

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

WAUSAU PAPER CORP.
Form 10-Q
May 10, 2006

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)
(checked box) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2006

OR
(box) 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 (checked box) No (box)

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

Large accelerated filer (box) Accelerated filer (checked box)
Non-accelerated filer (box)

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

The number of common shares outstanding at April 28, 2006 was 51,120,809.

WAUSAU PAPER CORP.

AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

PAGE NO.

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

Item 1.	Financial Statements Condensed Consolidated Statements of Operations, Three Months Ended March 31, 2006 (unaudited) and March 31, 2005 (unaudited)	1
	Condensed Consolidated Balance Sheets, March 31, 2006 (unaudited) and December 31, 2005 (derived from audited financial statements)	2
	Condensed Consolidated Statements of Cash Flows, Three Months Ended March 31, 2006 (unaudited) and March 31, 2005 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	3-11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12-18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	19
Item 4.	Controls and Procedures	19
 PART II. OTHER INFORMATION		
Item 1A.	Risk Factors	20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 6.	Exhibits	20

i

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Wausau Paper Corp. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
(all amounts in thousands, except per share data)	2006	2005
NET SALES	\$ 283,663	\$ 267,741
Cost of products sold	261,338	244,606
GROSS PROFIT	22,325	23,135
Selling and administrative expenses	20,976	17,527
Restructuring	132	-
OPERATING PROFIT	1,217	5,608
Interest expense	(2,713)	(2,650)
Other income (expense), net	42	115

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

(LOSS) EARNINGS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(1,454)	3,073
(Credit) provision for income taxes	(538)	1,137
(LOSS) EARNINGS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(916)	1,936
Cumulative effect of a change in accounting principle (net of income taxes)	(427)	-
NET (LOSS) EARNINGS	\$ (1,343)	\$ 1,936
(LOSS) EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE - BASIC AND DILUTED	\$ (0.02)	\$ 0.04
Cumulative effect of a change in accounting principle (net of income taxes), per share	(0.01)	-
NET (LOSS) EARNINGS PER SHARE - BASIC AND DILUTED	\$ (0.03)	\$ 0.04
Weighted average shares outstanding-basic	51,041	51,690
Weighted average shares outstanding-diluted	51,041	51,991

See Notes to Condensed Consolidated Financial Statements.

1

Wausau Paper Corp. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

(all dollar amounts in thousands)	MARCH 31, 2006	December 31, 2005
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 7,491	\$ 15,500
Receivables, net	108,600	97,904
Refundable income taxes	5,479	5,831
Inventories	148,814	145,846
Deferred income taxes	10,072	9,971
Other current assets	4,787	4,632
Total current assets	285,243	279,684
Property, plant, and equipment - net	487,009	494,228
Other assets	47,251	46,601
TOTAL ASSETS	\$819,503	\$820,513
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 237	\$ 86
Accounts payable	80,123	78,726
Accrued and other liabilities	56,740	70,153
Total current liabilities	137,100	148,965
Long-term debt	170,536	161,011
Deferred income taxes	91,588	91,334
Post-retirement benefits	59,744	58,171
Pension	25,639	26,905
Other noncurrent liabilities	25,382	23,908
Total liabilities	509,989	510,294

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

Stockholders' equity	309,514	310,219
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$819,503	\$820,513

See Notes to Condensed Consolidated Financial Statements.

2

Wausau Paper Corp. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(all dollar amounts in thousands)	Three Months Ended March 31,	
	2006	2005
Net cash used in operating activities	(\$ 10,409)	(\$ 17,118)
Cash flows from investing activities:		
Capital expenditures	(4,912)	(8,633)
Proceeds from property, plant, and equipment disposals	1,655	-
Net cash used in investing activities	(3,257)	(8,633)
Cash flows from financing activities:		
Issuance of commercial paper	9,500	-
Payment under capital lease obligation and note payable	(35)	(28)
Dividends paid	(4,340)	(4,394)
Proceeds from stock option exercises	1,405	-
Excess tax benefits related to stock options	94	-
Payments for purchase of company stock	(967)	-
Cash provided by (used in) financing activities	5,657	(4,422)
Net decrease in cash and cash equivalents	(8,009)	(30,173)
Cash and cash equivalents, beginning of period	15,500	51,914
Cash and cash equivalents, end of period	\$ 7,491	\$ 21,741
Supplemental Cash Flow Information:		
Interest paid-net of amount capitalized	\$ 5,170	\$ 5,268
Income taxes paid	\$ 658	\$ 6,578

Noncash investing and financing activities: A capital lease obligation of \$393 was recorded in the first quarter of 2006 when we entered into a new lease agreement for equipment.

