

WAUSAU PAPER CORP.

Form 10-Q

August 07, 2014

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## **FORM 10-Q**

### **SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2014

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)

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**WISCONSIN**  
(State of incorporation)

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

**100 Paper Place**

**Mosinee, Wisconsin 54455-9099**

(Address of principal executive office)

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

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

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

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

|                                                                        |                          |                           |                                     |
|------------------------------------------------------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer                                                | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |

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

The number of common shares outstanding at July 31, 2014 was 49,970,649.

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**WAUSAU PAPER CORP.**

**AND SUBSIDIARIES**

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Wausau Paper Corp. and Subsidiaries

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)**

| (all amounts in thousands, except per share data)                                                                                                                                                                                  | Three Months Ended<br>June 30, |                    | Six Months Ended<br>June 30, |                    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------|------------------------------|--------------------|
|                                                                                                                                                                                                                                    | 2014                           | 2013               | 2014                         | 2013               |
| <b>Net sales</b>                                                                                                                                                                                                                   | \$ 89,214                      | \$ 87,623          | \$ 166,721                   | \$ 165,817         |
| Cost of sales                                                                                                                                                                                                                      | 77,654                         | 77,810             | 146,952                      | 144,728            |
| <b>Gross profit</b>                                                                                                                                                                                                                | <b>11,560</b>                  | <b>9,813</b>       | <b>19,769</b>                | <b>21,089</b>      |
| Selling and administrative                                                                                                                                                                                                         | 15,058                         | 10,623             | 27,925                       | 25,708             |
| <b>Operating loss</b>                                                                                                                                                                                                              | <b>(3,498)</b>                 | <b>(810)</b>       | <b>(8,156)</b>               | <b>(4,619)</b>     |
| Interest expense                                                                                                                                                                                                                   | (2,411)                        | (2,540)            | (4,579)                      | (4,868)            |
| Other (expense) income, net                                                                                                                                                                                                        | (20)                           | 10                 | 3                            | (5)                |
| <b>Loss from continuing operations before income taxes</b>                                                                                                                                                                         | <b>(5,929)</b>                 | <b>(3,340)</b>     | <b>(12,732)</b>              | <b>(9,492)</b>     |
| (Credit) provision for income taxes                                                                                                                                                                                                | (2,208)                        | 11,255             | (4,565)                      | 8,835              |
| <b>Loss from continuing operations</b>                                                                                                                                                                                             | <b>(3,721)</b>                 | <b>(14,595)</b>    | <b>(8,167)</b>               | <b>(18,327)</b>    |
| Loss from discontinued operations, net of taxes                                                                                                                                                                                    | (107)                          | (40,231)           | (561)                        | (66,104)           |
| <b>Net loss</b>                                                                                                                                                                                                                    | <b>\$ (3,828)</b>              | <b>\$ (54,826)</b> | <b>\$ (8,728)</b>            | <b>\$ (84,431)</b> |
| <b>Net loss per share - basic and diluted:</b>                                                                                                                                                                                     |                                |                    |                              |                    |
| Continuing operations                                                                                                                                                                                                              | \$ (0.07)                      | \$ (0.30)          | \$ (0.16)                    | \$ (0.37)          |
| Discontinued operations                                                                                                                                                                                                            | (0.00)                         | (0.81)             | (0.01)                       | (1.34)             |
| Net loss                                                                                                                                                                                                                           | \$ (0.08)                      | \$ (1.11)          | \$ (0.17)                    | \$ (1.71)          |
| Weighted average shares outstanding basic                                                                                                                                                                                          | 50,021                         | 49,399             | 49,930                       | 49,381             |
| Weighted average shares outstanding diluted                                                                                                                                                                                        | 50,021                         | 49,399             | 49,930                       | 49,381             |
| <b>Other comprehensive income</b>                                                                                                                                                                                                  |                                |                    |                              |                    |
| Retirement and other post-retirement plans, net of tax of \$113 and \$13,446 for the three months ended June 30, 2014 and 2013, respectively, and \$226 and \$14,059 for the six months ended June 30, 2014 and 2013, respectively | \$ 188                         | \$ 21,939          | \$ 377                       | \$ 22,938          |
| Other comprehensive income                                                                                                                                                                                                         | 188                            | 21,939             | 377                          | 22,938             |
| <b>Comprehensive loss</b>                                                                                                                                                                                                          | <b>\$ (3,640)</b>              | <b>\$ (32,887)</b> | <b>\$ (8,351)</b>            | <b>\$ (61,493)</b> |

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

**CONDENSED CONSOLIDATED BALANCE SHEETS**

|                                                   | June 30,          | December 31,                                |
|---------------------------------------------------|-------------------|---------------------------------------------|
|                                                   | 2014              | 2013                                        |
| (all dollar amounts in thousands)                 | (unaudited)       | (derived from audited financial statements) |
| <b>Assets</b>                                     |                   |                                             |
| Current assets:                                   |                   |                                             |
| Cash and cash equivalents                         | \$ 6,088          | \$ 19,594                                   |
| Receivables, net                                  | 25,325            | 29,106                                      |
| Refundable income taxes                           | 1,309             | 1,927                                       |
| Inventories                                       | 35,595            | 35,718                                      |
| Spare parts                                       | 11,298            | 10,607                                      |
| Other current assets                              | 2,358             | 2,243                                       |
| Assets of discontinued operations - current       | 4,685             | 8,587                                       |
| Total current assets                              | 86,658            | 107,782                                     |
| Property, plant, and equipment, net               | 293,247           | 298,964                                     |
| Deferred income taxes                             | 24,432            | 20,470                                      |
| Other assets                                      | 53,926            | 54,347                                      |
| Assets of discontinued operations long-term       | 487               |                                             |
| <b>Total Assets</b>                               | <b>\$ 458,750</b> | <b>\$ 481,563</b>                           |
| <b>Liabilities and Stockholders' Equity</b>       |                   |                                             |
| Current liabilities:                              |                   |                                             |
| Accounts payable                                  | \$ 23,129         | \$ 29,900                                   |
| Deferred income taxes                             | 10,160            | 10,118                                      |
| Accrued and other liabilities                     | 31,822            | 31,965                                      |
| Liabilities of discontinued operations - current  | 475               | 1,894                                       |
| Total current liabilities                         | 65,586            | 73,877                                      |
| Long-term debt                                    | 150,000           | 150,000                                     |
| Post-retirement benefits                          | 29,541            | 30,247                                      |
| Pension                                           | 35,850            | 38,838                                      |
| Other noncurrent liabilities                      | 17,719            | 19,470                                      |
| Noncurrent liabilities of discontinued operations | 866               | 989                                         |
| Total liabilities                                 | 299,562           | 313,421                                     |
| Stockholders' equity                              | 159,188           | 168,142                                     |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 458,750</b> | <b>\$ 481,563</b>                           |

