WAUSAU PAPER CORP.
Form 10-Q
August 10, 2009

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2009**

OR

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

SECURITIES EXCHANGE ACT OF 1934

For the transition period from____________ to _________________

Commission file number: **1-13923**

WAUSAU PAPER CORP.

(Exact name of registrant as specified in charter)

WISCONSIN

39-0690900

(State of incorporation)

(I.R.S. Employer Identification Number)

100 Paper Place

Mosinee, Wisconsin 54455-9099

(Address of principal executive office)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. Yes T No £

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer £

Accelerated filer 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

The number of common shares outstanding at July 31, 2009 was 48,918,405.

WAUSAU PAPER CORP.

AND SUBSIDIARIES

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PART II.

OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1.

Financial Statements

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

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	Three Months Ended June 30,		Six Months Ended June 30,	
(all amounts in thousands, except per share data)	**2009**	2008	**2009**	2008
Net sales	**$262,174**	$305,211	**$500,945**	$603,929
Cost of sales	**238,553**	283,442	**457,076**	568,225
Gross profit	**23,621**	21,769	**43,869**	35,704
Selling and administrative	**20,514**	21,708	**39,545**	42,663
Restructuring	**3,101**	12,815	**3,890**	13,961
Operating profit (loss)	**6**	(12,754)	**434**	(20,920)
Interest expense	**(3,069)**	(2,510)	**(5,728)**	(5,331)
Other (expense) income, net	**(1)**	57	**65**	241
Loss before income taxes	**(3,064)**	(15,207)	**(5,229)**	(26,010)
Credit for income taxes	**(1,149)**	(5,627)	**(1,961)**	(9,624)
Net loss	**$ (1,915)**	$ (9,580)	**$ (3,268)**	$(16,386)

Net loss per share-basic and diluted	**$ (0.04)**	$ (0.20)	**$ (0.07)**	$ (0.33)
Weighted average shares outstanding-basic and diluted	**48,840**	49,020	**48,825**	49,290
Dividends declared per common share	**$**	$ 0.17	**$**	$ 0.17

See Notes to Condensed Consolidated Financial Statements.

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(all dollar amounts in thousands)	**June 30, 2009 (unaudited)**	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,040**	$ 4,330
Receivables, net	**105,637**	96,740
Refundable income taxes	**308**	5,510
Inventories	**91,928**	118,195
Deferred income taxes	**3,688**	5,793
Spare parts	**26,993**	27,375
Other current assets	**5,786**	4,619
Total current assets	**241,380**	262,562
Property, plant, and equipment, net	**389,491**	405,408
Other assets	**45,739**	42,880
Total Assets	**$ 676,610**	$ 710,850
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	**$ 68**	$ 51
Accounts payable	**58,762**	73,747
Accrued and other liabilities	**74,180**	69,934

Total current liabilities	**133,010**	143,732
Long-term debt	**175,957**	191,963
Deferred income taxes	**19,756**	25,588
Post-retirement benefits	**69,812**	70,552
Pension	**39,337**	38,901
Other noncurrent liabilities	**32,090**	32,533
Total liabilities	**469,962**	503,269
Stockholders equity	**206,648**	207,581
Total Liabilities and Stockholders Equity	**$ 676,610**	$ 710,850

See Notes to Condensed Consolidated Financial Statements.

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(all dollar amounts in thousands)	Six Months Ended June 30, **2009**	2008
Net cash provided by operating activities	**$ 52,818**	$ 8,706
Cash flows from investing activities:		
Capital expenditures	**(31,231)**	(14,362)
Proceeds from property, plant, and equipment disposals	**900**	4,093
Net cash used in investing activities	**(30,331)**	(10,269)
Cash flows from financing activities:		
Net (payments) issuances of commercial paper	**(7,500)**	10,350
Net (payments) borrowings under credit agreement	**(8,110)**	3,000
Payments under capital lease obligation and note payable	**(16)**	(84)
Dividends paid	**(4,151)**	(8,422)
Payments for purchase of company stock		(8,496)
Net cash used in financing activities	**(19,777)**	(3,652)
Net increase (decrease) in cash and cash equivalents	**2,710**	(5,215)
Cash and cash equivalents, beginning of period	**4,330**	18,121
Cash and cash equivalents, end of period	**$ 7,040**	$ 12,906

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1.

