including interpretations of Federal, state, and foreign income tax laws, the difference between tax and financial reporting basis of assets and liabilities, estimates of amounts currently due or owed, realization of income tax benefits in future years, and current accounting standards. Estimates are reviewed and updated on a quarterly basis as facts and circumstances change and actual results are known.

Adjustments to the effective income tax rate and recorded assets and liabilities may occur in future periods if actual results differ significantly from original estimates and interpretations.

Treasury Stock

Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the weighted-average cost basis.

Accumulated Other Comprehensive Loss

For all periods presented, the accumulated other comprehensive loss is comprised of cumulative net actuarial losses and prior service cost not yet recognized as a component of net periodic benefit costs for retirement plans and other post-retirement benefit plans, net of tax of $38.8 million, $39.1 million, and $36.4 million at December 31, 2010, 2009, and 2008, respectively.

Revenue Recognition

Revenue is recognized, net of estimated discounts, allowances and returns upon shipment of goods at which time title passes to the customer. Upon shipment, the customer is obligated to pay us and we have no remaining obligation. We grant credit to customers in the ordinary course of business.

Shipping and handling costs billed to customers are included in net sales, and the related costs are included in cost of sales in the Consolidated Statements of Operations.

In certain circumstances, we will enter into agreements to sell dispenser systems to our customers at a reduced cost. These agreements contain specific provisions, among which the customer must maintain the dispenser system and utilize our products in the dispenser over the term of the agreement. We evaluate the recoverability of the carrying amount of the dispenser systems whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. We use judgment to determine when an impairment test is necessary. No impairment losses related to dispenser systems were recorded in 2010, 2009, or 2008. The net costs associated with providing the dispenser system at a discount are recorded in other assets on our Consolidated Balance Sheets, and are amortized as a reduction of net sales over the term of the agreement. There were approximately $44.0 million and $43.1 million recorded in other assets for dispenser systems at December 31, 2010 and 2009, respectively. In the years ended December 31, 2010 and 2009, deferred costs related to dispenser systems were approximately $17.4 million and $20.4 million, respectively.

Stock-based Compensation Plans

We have adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 718-10 (originally issued as Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment), which requires that certain share-based compensation awards be remeasured at their fair value at each interim reporting period until final settlement. See Note 9 for a further discussion on stock-based compensation plans.

Earnings Per Share

We present both basic and diluted net earnings (loss) per share (EPS) amounts. Basic EPS is calculated based on the weighted average number of common shares outstanding during the respective year, while diluted EPS is calculated based on the weighted average number of common shares and common stock equivalents outstanding during the respective year. The difference between basic and diluted EPS is solely attributable to stock-based compensation plans. See Note 9 for information on stock-based compensation plans. We use the treasury-stock method to calculate the impact of outstanding awards of stock options, restricted stock, and restricted stock unit awards, referred to as performance units. Stock options for which the exercise price exceeds the average market price over the period have an antidilutive effect on EPS and, accordingly, are excluded from the calculation.

For the years ended December 31, 2010, 2009, and 2008, stock-based grants for 1,981,893, 1,734,476, and 2,258,220 shares, respectively, were excluded from the diluted EPS calculation because the shares were antidilutive.

Basic and diluted earnings (loss) per share are reconciled as follows:

(all amounts in thousands, except per share data)	**2010**	2009	2008
Net earnings (loss)	**$ 36,856**	$ 20,563	$(15,834)
Basic weighted average common shares outstanding	**48,965**	48,834	49,033
Dilutive securities:			
Stock compensation plans	**327**	283	
Diluted weighted average common shares outstanding	**49,292**	49,117	49,033
Net earnings (loss) per share basic	**$ 0.75**	$ 0.42	$ (0.32)
Net earnings (loss) per share diluted	**$ 0.75**	$ 0.42	$ (0.32)

Derivatives

In the past, we have used derivative instruments to mitigate our exposure to interest rate risk. We do not issue such instruments for trading purposes. At December 31, 2010 and 2009, there were no derivative instruments outstanding.

Research and Development Expenses

Research and development costs are expensed as incurred. Expenditures for product development were $3.1 million, $2.4 million, and $2.5 million in 2010, 2009, and 2008, respectively.