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

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

| (all dollar amounts in thousands)                    | Six Months Ended<br>June 30, |           |
|------------------------------------------------------|------------------------------|-----------|
|                                                      | 2014                         | 2013      |
| Net cash (used in) provided by operating activities  | \$ (5,682)                   | \$ 4,861  |
| Cash flows from investing activities:                |                              |           |
| Capital expenditures                                 | (8,982)                      | (19,465)  |
| Proceeds from sale of business                       |                              | 105,067   |
| Proceeds from sale of assets                         | 2,690                        | 1,098     |
| Net cash (used in) provided by investing activities  | (6,292)                      | 86,700    |
| Cash flows from financing activities:                |                              |           |
| Net payments of commercial paper                     |                              | (40,700)  |
| Borrowings under credit agreement                    |                              | 65,000    |
| Payments under credit agreement                      |                              | (70,500)  |
| Proceeds from stock option exercises                 | 1,450                        | 104       |
| Dividends paid                                       | (2,982)                      | (2,963)   |
| Net cash used in financing activities                | (1,532)                      | (49,059)  |
| Net (decrease) increase in cash and cash equivalents | (13,506)                     | 42,502    |
| Cash and cash equivalents, beginning of period       | 19,594                       | 4,044     |
| Cash and cash equivalents, end of period             | \$ 6,088                     | \$ 46,546 |

See Notes to Condensed Consolidated Financial Statements.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**Note 1. Description of the Business**

Wausau Paper Corp. manufactures, converts, and sells 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. Our products are primarily sold within the United States and Canada.

During 2013, we announced our intent to focus our management efforts and future investments in the industrial and commercial away-from-home towel and tissue market. As a result, we exited our participation in the technical specialty paper business in which we had competed. See Note 4, Discontinued Operations and Other for further information regarding discontinued operations.

**Note 2. Basis of Presentation**

The condensed consolidated financial statements include the results of Wausau Paper Corp. and our consolidated subsidiaries. The accompanying condensed consolidated financial statements, in the opinion of management, reflect all adjustments, which are normal and recurring in nature and which are necessary for a fair statement of the results for the periods presented. Results for the interim period are not necessarily indicative of future results. In all regards, the financial statements have been presented in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Refer to the notes to consolidated financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2013, for our accounting policies and other disclosures, which are pertinent to these statements.

The results of operations of our former technical specialty paper business are reported as a discontinued operation in the Condensed Consolidated Statements of Comprehensive Loss for all periods presented. The corresponding assets and liabilities of the discontinued operations in the Condensed Consolidated Balance Sheets have been reclassified in accordance with authoritative literature on discontinued operations for all periods presented. Also, in accordance with the authoritative literature, we have elected to not separately disclose the cash flows related to the discontinued operation. See Note 4, Discontinued Operations and Other for further information regarding discontinued operations.

**Note 3. New Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . This guidance requires unrecognized tax benefits to be presented as a decrease in net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The guidance is to be applied prospectively



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beginning January 1, 2014. The adoption of ASU No. 2013-11 did not have an impact on our results of operations or financial position.

On September 13, 2013, the Internal Revenue Service released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Service Code ( IRC ) and proposed regulations under Section 168 of the IRC. These regulations generally apply to taxable years beginning on or after January 1, 2014 and affects all taxpayers that acquire, produce, or improve tangible property. We do not expect that the adoption of these regulations will have material impact on our Condensed Consolidated Financial Statements.

On April 10, 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance changes the definition of a discontinued operation to a strategic shift that has or will have a major impact on an entity's operations or financial results. Additionally, there are new disclosure requirements to enhance transparency for reporting purposes. ASU 2014-08 is to be applied prospectively to all disposals that occur in annual periods beginning on or after December 15, 2014. We do not expect the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This standard provides companies with a single model for use in accounting for revenue arising from contracts with customers. The core principle of this model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU No. 2014-09 is effective with annual periods beginning after December 15, 2016, with early adoption not permitted. The guidance allows companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. We do not expect the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

On June 19, 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. For share-based payments with a performance target that could be achieved after the requisite vesting period, the guidance requires the target be treated as a performance condition under FASB ASC Topic 718, Compensation-Stock Compensation, and, as a result, should not be included in the estimation of the grant-date fair value of the award. Instead, ASU No. 2014-12 requires companies to recognize compensation expense for the award when it becomes probable that the performance target will be achieved. ASU No. 2014-12 is effective for annual periods beginning after December 15, 2015, and may be applied either prospectively or retrospectively. We do not expect the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

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**Note 4. Discontinued Operations and Other**

We determined that as of June 30, 2013, the sale of the specialty paper business and the closure of the Brainerd, Minnesota paper mill ( Brainerd ), met the criteria for discontinued operations presentation as established in FASB Accounting Standards Codification ( ASC ) Subtopic 205-20, Discontinued Operations . Therefore, the results of operations of the specialty paper business and Brainerd mill have been reported as discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss for all periods presented. The corresponding assets and liabilities of the discontinued operations have been reclassified in accordance with authoritative literature on discontinued operations for all periods presented. The Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 have not been adjusted to separately disclose cash flows related to discontinued operations.

The sale of the specialty paper business and primarily all related assets and selected liabilities, excluding Brainerd, closed on June 26, 2013. The sale generated a pre-tax impairment charge of \$63.7 million, which is recorded in loss from discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2013. As there were no quoted market prices available for these or similar assets, we used the actual sales price to determine the fair market value of the assets, which is a level 3, unobservable input. Included in the impairment charge is a net pre-tax credit of approximately \$5.9 million related to pension and other postretirement plan settlements, curtailments, and special termination benefits resulting from modifications made to the plans in connection with the transaction. Additionally, pre-tax charges related to severance and benefits, contract termination, and other associated closure costs totaled \$0.1 million and \$4.3 million for the three months ended June 30, 2014 and June 30, 2013, respectively. For the six months ended June 30, 2014 and June 30, 2013, the aforementioned pre-tax closure charges were \$0.7 million and \$4.3 million, respectively.