Basis of Presentation

The condensed consolidated financial statements include the results of Wausau Paper Corp. and our consolidated subsidiaries. All significant intercompany transactions have been eliminated. The accompanying condensed financial statements, in the opinion of management, reflect all adjustments, which are normal, and recurring in nature and which are necessary for a fair statement of the results for the periods presented. Results for the interim period are not necessarily indicative of future results. In all regards, the financial statements have been presented in accordance with accounting principles generally accepted in the United States of America. Refer to notes to consolidated financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2008, for our accounting policies and other disclosures, which are pertinent to these statements.

Note 2.

New Accounting Pronouncements and Other Items

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events (SFAS 165), which requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, SFAS 165 requires an entity to disclose the date through which subsequent events have been evaluated. SFAS 165 became effective and we adopted the provisions of this pronouncement for the quarter ended June 30, 2009. We have evaluated subsequent events through August 10, 2009, the date of the issuance of our condensed consolidated financial statements. The adoption of SFAS 165 did not have an impact on the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 stipulates the FASB Accounting Standards Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The implementation of this standard will not have a material impact on our condensed consolidated financial statements.

The Internal Revenue Code provides for an excise tax credit for the use of qualified alternative fuel mixtures in a taxpayer s trade or business. The credit is scheduled to expire on December 31, 2009. The credit is equal to $0.50 per gallon of alternative fuel contained in the mixture and is 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 Specialty Products 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. Although there is some uncertainty as to the continued existence and availability of the alternative fuel mixture tax credit, we are reasonably assured that the tax credit for the alternative fuel mixture through June 30, 2009, has been earned and will be collected from the IRS. During the second quarter of 2009, we became eligible for alternative fuel mixture tax credits totaling $6.1 million which are included in receivables, net on the Condensed Consolidated Balance Sheets. Subsequent to June 30, 2009, we have received $4.7 million of these refunds from the IRS. We expect to receive the remaining refunds in the third quarter of 2009. For the three and six months ended June 30, 2009, the cost of sales in the Condensed Consolidated Statements of Operations includes a credit for eligible alternative fuel mixture tax refunds of $5.7 million, representing eligible alternative fuel mixture credits earned for the period from which qualified alternative fuel mixing began through June 30, 2009, less $0.4 million of associated expenses.

Note 3.

Restructuring and Divestitures

In August 2008, we announced plans to permanently shut down one of the two paper machines at our Specialty Products paper mill in Jay, Maine. The shutdown of this machine was completed in December 2008. In March 2009, we announced further plans to permanently shut down the remaining paper machine and cease all operations at the Jay, Maine paper mill. The paper mill was closed during the second quarter of 2009. The cost of sales in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009, includes $17.9 million and $21.2 million, respectively, in pre-tax charges for accelerated depreciation on assets and other associated closure costs, due to the closure of the paper mill. Pre-tax restructuring expense for the three and six months ended June 30, 2009, as reflected in the Condensed Consolidated Statements of Operations, includes $2.8 million and $3.3 million, respectively, related to severance and benefit continuation costs and other associated closure costs related to the closure of the paper mill. At June 30, 2009, approximately $0.6 million was recorded as a current liability for restructuring expenses, consisting primarily of severance and benefit continuation costs. Additional pre-tax closure charges of approximately $1.6 million are anticipated to be incurred during the remainder of 2009.

In December 2008, we announced plans to permanently cease Printing & Writing s converting operations at our Appleton, Wisconsin facility. The operations at the Appleton facility are being reduced in a phased manner and the facility is expected to be permanently closed prior to December 31, 2009. The converting equipment at the Appleton facility is being relocated to our other Printing & Writing mills. The cost of sales, as reflected in the Condensed Consolidated Statements of Operations, for the three and six months ended June 30, 2009, includes pre-tax charges of $0.4 million and $0.8 million, respectively, in related closure costs. Restructuring expense in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009, includes $0.1 million and $0.3 million, respectively, in pre-tax charges related to severance and benefit continuation costs. At June 30, 2009, approximately $0.4 million was recorded as a current liability for restructuring expenses, consisting primarily of severance and benefit continuation costs. Additional pre-tax closure charges of approximately $0.9 million, primarily related to equipment relocation costs, are anticipated to be incurred during the remainder of 2009.