Note 2 Restructuring

In December 2008, we announced plans to permanently close our Paper segment s converting operations at our Appleton, Wisconsin facility. In December 2009, operations fully ceased and the Appleton facility was closed. The converting equipment at the Appleton facility was relocated to our paper mills in Brokaw, Wisconsin and Brainerd, Minnesota, and distribution activities were relocated to a distribution facility in Bedford Park, Illinois. The cost of sales in the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008 includes $1.4 million and less than $0.1 million, respectively, in pre-tax charges for associated closure costs. Pre-tax restructuring expense, as reflected in the Consolidated Statements of Operations, related to severance and benefit continuation costs was $0.5 million and less than $0.1 million, respectively, for the years ended December 31, 2009 and 2008. At December 31, 2009, $0.4 million was recorded as a current liability for restructuring expenses, primarily consisting of severance and benefit continuation costs that were paid in 2010. No closure charges were incurred during 2010.

In March 2009, we announced plans to permanently shut down all operations at our Paper segment s Jay, Maine paper mill. The paper mill was closed during the second quarter of 2009. The cost of sales in the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008, includes $20.8 million and $7.2 million, respectively, in pre-tax charges for depreciation on assets and other associated closure costs. Pre-tax restructuring expense, as reflected in the Consolidated Statements of Operations, related to severance and benefit continuation costs and other associated closure costs for the years ended December 31, 2009 and 2008, was $4.7 million and $2.4 million, respectively. No closure costs were incurred during 2010.

In October 2007, we announced plans to cease the Paper segment s papermaking operations at our Groveton, New Hampshire paper mill. The papermaking operations permanently ceased during December 2007 and the paper mill was closed. The cost of sales in the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008 includes less than $0.1 million and $10.1 million, respectively, related to associated closure costs. Pre-tax restructuring expense for the years ended December 31, 2009 and 2008, as reflected in the Consolidated Statements of Operations, includes $0.3 million and $13.4 million, respectively, related to contract termination costs and other associated closure costs. No closure costs were incurred during 2010.

In the fourth quarter of 2010, we incurred pre-tax charges of $3.8 million due to a rate adjustment associated with a natural gas transportation contract for our former Groveton, New Hampshire paper mill. The charge is included in selling and administrative expenses in the Consolidated Statements of Operations. At December 31, 2010, $2.3 million and $9.6 million are included in current liabilities and noncurrent liabilities, respectively, consisting of contract termination costs. We will continue to make payments related to the contract over the original contractual term.

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. At December 31, 2009, there were $3.0 million in alternative fuel mixture tax credits included in receivables, net, on the Consolidated Balance Sheets. These refunds were collected during the first quarter of 2010. For the year ended December 31, 2009, the cost of sales in the Consolidated Statements of Operations includes credits for eligible alternative fuel mixture tax refunds of $13.5 million, which represent eligible alternative fuel mixture credits earned less associated expenses of $1.0 million.

In October 2010, we were approved by the IRS to be registered as a producer of cellulosic biofuel under the Internal Revenue Code. The cellulosic biofuel credit is equal to $1.01 per gallon of black liquor produced in our pulp and paper mill operations. After approval by the IRS, we made the decision to convert the previously utilized alternative fuel mixture credit to the cellulosic biofuel credit and claimed the credit for all black liquor gallons produced in 2009. See Note 8 for additional information on the conversion to the cellulosic biofuel credit.

Note 4

Supplemental Balance Sheet Information

(all dollar amounts in thousands)		**2010**	2009
Receivables			
	Trade	**$ 91,159**	$ 91,333
	Other	**4,736**	8,709
		95,895	100,042
	Less: allowances for doubtful accounts	**(1,747)**	(1,511)
		$ 94,148	$ 98,531
Inventories			
	Raw materials	**$ 37,982**	$ 31,098
	Work in process and finished goods	**116,456**	100,251
	Supplies	**6,093**	6,356
	Inventories at cost	**160,531**	137,705
	LIFO reserve	**(54,203)**	(47,701)
		$ 106,328	$ 90,004
Property, plant, and equipment			
	Buildings	**$ 119,835**	$ 117,413
	Machinery and equipment	**965,173**	948,591
		1,085,008	1,066,004
	Less: accumulated depreciation	**(736,594)**	(705,743)
	Net depreciated value	**348,414**	360,261
	Land	**6,747**	6,562
	Timber and timberlands, net of depletion	**5,748**	5,688
	Construction in progress	**19,892**	6,972
		$ 380,801	$ 379,483
Accrued and other liabilities			
	Payroll	**$ 10,635**	$ 14,113
	Vacation pay	**11,670**	11,349
	Compensation plans	**486**	1,643
	Employee retirement plans	**5,297**	6,321
	Rebates	**13,573**	13,462
	Accrued income taxes	**400**	435
	Other	**17,181**	15,629
		$ 59,242	$ 62,952