The agreement to sell the specialty paper business also includes a provision whereby we would receive a contingent payment from the buyer if certain performance thresholds and other events occur. At June 30, 2014, no amounts have been recognized related to this provision, as we are not able to determine whether such events will occur.

In February 2013, we announced the planned closure of Brainerd and the facility permanently closed on March 29, 2013. Pre-tax charges recorded for the six months ended June 30, 2014 were \$0.1 million, related to severance and benefit continuation costs and other associated closure costs; there were not any additional charges recognized for the three months ended June 30, 2014. Pre-tax charges for severance and benefit continuation costs and other associated closure costs totaled \$0.7 million for the three months ended June 30, 2013. For the six months ended June 30, 2013, pre-tax charges included accelerated depreciation on long lived assets of \$35.7

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million; inventory and spare parts write downs of \$6.7 million; and other associated closure costs of \$2.6 million.

In June 2014, we sold a portion of the group of assets held for sale associated with Brainerd and realized proceeds on the sale of \$2.6 million. There was no gain or loss recognized on the sale of the assets. At June 30, 2014, there was \$4.7 million in current assets of discontinued operations, comprised primarily of approximately \$4.1 million in remaining held for sale assets of Brainerd, which continue to be actively marketed for sale. Also at June 30, 2014, there were \$0.5 million in current liabilities and \$0.9 million in other noncurrent liabilities that are primarily related to contract termination costs and are classified as discontinued operations in the Condensed Consolidated Balance Sheets. At December 31, 2013, there was \$8.6 million in current assets of discontinued operations, comprised primarily of \$6.7 million related to assets held for sale of Brainerd. Also at December 31, 2013, there were \$1.9 million in current liabilities and \$1.0 million in other noncurrent liabilities that are primarily related to contract termination costs and were classified as discontinued operations in the Condensed Consolidated Balance Sheets.

The following table summarizes certain Condensed Consolidated Statements of Comprehensive Loss information for discontinued operations:

| (all amounts in thousands, except per share data)                | Three Months<br>Ended June 30, |             | Six Months<br>Ended June 30, |             |
|------------------------------------------------------------------|--------------------------------|-------------|------------------------------|-------------|
|                                                                  | 2014                           | 2013        | 2014                         | 2013        |
| Net sales                                                        | \$ 21                          | \$ 98,099   | \$ 379                       | \$ 208,112  |
| Earnings (Loss) from discontinued operations before income taxes | 35                             | (65,604)    | (1,198)                      | (106,445)   |
| Provision (credit) for income taxes                              | 142                            | (25,373)    | (637)                        | (40,341)    |
| Loss from discontinued operations, net of taxes                  | \$ (107)                       | \$ (40,231) | \$ (561)                     | \$ (66,104) |
| Net loss per share basic and diluted                             | \$ (0.00)                      | \$ (0.81)   | \$ (0.01)                    | \$ (1.34)   |

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The following table summarizes the components of costs included in loss from discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss associated with the sale of the specialty paper business and closure of Brainerd.

| (all dollar amounts in thousands)             | Three Months Ended |               | Six Months |                     |
|-----------------------------------------------|--------------------|---------------|------------|---------------------|
|                                               | 2014               | June 30, 2013 | 2014       | Ended June 30, 2013 |
| Impairment of long-lived assets               | \$                 | \$ 63,712     | \$         | \$ 63,712           |
| Accelerated depreciation on long-lived assets |                    |               |            | 35,716              |
| Inventory and spare parts write-downs         |                    |               |            | 6,712               |
| Severance and benefit continuation costs      | (6)                | 1,009         | 171        | 2,378               |
| Other associated costs, net                   | 16                 | 3,962         | 664        | 4,494               |
| Total                                         | \$ 10              | \$ 68,683     | \$ 835     | \$ 113,012          |

Following is a summary of the liabilities for restructuring expenses through June 30, 2014, related to the closure of Brainerd and the sale of the specialty paper business all of which were included in liabilities of discontinued operations:

| (all dollar amounts in thousands)  | December 31, 2013 | Reserve/Provisions | Payments/Usage | June 30, 2014 |
|------------------------------------|-------------------|--------------------|----------------|---------------|
| Severance and benefit continuation | \$ 434            | \$ 171             | \$ (395)       | \$ 210        |
| Contract termination               | 2,901             | 31                 |                | 2,932         |
| Other                              | 33                | 633                | (666)          |               |
| Total                              | \$ 3,368          | \$ 835             | \$ (1,061)     | \$ 3,142      |

In addition, the Company maintains a natural gas contract for our previously closed Groveton, New Hampshire mill. The liabilities and charges associated with this natural gas contract are recorded in continuing operations. At June 30, 2014, \$1.1 million and \$7.6 million are included in current liabilities and noncurrent liabilities, respectively. During the first six months of 2014 and 2013, we made payments related to this natural gas contract of approximately \$0.4 million and \$0.8 million, respectively. At December 31, 2013, \$0.8 million and \$7.8 million were included in current liabilities and noncurrent liabilities, respectively. There were associated charges of \$0.4 million and \$0.5 million, respectively, within selling and administrative expenses for the three and six months ended June 30, 2014. For the three and six months ending June 30, 2013, recognized within selling and administrative expenses were associated charges of \$0.1 million and \$0.3 million, respectively. In the second quarter of 2013, we recognized a net credit of approximately \$1.7 million. We will continue to make payments related to the contract over the original contractual term.

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

| (all amounts in thousands, except per share data)                          | Three Months<br>Ended June 30, |             | Six Months<br>Ended June 30, |             |
|----------------------------------------------------------------------------|--------------------------------|-------------|------------------------------|-------------|
|                                                                            | 2014                           | 2013        | 2014                         | 2013        |
| Basic weighted average common shares outstanding                           | <b>50,021</b>                  | 49,399      | <b>49,930</b>                | 49,381      |
| Dilutive securities:                                                       |                                |             |                              |             |
| Stock compensation plans                                                   |                                |             |                              |             |
| Diluted weighted average common shares outstanding                         | <b>50,021</b>                  | 49,399      | <b>49,930</b>                | 49,381      |
| Loss from continuing operations, net of tax                                | \$ (3,721)                     | \$ (14,595) | \$ (8,167)                   | \$ (18,327) |
| Loss from discontinued operations, net of tax                              | (107)                          | (40,231)    | (561)                        | (66,104)    |
| Net loss                                                                   | \$ (3,828)                     | \$ (54,826) | \$ (8,728)                   | \$ (84,431) |
| Loss from continuing operations, net of tax, per share basic and diluted   | \$ (0.07)                      | \$ (0.30)   | \$ (0.16)                    | \$ (0.37)   |
| Loss from discontinued operations, net of tax, per share basic and diluted | (0.00)                         | (0.81)      | (0.01)                       | (1.34)      |
| Net loss per share basic and diluted                                       | \$ (0.08)                      | \$ (1.11)   | \$ (0.17)                    | \$ (1.71)   |

Due to the net loss from continuing operations for the three and six months ended June 30, 2014, stock-based grants for 1,022,000 shares and 1,216,559 shares, respectively, were considered to be antidilutive. Due to the net loss from continuing operations for the three and six months ended June 30, 2013, stock-based grants for 1,840,298 shares and 1,908,922 shares, respectively, were considered to be antidilutive.