In December 2007, the roll wrap portion of our Specialty Products business was sold to Cascades Sonoco, Inc. We continued to manufacture roll wrap and related products for the buyer during a post-closing transition period that expired on July 2, 2008. Pre-tax restructuring expense related to severance and benefit continuation costs and other associated closure costs for the three and six months ended June 30, 2008, was $0.1 million and $0.4 million, respectively. We have retained and intend to sell the real property at the roll wrap production facilities. At June 30, 2009, the facilities met the classification requirements of net assets held for sale as defined in Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, the land, buildings, and land improvements less accumulated depreciation are classified as net assets held for sale, which are included in other current assets on the Condensed Consolidated Balance Sheets. No significant costs related to the sale and closure of the roll wrap business have been or are expected to occur in 2009.

In October 2007, we announced plans to cease Printing & Writing s papermaking operations at our Groveton, New Hampshire paper mill. The papermaking operations permanently ceased during December 2007. The cost of sales in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008, includes $1.1 million and $7.9 million, respectively, in pre-tax charges for associated closure costs. Pre-tax restructuring expense for the three and six months ended June 30, 2009, as reflected in the Condensed Consolidated Statements of Operations, includes $0.1 million and $0.2 million, respectively, related to other associated closure costs. Pre-tax restructuring expense related to severance and benefit continuation costs, contract termination costs, and other associated closure costs was $12.7 million and $13.5 million, respectively, for the three and six months ended June 30, 2008. At June 30, 2009, we have recorded a current liability and long-term liability for restructuring expenses of $1.6 million and $8.4 million, respectively, consisting of contract termination costs. We will continue to make payments related to the contract over the contractual term. No significant additional closure charges related to the closure of the Groveton mill are anticipated during the remainder of 2009.

Note 4.

Income Taxes

We have adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a taxing authority.

At June 30, 2009, we have recorded a gross liability for unrecognized tax benefits of $1.1 million, all of which would impact our effective tax rate if recognized. There was no material change in the amount or components of the gross liability for unrecognized tax benefits from those recorded at December 31, 2008. We record penalties and accrued interest related to uncertain tax positions in the provision for income taxes in the Condensed Consolidated Statements of Operations. At June 30, 2009, we have recorded a liability for potential interest and penalties of approximately $0.5 million, which is included in the liability for uncertain tax

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positions. The total liability for uncertain tax positions at June 30, 2009, was $1.6 million, with $0.2 million of the liability recorded as a current liability and $1.4 million recorded as a noncurrent liability.

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the year ended December 31, 2005, and years thereafter. We also file income tax returns in numerous state jurisdictions with varying statutes of limitations. We do not expect any significant changes to our unrecognized tax benefits during the next twelve months.

Note 5.

Earnings Per Share

Due to the net losses reported in the three and six months ended June 30, 2009, there are no dilutive securities from our stock-based compensation plans, as stock-based grants for 2,502,859 shares are considered to be antidilutive. Likewise, as a result of the net losses reported in the three and six months ended June 30, 2008, there are no dilutive securities from our stock-based compensation plans, as stock-based grants for 2,115,811 shares are considered to be antidilutive. Hence, there are no items that require reconciliation in the comparison of basic and diluted earnings per share.

Note 6.

Receivables

Accounts receivable consisted of the following:

(all dollar amounts in thousands)	**June 30, 2009**	December 31, 2008
Trade	**$ 96,880**	$ 93,327
Other	**10,407**	4,336
	107,287	97,663
Less: allowances for doubtful accounts	**(1,650)**	(923)
	$ 105,637	$ 96,740

Note 7.