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Note 5

Debt

A summary of long-term debt as of December 31 is as follows:

(all dollar amounts in thousands)	**2010**	2009
Unsecured private placement notes with interest of 7.43%, due August 31, 2011	**$ 35,000**	$ 35,000
Unsecured private placement notes with interest of 5.69%, due April 9, 2017	**50,000**	
Industrial development bonds due July 1, 2023, with weighted average interest rate of 0.51% in 2010 and 0.66% in 2009	**19,000**	19,000
Revolving-credit agreement with financial institutions, with weighted average interest rate of 2.09% in 2010 and 2.85% in 2009		33,000
Commercial paper placement agreement, with weighted average interest rate of 1.70% in 2010 and 1.78% in 2009	**23,240**	30,514
Note payable		127
Subtotal	**127,240**	117,641
Premium on senior notes	**142**	355
Total debt	**127,382**	117,996
Less: current maturities of long-term debt		(52)
Total long-term debt	**$ 127,382**	$117,944

We had $138.5 million in unsecured private placement notes that were closed and funded on August 31, 1999. On August 31, 2009, $68.5 million of the unsecured private placement notes matured and were repaid, and on August 31, 2007, $35.0 million of the unsecured private placement notes matured and were repaid. The remaining principal amount of the notes is $35.0 million with an interest rate of 7.43%. These 12-year notes mature on August 31, 2011. In connection with the note offering, we entered into an interest-rate swap agreement under which the interest rate paid by us with respect to $30 million of the 12-year notes was the three-month LIBOR rate, plus .55%. During 2001, we terminated this interest-rate swap arrangement. The amounts received from the swap counterparties at termination approximated the fair values of the swaps at the respective termination dates. The premium recorded on debt during the period the swaps were outstanding will continue to be amortized using the effective interest-rate method over the remaining term of the respective debt instruments. See Note 12 for additional information regarding the interest-rate swap and amortization of debt premium.

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 December 31, 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 retired a $165 million facility that was scheduled to expire in July 2011. Under this agreement, we may elect the base for interest from either domestic or offshore rates. In addition, the agreement provides for sublimits of $50 million for the issuance of standby letters of credit and $10 million for certain short-term bid loans among the bank group. Under the new credit agreement, we pay an annual facility fee (initially 0.425%). Total facility fees paid under this agreement and previous agreements were $581,000 in 2010, $815,000 in 2009, and $351,000 in 2008. At December 31, 2010, there were no amounts outstanding under this agreement. There was $33.0 million in outstanding borrowings under a revolving-credit agreement at December 31, 2009.

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). Also, we are subject to similar financial and other covenants under the note purchase and private-shelf agreement, as well as under terms of the $35.0 million unsecured private placement notes maturing in August 2011. At December 31, 2010 and 2009, we were in compliance with all required covenants.

We maintain an unrated commercial paper placement agreement with a bank to issue up to $50 million of unsecured debt obligations. The agreement requires unused credit availability under our revolving-credit agreement equal to the amount of outstanding commercial paper. Outstanding borrowings under this agreement at December 31, 2010 and 2009 were $23.2 million and $30.5 million, respectively.

In August 1995, we obtained $19 million in industrial development bond financing to fund an upgrade of the Brokaw mill wastewater treatment plant. The bonds mature in 2023 and bear interest at short-term rates. The bonds are supported by a letter of credit that is issued under our revolving-credit agreement.

At December 31, 2010, under the $125 million revolving-credit facility, we have the ability and the intent to refinance on a long-term basis the amount of outstanding commercial paper and the $35.0 million of unsecured private placement notes maturing in August 2011. As a result, we have classified the amounts as long-term on our Consolidated Balance Sheets.

The aggregate annual maturities of long-term debt are as follows:

(all dollar amounts in thousands)	Annual maturities
2011	$ 58,240

2012	
2013	
2014	
2015	
Thereafter	69,000