**Note 6. Receivables**

Accounts receivable consisted of the following:

| (all dollar amounts in thousands)      | June 30,<br>2014 | December 31,<br>2013 |
|----------------------------------------|------------------|----------------------|
| Trade                                  | \$ 25,088        | \$ 28,549            |
| Other                                  | 347              | 708                  |
|                                        | <b>25,435</b>    | <b>29,257</b>        |
| Less: allowances for doubtful accounts | (110)            | (151)                |
|                                        | \$ 25,325        | \$ 29,106            |



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The various components of inventories were as follows:

| (all dollar amounts in thousands)  | June 30,<br>2014 | December 31,<br>2013 |
|------------------------------------|------------------|----------------------|
| Raw materials                      | \$ 20,963        | \$ 25,714            |
| Work in process and finished goods | 21,745           | 17,087               |
| Supplies                           | 1,995            | 1,992                |
| Inventories at cost                | 44,703           | 44,793               |
| Less: LIFO reserve                 | (9,108)          | (9,075)              |
|                                    | \$ 35,595        | \$ 35,718            |

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

Property, plant, and equipment included the following:

|                                | June 30,<br>2014 | December 31,<br>2013 |
|--------------------------------|------------------|----------------------|
| Property, plant, and equipment |                  |                      |
| Buildings                      | \$ 82,200        | \$ 82,610            |
| Machinery and equipment        | 444,540          | 447,396              |
|                                | 526,740          | 530,006              |
| Less: accumulated depreciation | (247,373)        | (239,983)            |
| Net depreciated value          | 279,367          | 290,023              |
| Land                           | 1,734            | 1,734                |
| Construction in progress       | 12,146           | 7,207                |
|                                | \$ 293,247       | \$ 298,964           |

Depreciation and amortization for the three months ended June 30, 2014 and 2013 was \$10.3 million and \$10.0 million, respectively. For the six months ended June 30, 2014 and 2013, depreciation and amortization was \$20.6 million and \$19.8 million, respectively.

**Note 9. Debt**

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% that mature on April 9, 2017, and also established a 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 until July 20, 2014. On April 4, 2011, we issued an additional aggregate principal amount of \$50 million of our senior notes under the terms of this note purchase and private-shelf agreement. The notes bear interest at 4.68% and mature on April 4, 2018. On August 22, 2011, the private-shelf

agreement was amended to

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expand the total amount available under the private-shelf agreement to \$150 million. On April 9, 2012, we issued an additional aggregate principal amount of \$50 million of our senior notes under this note purchase and private-shelf agreement. The notes bear interest at 4.00% and mature on June 30, 2016. At June 30, 2014, the total capacity of unsecured private placement notes was \$200 million, with \$150 million of unsecured private placement notes outstanding.

We have estimated the fair value of our long-term debt in accordance with FASB authoritative guidance. The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Fair value information for long-term debt is within Level 2 of the fair value hierarchy and is based on current market interest rates and estimates of current market conditions for instruments with similar terms and maturities. At June 30, 2014, the estimated fair value of long-term debt is approximately \$161 million which compares to the carrying value of \$150 million. At December 31, 2013, the estimated fair value of long-term debt was approximately \$158 million which compares to the carrying value of \$150 million.

On June 23, 2010, we entered into a \$125 million revolving-credit agreement with five financial institutions originally set to expire on June 23, 2014. On June 26, 2013, we entered into an amendment to the revolving-credit agreement reducing the amount of aggregate commitments from \$125 million to \$100 million. On December 17, 2013, the credit agreement was amended to reduce the aggregate commitments under the revolving-credit agreement to \$80 million and extend the maturity date for those obligations from June 23, 2014 to June 30, 2015. At June 30, 2014 and December 31, 2013, there were no amounts outstanding under the revolving-credit agreement.

Early in 2014 and during prior years, we had an unrated commercial paper placement agreement with a bank to issue up to \$50 million of unsecured debt obligations. The agreement required unused credit availability under our revolving-credit agreement equal to the amount of outstanding commercial paper. On February 24, 2014, we terminated this commercial paper placement agreement. There were no outstanding borrowings under this agreement as of the date of termination or at December 31, 2013.

We are subject to certain financial and other covenants under the revolving-credit agreement and the note purchase and private-shelf agreement. At June 30, 2014, we were in compliance with all required covenants. On March 28, 2014, the revolving-credit and the note purchase and private-shelf agreements were amended to adjust certain covenant requirements. The amendment to the private-shelf agreement resulted in an additional 0.5% per annum fee on all outstanding notes for the fiscal quarter ending March 31, 2014 and a 1% per annum fee thereafter on all outstanding notes under this agreement. Effective with the amendments dated March 28, 2014, to the agreements, we agreed to seek approval from our Board of Directors to secure the debt obligations by liens on substantially all of our assets within 60 days of the amendments effective date. On June 27, 2014, both the revolving-credit and the note purchase and private-shelf agreements were further amended to adjust certain

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covenants and to extend the date to secure our debt obligations by liens on substantially all of our assets by July 28, 2014.

On July 25, 2014, we received an extension to secure our debt obligations by liens to July 31, 2014. We received approval to secure our debt from our Board of Directors and refinanced our existing debt obligations under a new secured debt structure on July 30, 2014. For further information, please see Note 14, Subsequent Events.