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

3

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 the financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2005, for our accounting policies and other

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

disclosures, which are pertinent to these statements.

NOTE 2. EARNINGS PER SHARE

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

(all amounts in thousands, except per share data)	Three Months Ended March 31,	
	2006	2005
Net (loss) earnings	\$ (1,343)	\$ 1,936
Basic weighted average common shares outstanding	51,041	51,690
Effect of dilutive securities:		
Share-based compensation awards	-	301
Diluted weighted average common shares outstanding	51,041	51,991
Net (loss) earnings per share:		
Basic	\$ (0.03)	\$ 0.04
Diluted	\$ (0.03)	\$ 0.04

Share-based compensation awards for which the exercise price exceeds the average market price over the applicable period have an antidilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS. Due to the loss reported in the quarter ended March 31, 2006, all share-based compensation award shares are considered to be antidilutive. As a result, for the three months ended March 31, 2006 and March 31, 2005, 2,180,942 shares and 567,911 shares, respectively, issued under share-based compensation plans were excluded from the diluted EPS calculation because the shares were antidilutive.

NOTE 3. SHARE-BASED COMPENSATION

Effective January 1, 2006, Wausau Paper adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective application transition method. This accounting standard requires compensation cost related to share-based payment transactions to be recognized as an operating expense in the statement of operations over the requisite service period based on the grant-date fair value of the award.

Prior to adopting SFAS 123R, we measured compensation cost for stock-based compensation plans using the "intrinsic value based method" prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to

4

Employees." As a result, compensation expense for restricted stock was recognized ratably over the service period based upon the grant-date market value and compensation expense for performance stock awards was recognized ratably over the performance period based on changes in quoted market prices of Wausau Paper common stock and the likelihood of achieving performance goals. The exercise price of all employee stock options was at least equal to their grant-date market value. Accordingly, no compensation expense was recorded for stock options granted to employees.

Under SFAS 123R, share-based payment awards that are settled in cash continue to be classified as a liability; however, rather than remeasuring the award at the intrinsic value each reporting period, the award is remeasured at its fair value each reporting period until final settlement. The difference between the liability as previously computed (i.e., intrinsic value) and the fair value of the liability award on

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

January 1, 2006, net of any related tax effects, was recorded as a cumulative effect of a change in accounting principle in the Condensed Consolidated Statement of Operations.

The impact of accounting for share-based compensation to our reported net loss for the three months ended March 31, 2006 under the provisions of SFAS 123R using the "fair value based method" compared to the "intrinsic based method" was an after-tax expense of \$0.3 million, or approximately \$0.01 per share.

SFAS 123R also requires us to report the tax benefit from the tax deduction that is in excess of recognized compensation costs (excess tax benefits) as a financing cash flow rather than an operating cash flow. Before the adoption on January 1, 2006, we reported the entire tax benefit related to the exercise of stock options as an operating cash flow.

STOCK OPTIONS, RESTRICTED STOCK AWARDS, AND PERFORMANCE UNITS

During the three months ended March 31, 2006, we recognized approximately \$0.1 million in share-based compensation expense which included fixed option grants and performance unit awards. 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. As of March 31, 2006, total unrecognized compensation cost related to share-based compensation awards was approximately \$0.1 million which will be recognized ratably through December 31, 2006.

We are authorized to deliver up to 3.7 million shares of our common stock upon exercise of non-qualified stock options or incentive stock options, or upon grant or in payment of performance shares, performance units and restricted stock under various incentive plans. Wausau Paper has one stock incentive plan, the "2000 Stock Incentive Plan" under which awards to grantees are available for future grant. Approximately 1.4 million shares were available under the 2000 Stock Incentive Plan for future grant at March 31, 2006. We use treasury stock to deliver common stock shares under these plans. Non-qualified stock options expire twenty years from the grant date.