Inventories

The various components of inventories were as follows:

(all dollar amounts in thousands)	**June 30, 2009**	December 31, 2008
Raw materials	**$ 31,257**	$ 46,515
Work in process and finished goods	**96,928**	115,539
Supplies	**5,291**	7,390
Inventories at cost	**133,476**	169,444
Less: LIFO reserve	**(41,548)**	(51,249)
	$ 91,928	$ 118,195

Note 8.

Property, Plant, and Equipment

The accumulated depreciation on fixed assets was $776.7 million as of June 30, 2009, and $748.9 million as of December 31, 2008. The provision for depreciation, amortization, and depletion for the three months ended June 30, 2009 and 2008 was $31.3 million and $14.7 million, respectively. The provision for depreciation, amortization, and depletion for the six months ended June 30, 2009 and 2008 was $47.0 million and $34.5 million, respectively.

Included in cost of sales for the three and six months ended June 30, 2009, were net losses on sales of property, plant, and equipment of $0.2 million and $0.1 million, respectively, including gains on sales of timberlands of $0.6 million during both the three and six months ended June 30, 2009. Included in cost of sales for the three and six months ended June 30, 2008, were net gains on sales of property, plant, and equipment of $2.3 million and $4.0 million, respectively, including gains on sales of timberlands of $1.2 million and $3.3 million, respectively.

Note 9.

Debt

(all dollar amounts in thousands)	**June 30, 2009**	December 31, 2008
Unsecured private placement notes	**$103,500**	$103,500
Industrial development bonds	**19,000**	19,000
Revolving-credit agreement with financial institutions	**45,000**	52,500
Commercial paper placement agreement	**7,800**	15,910
Note payable	**178**	195
Subtotal	**175,478**	191,105
Premium on unsecured private placement notes	**547**	909
Total debt	**176,025**	192,014
Less: current maturities of long-term debt	**(68)**	(51)
Total long-term debt	**$175,957**	$191,963

On March 27, 2009, we amended our existing $165 million unsecured revolving-credit and the $103.5 million of unsecured private placement note agreements. Under the amendments, the minimum net worth covenant was adjusted to eliminate the impact of accumulated other comprehensive income or loss up to $70 million. At the time of the amendment to the agreements, we were in full compliance with the existing terms of all financial and other covenants under the agreements. At June 30, 2009, we were in compliance with all required covenants and expect to remain in full compliance throughout the remainder of 2009.

At June 30, 2009, the amount of commercial paper outstanding and the $68.5 million of unsecured private placement notes maturing on August 31, 2009, have been classified as long-term on our Condensed Consolidated Balance Sheets as we have the ability and intent to refinance the obligations under the revolving-credit agreement.

Note 10.

Pension and Other Post-retirement Benefit Plans

The components of net periodic benefit cost (credit) recognized in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2009 and 2008, are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2009	2008	**2009**	2008
Service cost	**$ 1,355**	$ 1,594	**$ 356**	$ 450
Interest cost	**3,113**	3,101	**1,136**	1,166
Expected return on plan assets	**(3,752)**	(3,695)		
Amortization of:				
Prior service cost (benefit)	**494**	470	**(874)**	(867)
Actuarial loss	**299**	488	**453**	504
Curtailments	**520**		**(1,500)**	
Settlements	**207**			
Net periodic benefit cost (credit)	**$ 2,236**	$ 1,958	**$ (429)**	$ 1,253

The components of net periodic benefit cost recognized in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2009 and 2008, are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2009	2008	**2009**	2008
Service cost	**$ 2,756**	$ 3,188	**$ 718**	$ 900
Interest cost	**6,221**	6,202	**2,281**	2,332
Expected return on plan assets	**(7,509)**	(7,390)		
Amortization of:				

Prior service cost (benefit)	**993**	940	**(1,747)**	(1,734)
Actuarial loss	**594**	976	**906**	1,008
Curtailments	**520**		**(1,500)**	
Settlements	**414**			
Net periodic benefit cost	**$ 3,989**	$ 3,916	**$ 658**	$ 2,506