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

Inclusive of discontinued operations, the components of net periodic benefit cost recognized in the Condensed Consolidated Statements of Comprehensive Loss for the three months ended June 30, 2014 and 2013 are as follows:

|                                    | Pension Benefits |           | Other Post-retirement Benefits |             |
|------------------------------------|------------------|-----------|--------------------------------|-------------|
|                                    | 2014             | 2013      | 2014                           | 2013        |
| Service cost                       | \$ 149           | \$ 103    | \$ 56                          | \$ 557      |
| Interest cost                      | 2,601            | 2,553     | 343                            | 821         |
| Expected return on plan assets     | (3,201)          | (3,247)   |                                |             |
| Amortization of:                   |                  |           |                                |             |
| Prior service cost (benefit)       | 77               | 272       | (372)                          | (763)       |
| Actuarial loss                     | 641              | 922       | (45)                           | 592         |
| Settlement                         |                  | 1,320     |                                |             |
| Curtailment                        |                  | 5,369     |                                | (16,004)    |
| Special termination benefit impact |                  | 4,721     |                                |             |
| Net periodic benefit cost          | \$ 267           | \$ 12,013 | \$ (18)                        | \$ (14,797) |

The settlements recognized during the three months ended June 30, 2013, relate to benefits associated with a cash balance pension plan. The curtailments and special termination benefit impacts, which are included in discontinued operations, are due to the sale of our specialty paper business. See Note 4, Discontinued Operations and Other for additional information regarding the sale of the specialty paper business.

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Inclusive of discontinued operations, the components of net periodic benefit cost recognized in the Condensed Consolidated Statements of Comprehensive Loss for the six months ended June 30, 2014 and 2013 are as follows:

|                                     | Pension Benefits |           | Other Post-retirement Benefits |             |
|-------------------------------------|------------------|-----------|--------------------------------|-------------|
|                                     | 2014             | 2013      | 2014                           | 2013        |
| Service cost                        | \$ 298           | \$ 758    | \$ 111                         | \$ 1,115    |
| Interest cost                       | 5,203            | 4,908     | 685                            | 1,641       |
| Expected return on plan assets      | (6,402)          | (6,463)   |                                |             |
| Amortization of:                    |                  |           |                                |             |
| Prior service cost (benefit)        | 154              | 545       | (743)                          | (1,526)     |
| Actuarial loss                      | 1,283            | 2,433     | (91)                           | 1,184       |
| Settlement                          |                  | 1,320     |                                |             |
| Curtailment                         |                  | 5,369     |                                | (16,004)    |
| Special termination benefit impact  |                  | 4,721     |                                |             |
| Net periodic benefit cost (benefit) | \$ 536           | \$ 13,591 | \$ (38)                        | \$ (13,590) |

The settlements recognized during the six months ended June 30, 2013, relate to benefits associated with a cash balance pension plan. The curtailments and special termination benefit impacts, which are included in discontinued operations, in the six months ended June 30, 2013, are due to the sale of our specialty paper business. See Note 4, Discontinued Operations and Other for additional information regarding discontinued operations.

We previously disclosed in our consolidated financial statements for the year ended December 31, 2013 that we anticipate making contributions of approximately \$5.5 million directly to our pension and retirement plans as a result of minimum funding requirements and elective contributions in 2014. As of June 30, 2014, we have made payments of approximately \$1.6 million to our pension plans. Coincident with the approval by our Board of Directors to secure our debt, we entered into a settlement agreement with the Pension Benefit Guaranty Corporation to contribute an additional \$7.5 million to our defined benefit pension plans during 2014. See Note 14, Subsequent Events for additional information. As of June 30, 2014, we have contributed approximately \$1.5 million to our other post-retirement plans. We expect to contribute approximately \$3.0 million to our other post-retirement plans in 2014.

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**Note 11. Share-Based Compensation**

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

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

During the three months ended June 30, 2014, we granted 5,000 performance units as part of compensation for our newly appointed chief executive officer. Including the grant of 5,000 performance units that occurred in the second quarter of 2014, for the six months ended June 30, 2014, we granted a total of 270,650 awards of performance units to our directors and certain employees of Wausau Paper. Of the awards granted, 31,898 performance units were granted to directors. The grants to certain employees, other than those granted to our newly appointed chief executive officer, were comprised of two types of awards. The first type of award included 114,078 of performance units with the award subject to achievement of a targeted shareholder return on our common stock over a three-year period. The second type of award was comprised of 119,674 performance units with vesting contingent on (1) achieving certain operating profit levels and (2) completion of a service requirement.

On June 19, 2014, effective with the departure of two members of our Board of Directors, a change in control event as defined within provisions of our equity compensation plans and related grants occurred. As a result, subject to such provisions, conditions to vesting for awards outstanding on June 19, 2014 were deemed to have been satisfied, with the exception of the portion of any awards subject to the attainment of a certain level of operating profit for 2014, and, consequently, \$1.4 million of share-based compensation expense was recognized for the remaining unamortized portion of the outstanding awards. Prior to the change in control event, we recognized compensation expense on grants of non-qualified stock options, restricted stock awards, and performance unit awards on a straight-line basis over the requisite service period of each award. Forfeiture rates were estimated based upon our historical experience for each grant type.

Including the share-based compensation expense recognized for the change in control event, total share-based compensation expense was \$1.7 million and \$2.3 million for the three and six month periods ended June 30, 2014, respectively. For the three and six month periods ended June 30, 2013, share-based compensation expense was \$0.4 million and \$1.4 million, respectively.

Table of Contents**Note 12. Accumulated Other Comprehensive Loss**

For all periods presented in the Condensed Consolidated Financial Statements, accumulated other comprehensive loss is comprised solely of cumulative net actuarial losses and prior service cost not yet recognized as a component of net periodic benefit costs for retirement and other post-retirement plans. For the three and six months ended June 30, 2014, and June 30, 2013, the changes in accumulated other comprehensive loss, net of tax, were as follows:

(all dollar amounts in thousands)

|                                                    |    |          |
|----------------------------------------------------|----|----------|
| Balance at December 31, 2013                       | \$ | (27,220) |
| Amounts reclassified from other comprehensive loss |    | 189      |
| Balance at March 31, 2014                          | \$ | (27,031) |
| Amounts reclassified from other comprehensive loss |    | 188      |
| Balance at June 30, 2014                           | \$ | (26,843) |
| Balance at December 31, 2012                       | \$ | (91,096) |
| Amounts reclassified from other comprehensive loss |    | 1,000    |
| Balance at March 31, 2013                          | \$ | (90,096) |
| Amounts reclassified from other comprehensive loss |    | 21,938   |
| Balance at June 30, 2013                           | \$ | (68,158) |