5

Stock Options

During the three months ended March 31, 2006, no stock options were granted. A summary of stock option activity during the three months ended March 31, 2006 is as follows:

(all dollar amounts in thousands)

	Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	2,489,842	\$12.32		
Granted	-	-		
Exercised	(139,000)	10.11		
Forfeited/Cancelled	(75,000)	15.51		
Outstanding at end of period	2,275,842	12.35	14.8	\$3,294
Exercisable at end of period	1,897,624	12.49	12.3	3,294

The table below presents stock option activity for the three months

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

ended March 31, 2006 and 2005:

(all dollar amounts in thousands)	Three Months Ended March 31,	
	2006	2005
Total intrinsic value of stock options exercised	\$ 529	\$ -
Cash received from stock option exercises	1,405	-
Income tax benefit from the exercise of stock options	94	-
Total fair value of stock options vested during period	25	42

Restricted Stock

We may also grant restricted stock awards to certain employees. No grants of restricted stock were made during the three months ended March 31, 2006.

Performance Units

Under the 2000 Stock Incentive Plan, performance unit awards may be granted to certain employees and directors of Wausau Paper. The vesting of certain performance awards may be subject to (1) achieving certain operating profit levels and (2) completion of a service requirement. Service condition vesting ranges from zero to two years. We value performance unit awards at the average of the high and low sales price of our common stock on the date of grant.

6

A summary of performance unit activity for the three months ended March 31, 2006 is as follows:

(all dollar amounts in thousands)

Aggregate

	Number Of Units	Wtd. Avg. Intrinsic Fair Value	Value
Balance at beginning, nonvested	57,838	\$12.27	
Granted	10,592	11.33	
Vested	(10,495)	11.43	
Forfeited	(4,199)	12.22	
Balance at end of period, nonvested	53,736	12.25	\$ 756

STOCK APPRECIATION RIGHTS AND DIVIDEND EQUIVALENTS

Wausau Paper maintains various stock appreciation rights plans that entitle certain management employees to receive settlement in cash equal to the sum of the appreciation in the value of the stock and the hypothetical value of cash dividends which would have been paid on the stock covered by the grant assuming reinvestment in Wausau Paper common stock.

We also maintain a dividend equivalent plan. Under the plan, upon termination of employment, or at the time of exercise of options granted in tandem with the dividend equivalents, participants are entitled to receive the cash value of the grant. The cash value is determined by the sum of the value of cash dividends that would have been paid on the stock covered by the grant had it been actual stock and assuming all such hypothetical dividends had been reinvested in Wausau Paper common stock.

All outstanding stock appreciation rights and dividend equivalents were fully vested as of January 1, 2006. During the three months ended March 31, 2006, \$8,827 was paid to a participant in settlement of dividend equivalents.

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

During the three months ended March 31, 2006, we recognized approximately \$0.8 million in share-based compensation expense related to stock appreciation rights and dividend equivalents as these awards were remeasured to their fair value as of March 31, 2006, in accordance with the provisions of SFAS 123R.

7

PRIOR YEAR PRO FORMA EXPENSE

The following table illustrates the effect on net earnings and earnings per share as if the fair value-based method provided by SFAS No. 123, "Accounting for Stock-Based Compensation" had been applied for all outstanding and unvested awards for periods prior to the adoption of SFAS 123R:

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

	Three Months Ended March 31, 2005
Net earnings:	
As reported	\$1,936
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	(1,196)
Deduct: Total stock-based compensation (expense) credit determined under fair-value based method for all awards, net of related tax effects	1,050
Pro forma	\$1,790
Net earnings per share - basic:	
As reported	\$ 0.04
Pro forma	\$ 0.03
Net earnings per share - diluted:	
As reported	\$ 0.04
Pro forma	\$ 0.03

NOTE 4. RECEIVABLES

Accounts receivable consisted of the following:

(all dollar amounts in thousands)	MARCH 31, 2006	December 31, 2005
Trade	\$108,476	\$97,829
Other	1,901	1,736
	110,377	99,565
Less: allowances for doubtful accounts	(1,777)	(1,661)
	\$108,600	\$97,904

8

NOTE 5. INVENTORY

The various components of inventories were as follows:

(all dollar amounts in thousands)	MARCH 31, 2006	December 31, 2005
Raw materials	\$ 38,796	\$ 36,810
Work in process and finished goods	113,309	112,776
Supplies	32,887	32,008
Inventories at cost	184,992	181,594

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

Less: LIFO reserve	(36,178)	(35,748)
	\$148,814	\$145,846

NOTE 6. ACCUMULATED DEPRECIATION

The accumulated depreciation on fixed assets was \$687.1 million as of March 31, 2006, and \$675.3 million as of December 31, 2005. The provision for depreciation, amortization and depletion for the three months ended March 31, 2006 and March 31, 2005 was \$14.6 million and \$15.3 million, respectively.