For 2009, the curtailment recognized relates to the closure of our Specialty Products paper mill in Jay, Maine. We previously disclosed in our consolidated financial statements for the year ended December 31, 2008, that although we do not have a minimum funding requirement for defined benefit pension plans in 2009, we may elect to make contributions of up to $10.8 million directly to pension plans. As of June 30, 2009, we have made payments of approximately $1.3 million to our pension plans. We now expect to contribute $11.1 million directly to our pension plans in 2009. In addition, as previously reported, we expect to contribute $4.6 million directly to other post-retirement plans in 2009. As of June 30, 2009, we have contributed approximately $2.6 million to our other post-retirement plans.

Note 11.

Share-Based Compensation

We have adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which requires that share-based compensation awards be remeasured at their fair value at each interim reporting period until final settlement.

Stock Options, Restricted Stock Awards, and Performance Units

During the three and six months ended June 30, 2009, share-based compensation expense related to fixed option grants, restricted stock awards, and performance unit awards was approximately $0.6 million and $1.9 million, respectively. During the three and six months ended June 30, 2008, share-based compensation expense related to fixed option grants, restricted stock awards, and performance unit awards was approximately $0.1 million and $0.4 million, respectively.

Share-based compensation expense related to fixed option grants, restricted stock awards, and performance unit awards are included as a component of selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. We recognize compensation expense on grants of stock options, restricted stock, and performance unit share-based compensation awards on a straight-line basis over the requisite service period of each award. Forfeiture rates are estimated based upon our historical experience for each grant type. As of June 30, 2009, total unrecognized compensation cost related to share-based compensation awards was approximately $1.9 million, net of estimated forfeitures, which we expect to recognize over a weighted average period of approximately 0.8 years.

During the six months ended June 30, 2009, we granted 143,000 fixed stock options to certain employees and directors with a weighted-average exercise price of $10.88 per share. In addition, as a component of the director compensation policy, we awarded 14,298 of performance units during the six months ended June 30, 2009.

During the first half of 2009, we granted 66,000 shares of restricted stock. The 66,000 shares were valued based upon the closing price of Wausau Paper s common stock on the date of the grant and reflected in equity as a reduction in treasury stock outstanding. Compensation expense is recognized for the restricted stock awards on a straight-line basis over the vesting period of the entire award with the balance of unearned compensation reflected in the equity section of the balance sheet. Under the plan, shares of restricted stock have voting rights. Any cash dividends on the restricted shares are deferred and held by us until satisfaction of the vesting requirements. Total compensation expense recognized for restricted stock for the three and six months ended June 30, 2009, was $0.1 million and $0.4 million, respectively.

On an annual basis, we generally grant performance unit awards as part of a performance-based compensation award to certain employees of Wausau Paper. The vesting of these performance-based awards is subject to (1) achieving certain operating profit levels and (2) completion of a service requirement. During the first six months of 2009, we granted 213,937 performance unit awards as part of a performance-based compensation award that vests subject to meeting certain performance criteria for the year ended December 31, 2009. During the three and six months ended June 30, 2009, we have recognized approximately $0.4 million and $0.6 million, respectively, in share-based compensation expense related to the performance-based awards for 2009, as it is probable a portion of the awards will vest as performance criteria are met.

In addition, during the first half of 2009, we granted 69,869 performance unit awards as part of a retention-based compensation award to certain employees of Wausau Paper. The vesting of these performance unit awards is subject to the completion of a service requirement. Compensation expense is recognized for these awards on a straight-line basis over the requisite service period of each award. During the three and six months ended June 30, 2009, we have recognized approximately $0.1 million and $0.4 million, respectively, in share-based compensation expense related to these performance unit awards.

Stock Appreciation Rights and Dividend Equivalents

Share-based compensation provisions or credits related to stock appreciation rights and dividend equivalents are determined based upon a remeasurement to their fair value at each interim reporting period in accordance with the provisions of SFAS 123R. During the three and six months ended June 30, 2009, we recognized a charge of approximately $0.2 million and a credit of approximately $0.7 million, respectively, in share-based compensation related to stock apprec