Following are details of the amounts reclassified out of accumulated other comprehensive loss during the three months ended June 30, 2014 and 2013:

| (all dollar amounts in thousands)                             | June 30,<br>2014 | June 30,<br>2013 | Affected Line Item<br>in the Condensed<br>Consolidated<br>Statements of<br>Comprehensive<br>Loss |
|---------------------------------------------------------------|------------------|------------------|--------------------------------------------------------------------------------------------------|
| Pension and other post-retirement benefit obligation changes: |                  |                  |                                                                                                  |
| Amortization of prior service cost, net                       | \$ (295)         | \$ (490)(a)      |                                                                                                  |
| Amortization of actuarial gains, net                          | 596              | 9,192(a)         |                                                                                                  |
| Curtailments                                                  |                  | 26,682           |                                                                                                  |
| Reclassification before tax                                   | 301              | 35,384           |                                                                                                  |
| Tax Provision                                                 | 113              | 13,446           |                                                                                                  |
| Reclassifications for the period, net of tax                  | \$ 188           | \$ 21,938        |                                                                                                  |

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Following are details of the amounts reclassified out of accumulated other comprehensive loss during the six months ended June 30, 2014 and 2013:

| (all dollar amounts in thousands)                             | June 30,<br>2014 | June 30,<br>2013 | Affected Line Item<br>in the Condensed<br>Consolidated<br>Statements of<br>Comprehensive<br>Loss |
|---------------------------------------------------------------|------------------|------------------|--------------------------------------------------------------------------------------------------|
| Pension and other post-retirement benefit obligation changes: |                  |                  |                                                                                                  |
| Amortization of prior service cost, net                       | \$ (589)         | \$ (980)(a)      |                                                                                                  |
| Amortization of actuarial gains, net                          | 1,192            | 11,295(a)        |                                                                                                  |
| Curtailments                                                  |                  | 26,682           |                                                                                                  |
| Reclassification before tax                                   | 603              | 36,997           |                                                                                                  |
| Tax Provision                                                 | 226              | 14,059           |                                                                                                  |
| Reclassifications for the period, net of tax                  | \$ 377           | \$ 22,938        |                                                                                                  |

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit costs. See Note 10, Pension and Other Post-retirement Benefit Plans regarding the pension and other post-retirement net periodic benefit costs.

### Note 13. Income Taxes

Our normalized tax rate for 2014 is expected to be approximately 37%. During the three and six months ended June 30, 2014 there were no significant changes to our income tax valuation allowances. During the three and six months ended June 30, 2013, our effective tax rate was impacted by an adjustment made to our provision for income taxes, net of federal tax benefit, of approximately \$12.4 million, with approximately \$12.0 million of the amount recognized related to certain state income tax carryforwards that will likely not be utilized to offset taxable income in the future as we no longer have manufacturing operations in these states.

### Note 14. Subsequent Events

On July 25, 2014, the Company received an extension under the note purchase and private-shelf agreement and the revolving credit agreement until July 31, 2014, to secure the debt obligations by liens on substantially all of its assets. On July 30, 2014, the Company prepaid the existing \$150 million of outstanding obligations with various maturities under the note purchase and private-shelf agreement utilizing proceeds received under a new \$175 million secured term loan facility. Also, on July 30, 2014, we terminated the \$80 million revolving credit agreement expiring June

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2015, and entered into a new \$50 million secured revolving credit facility. In addition to the prepayment of the outstanding obligations under the note purchase and private-shelf notes, net proceeds of \$171.5 million under the term loan facility were used to pay \$14.4 million in accrued interest and make-whole payments to the note holders and \$3.4 million of transaction-related fees and expenses. The remainder of the net proceeds will be used for general corporate purposes.

The \$50 million secured revolver matures in July 2019 and the \$175 million term loan facility has a final maturity in July 2020. The secured debt agreements contain various restrictive covenants, including fixed charge coverage ratios in the case of the secured revolver and leverage ratios in the case of the term loan facility, and contain restrictions on dividends and other restricted payments. Both agreements are secured by substantially all of the assets of the Company.

The \$175 million secured term loan amortizes in equal quarterly installments in an aggregate annual amount equal to 1 percent of the original principal amount, with the remainder due at maturity. In addition to the annual amortization, the secured term loan is subject to mandatory prepayments subject to excess cash flow requirements. The annual interest rate will be LIBOR, subject to a 1 percent floor, plus 5.5 percent, or at the option of the Company, a base rate as defined in the agreement, plus 4.5 percent.

Borrowings under the \$50 million secured revolving credit facility will bear interest at a rate equal to LIBOR or a base rate plus an applicable margin determined on the first day of the calendar month following each fiscal quarter end. Until December 31, 2014, the applicable margin for LIBOR-based borrowings is 1.75 percent and, for base rate borrowings is 0.75 percent. The revolving credit facility is subject to an unused line fee that ranges from 25 basis points to 37.5 basis points.

Coincident with the securitization of the Company's debt obligations, a settlement agreement was entered into with the Pension Benefit Guaranty Corporation (the PBGC) with respect to the Company's unfunded defined benefit pension obligations. Under the agreement, the Company has agreed to grant a lien on substantially all of its assets to the PBGC that is junior and subordinate to the lien security interest on assets pledged under the secured term loan and revolving credit agreements. The Company has also agreed to make contributions in excess of minimum funding requirements of up to \$36 million to its defined benefit pension plans through 2018, with the first contribution under this agreement of \$7.5 million due within 30 days following the close of the \$50 million secured revolver and \$175 million term loan facility.

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

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to our condensed consolidated financial statements and accompanying notes to help provide an understanding of our financial condition, the changes in our financial condition, and our results of operations. The following discussion of the financial condition and results of operations of Wausau Paper Corp. exclude the results of discontinued operations unless otherwise indicated and should be read together with the Condensed Consolidated Financial Statements for the three and six months ended June 30, 2014 and 2013, including the notes thereto, included elsewhere in this report, and the audited consolidated annual financial statements as of and for the year ended December 31, 2013 and notes thereto included in the Company's Annual Report on Form 10-K.

**Operations Review**

Second quarter sales for 2014, as measured in cases shipped, were up 3.1% compared to the second quarter of 2013, and resulted in a second-quarter record with approximately 4.34 million cases shipped. Strategic product shipments, that is, those products sold in conjunction with our proprietary dispensing systems or produced from premium substrates, grew to approximately 49 percent of the Company's total shipment mix.