NOTE 7. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005 are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2006	2005	2006	2005
Service cost	\$ 1,958	\$1,810	\$ 804	\$ 629
Interest cost	2,596	2,396	1,243	1,185
Expected return on plan assets	(3,003)	(2,708)	-	-
Amortization of:				
Prior service cost	539	549	(1,038)	(764)
Actuarial loss	797	466	410	338
Settlement	-	305	-	-
Net periodic benefit cost	\$ 2,887	\$2,818	\$1,419	\$1,388

Wausau Paper previously disclosed in our consolidated financial statements for the year ended December 31, 2005, that although we do not have a minimum funding requirement for defined benefit pension plans in 2006, we may elect to make contributions of up to \$17.6 million directly to pension plans. As of March 31, 2006, we have made payments of approximately \$3.7 million to our pension plans. In addition, as previously reported, we expect to contribute \$4.4 million directly to other post-retirement plans in 2006. As of March 31, 2006, we have contributed \$1.6 million to our post-retirement plans.

9

NOTE 8. DEBT

During the first quarter of 2006, Wausau Paper issued \$9.5 million of commercial paper under an existing unrated commercial paper placement agreement with a bank. This agreement requires unused credit availability under our \$100 million unsecured revolving-credit agreement that expires August 31, 2008 equal to the amount of outstanding commercial paper. The amount of commercial paper outstanding at March 31, 2006 has been classified as long-term as we intend and have the ability to refinance the obligations under the revolving credit agreement.

In February 2006, we entered into a capital lease to finance certain equipment. As a result, we recorded a capital lease obligation and related asset in the amount of \$0.4 million.

NOTE 9. PULP MILL CLOSURE

In July 2005, Wausau Paper announced plans to permanently close the sulfite pulp mill at our Brokaw, Wisconsin, facility. The pulp mill was closed in November 2005 and the related long-lived assets were abandoned. Pre-tax restructuring expenses were \$0.1 million for the three months ended March 31, 2006.

Edgar Filing: WAUSAU PAPER CORP. - Form 10-Q

NOTE 10. INTERIM SEGMENT INFORMATION

FACTORS USED TO IDENTIFY REPORTABLE SEGMENTS

Wausau Paper's operations are classified into three principal reportable segments: Specialty Products, Printing & Writing, and Towel & Tissue, each providing different products. Separate management of each segment

is required because each business unit is subject to different marketing, production, and technology strategies.

PRODUCTS FROM WHICH REVENUE IS DERIVED

Specialty Products produces specialty papers at its manufacturing facilities in Rhinelander, Wisconsin; Mosinee, Wisconsin; and Jay, Maine. Specialty Products also includes two converting facilities that produce laminated roll wrap and related specialty finishing and packaging products. Printing & Writing produces a broad line of premium printing and writing grades at manufacturing facilities in Brokaw, Wisconsin; Groveton, New Hampshire; and Brainerd, Minnesota. Printing & Writing also includes a converting facility which converts printing and writing grades. Towel & Tissue produces a complete line of towel and tissue products that are marketed along with soap and dispensing systems for the "away-from-home" market. Towel & Tissue operates a paper mill in Middletown, Ohio, and a converting facility in Harrodsburg, Kentucky.

10

RECONCILIATIONS

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

(all dollar amounts in thousands)	Three Months Ended March 31,	
	2006	2005
Net sales external customers:		
Specialty Products	\$121,492	\$118,364
Printing & Writing	99,318	92,604
Towel & Tissue	62,853	56,773
	\$283,663	\$267,741
Operating profit (loss):		
Specialty Products	\$ 2,350	\$ 3,940
Printing & Writing	(7,105)	(4,569)
Towel & Tissue	9,016	7,884
Corporate & eliminations	(3,044)	(1,647)
	\$ 1,217	\$ 5,608
	MARCH 31, 2006	December 31, 2005
Segment assets:		
Specialty Products	\$331,855	\$333,482
Printing & Writing	257,043	254,528
Towel & Tissue	178,387	175,134
Corporate & Unallocated*	52,218	57,369
	\$819,503	\$820,513