Our premium Artisan<sup>®</sup> towel line, which is produced from 100 percent recycled fiber utilizing the ATMOS papermaking technology was commercialized on May 13, 2014. In addition, continued strong growth of our DublNature<sup>®</sup> product line introduced in 2013 contributed to the growth and improved mix of products shipped. We also launched the Dubl-Serv<sup>®</sup> High Capacity OptiCore<sup>®</sup> bath tissue dispenser in the second quarter.

*Overview*

| (all dollar amounts in thousands, except<br>per share data)   | Three Months<br>Ended June 30, |             | Six Months<br>Ended June 30, |             |
|---------------------------------------------------------------|--------------------------------|-------------|------------------------------|-------------|
|                                                               | 2014                           | 2013        | 2014                         | 2013        |
| Loss from continuing operations                               | \$ (3,721)                     | \$ (14,595) | \$ (8,167)                   | \$ (18,327) |
| Loss from continuing operations per share – basic and diluted | \$ (0.07)                      | \$ (0.30)   | \$ (0.16)                    | \$ (0.37)   |

For the second quarter of 2014, we reported a net loss from continuing operations of \$3.7 million, or \$0.07 per share, compared to prior year loss from continuing operations of \$14.6 million, or \$0.30 per share. For the six months ended June 30, 2014, we reported a loss from continuing operations of \$8.2 million, or \$0.16 per share, compared to a net loss from continuing operations of \$18.3 million, or \$0.37 per share, in the first six months of 2013. The net loss from continuing operations reported for the three and six months ended June 30, 2014 include an after-tax charge of \$2.0 million, or \$0.04 per share, related to severance costs and the acceleration of vesting under change in control provisions contained within the Company's equity and incentive compensation plans due to the leadership transition changes announced during the second



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quarter. The net loss from continuing operations for the three and six months ended June 30, 2013 include an adjustment made to our provision for income taxes, net of federal tax benefit, of approximately \$12.4 million, or \$0.25 per share, with approximately \$12.0 million of the amount recognized related to certain state income tax carry forwards that were not expected to be utilized to offset taxable income in the future.

*Net Sales and Gross Profit on Sales*

| (all dollar amounts in thousands) | Three Months<br>Ended June 30, |           | Six Months<br>Ended June 30, |            |
|-----------------------------------|--------------------------------|-----------|------------------------------|------------|
|                                   | 2014                           | 2013      | 2014                         | 2013       |
| Net sales                         | \$ 89,214                      | \$ 87,623 | \$ 166,721                   | \$ 165,817 |
| Tons sold                         | 46,524                         | 45,494    | 88,078                       | 86,382     |
| Cases shipped (in thousands)      | 4,336                          | 4,205     | 8,190                        | 7,977      |
| Gross profit on sales             | \$ 11,560                      | \$ 9,813  | \$ 19,769                    | \$ 21,089  |
| Gross profit margin               | 13%                            | 11%       | 12%                          | 13%        |

Net sales in the second quarter of 2014 improved by 2 percent over the prior year's second quarter, with the volume of cases shipped increasing by more than 3 percent over the three-month period of 2013. Average net selling price declined approximately 1 percent, or approximately \$1 million, in the second quarter of 2014 compared with the same quarter of 2013 due to the unfavorable impact of the Canadian exchange rate on the Company's product sales in Canada and unfavorable pricing impacts, as a result of industry capacity additions that affect capacity utilization of assets in the broader towel and tissue market and depressed market prices for parent rolls.

Gross profit margin increased 2 percentage points in the second quarter of 2014 compared to the same quarter a year ago due to growth in case volume shipped, improvement in the mix of products shipped, manufacturing cost improvements realized, and cost containment efforts in operations.

For the first six months of 2014, net sales increased approximately 1 percent, as compared to the same period of 2013. As in the quarterly comparison, the improvement in net sales was driven by increased case shipment volume of approximately 3 percent in the first half of 2014 compared to the first half of 2013. The favorable impact of improved shipment volume was partially offset by a decline in average net selling price of approximately 2 percent, or \$4 million.

Year-over-year, for the six month period, gross profit margin declined approximately 1 percent. Actual net selling price decreases in the first half of 2014 compared to the same period in 2013 were partially offset by improved volume and a favorable mix of products sold, which increased from 47 percent of product shipments in strategic categories for the first six months of 2013 to 48 percent in the first six months of 2014. Additionally, manufacturing cost efficiency improvements and cost containment efforts contributed positively in the year-over-year comparisons, with benefits in the second quarter 2014 driving much of the year-to-date improvement.

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|                         | June 30, |       |
|-------------------------|----------|-------|
| Order Backlogs          | 2014     | 2013  |
| Order backlogs in tons: | 5,000    | 3,000 |

Backlog tons at June 30, 2014 represent approximately \$11.6 million in sales compared to approximately \$7.7 million in sales at June 30, 2013. The increase in backlog is primarily related to an announced finished goods price increase that is effective with orders placed on or after July 1, 2014. The entire backlog at June 30, 2014 is expected to be shipped during the remainder of 2014.

## Selling and Administrative Expenses – Continuing Operations

| (all dollar amounts in thousands)  | Three Months<br>Ended June 30, |           | Six Months<br>Ended June 30, |           |
|------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                    | 2014                           | 2013      | 2014                         | 2013      |
| Selling and administrative expense | \$ 15,058                      | \$ 10,623 | \$ 27,925                    | \$ 25,708 |
| As a percent of net sales          | 17%                            | 12%       | 17%                          | 16%       |

Selling and administrative expenses in the second quarter of 2014 were \$15.1 million compared to \$10.6 million in the same period of 2013. During the three months ended June 30, 2014, we incurred pre-tax expenses of \$1.6 million related to the severance benefits of the former chief executive officer, and \$1.4 million related to the acceleration of vesting under change in control provisions contained within the Company's equity and incentive compensation plans due to the leadership transition changes announced during the quarter. During the second quarter of 2013, we incurred pre-tax expenses of \$1.3 million related to settlement charges associated with the Company's cash balance retirement plan and we recognized a pre-tax credit of \$1.7 million related to an adjustment to a natural gas transportation contract for a former manufacturing facility. The remaining increase in the quarter over quarter comparison is primarily due to increased legal and professional services expenses.

Selling and administrative expenses for the six months ended June 30, 2014 were \$27.9 million compared to \$25.7 million in the same period of 2013. As described in the preceding quarterly comparisons, in the first half of 2014, we incurred expenses for the severance benefits of the former chief executive officer and for the acceleration of vesting under change in control provisions within the Company's equity and incentive compensation plans, of \$1.6 million and \$1.4 million, respectively. During the first half of 2013, we incurred pre-tax expenses of \$1.3 million related to settlement charges associated with the Company's cash balance retirement plan and a pre-tax credit of \$1.7 million related to adjustments to a natural gas transportation contract for a former manufacturing facility.

Table of Contents*Other Income and Expense   Continuing Operations*

| (all dollar amounts in thousands) | Three Months<br>Ended June 30, |          | Six Months<br>Ended June 30, |          |
|-----------------------------------|--------------------------------|----------|------------------------------|----------|
|                                   | 2014                           | 2013     | 2014                         | 2013     |
| Interest expense                  | \$ 2,411                       | \$ 2,540 | \$ 4,579                     | \$ 4,868 |

Interest expense in the second quarter of 2014 was \$2.4 million compared to interest expense of \$2.5 million in the second quarter of 2013. For the first six months of 2014, interest expense decreased to \$4.6 million from \$4.9 million of interest expense recorded during the same period in 2013. The decrease in interest expense for the three and six months ended June 30, 2014 compared to June 30, 2013, is driven by a decreased average debt balances in the first half of 2014 as compared to the first half of 2013. The impact was partially offset by increases in interest expense as part of the March 28, 2014 amendment to our note purchase and private-shelf agreement which retroactively charged a 0.5% per annum fee on outstanding senior notes from January 1, 2014 through March 31, 2014. Total debt was \$150.0 million at June 30, 2014 and 2013, and at December 31, 2013.

*Income Taxes*

| (all dollar amounts in thousands)                              | Three Months<br>Ended June 30, |           | Six Months<br>Ended June 30, |          |
|----------------------------------------------------------------|--------------------------------|-----------|------------------------------|----------|
|                                                                | 2014                           | 2013      | 2014                         | 2013     |
| (Credit) provision for income taxes from continuing operations | \$ (2,208)                     | \$ 11,255 | \$ (4,565)                   | \$ 8,835 |
| Effective tax rate                                             | 37%                            | (337)%    | 36%                          | (93)%    |

Our normalized tax rate for 2014 is expected to be at approximately 37%. During the three and six months ended June 30, 2013, our effective tax rate was impacted by an adjustment made to our provision for income taxes, net of federal tax benefit, of approximately \$12.4 million, with approximately \$12.0 million of the amount recognized related to certain state income tax carryforwards that will likely not be utilized to offset taxable income in the future as we no longer have manufacturing operations in these states.

Table of Contents**Liquidity and Capital Resources**

The liquidity and capital resources discussion below includes discontinued operations for all periods reported.

*Cash Flows and Capital Expenditures*

| (all dollar amounts in thousands)                   | Six Months Ended June 30, |          |
|-----------------------------------------------------|---------------------------|----------|
|                                                     | 2014                      | 2013     |
| Net cash (used in) provided by operating activities | \$ (5,682)                | \$ 4,861 |
| Capital expenditures                                | (8,982)                   | (19,465) |

Net cash used in operating activities was \$5.6 million for the six months ended June 30, 2014, compared to cash provided by operating activities of \$4.9 million during the same period in 2013. The decrease in year-over-year comparisons of cash (used in) provided by operating activities is primarily due to decreases in accounts payable and other liabilities as compared to a build in working capital in the first six months of 2013 as we built inventory related to the Tissue expansion project.

Capital spending for the first six months of 2014 was \$9.0 million compared to \$19.5 million during the first six months of 2013. The decrease in capital expenditures in the first half of 2014 as compared to the same period in 2013 is primarily due to additional spending on the Tissue expansion project that occurred in 2013 following the startup of the new paper machine in December 2012. Total capital spending for the full year of 2014 is expected to be approximately \$25 million.

*Debt and Equity*

| (all dollar amounts in thousands)   | June 30, 2014 |         | December 31, 2013 |         |
|-------------------------------------|---------------|---------|-------------------|---------|
|                                     |               |         |                   |         |
| Total debt                          | \$            | 150,000 | \$                | 150,000 |
| Stockholders' equity                |               | 159,188 |                   | 168,142 |
| Total capitalization                |               | 309,188 |                   | 318,142 |
| Long-term debt/capitalization ratio |               | 49%     |                   | 47%     |

As of June 30, 2014, total debt did not change from the \$150 million borrowed at December 31, 2013.

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% that mature on April 9, 2017, and also established a 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 until

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July 20, 2014. On April 4, 2011, we issued an additional aggregate principal amount of \$50 million of our senior notes under the terms of this note purchase and private-shelf agreement. The notes bear interest at 4.68% and mature on April 4, 2018. On August 22, 2011, the private-shelf agreement was amended to expand the total amount available under the private-shelf agreement to \$150 million. On April 9,

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2012, we issued an additional aggregate principal amount of \$50 million of our senior notes under this note purchase and private-shelf agreement. The notes bear interest at 4.00% and mature on June 30, 2016. At June 30, 2014, the total capacity of unsecured private placement notes was \$200 million, with \$150 million of unsecured private placement notes outstanding.

We have estimated the fair value of our long-term debt in accordance with FASB authoritative guidance. The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Fair value information for long-term debt is within Level 2 of the fair value hierarchy and is based on current market interest rates and estimates of current market conditions for instruments with similar terms and maturities. At June 30, 2014, the estimated fair value of long-term debt is approximately \$161 million which compares to the carrying value of \$150 million. At December 31, 2013, the estimated fair value of long-term debt was approximately \$158 million which compares to the carrying value of \$150 million.

On June 23, 2010, we entered into a \$125 million revolving-credit agreement with five financial institutions originally set to expire on June 23, 2014. On June 26, 2013, we entered into an amendment to the revolving-credit agreement reducing the amount of aggregate commitments from \$125 million to \$100 million. On December 17, 2013, the credit agreement was amended to reduce the aggregate commitments under the revolving-credit agreement to \$80 million and extend the maturity date for those obligations from June 23, 2014 to June 30, 2015. At June 30, 2014 and December 31, 2013, there were no amounts outstanding under the revolving-credit agreement.

Early in 2014 and during prior years, we had an unrated commercial paper placement agreement with a bank to issue up to \$50 million of unsecured debt obligations. The agreement required unused credit availability under our revolving-credit agreement equal to the amount of outstanding commercial paper. On February 24, 2014, we terminated this commercial paper placement agreement. There were no outstanding borrowings under this agreement as of the date of termination or at December 31, 2013.

We are subject to certain financial and other covenants under the revolving-credit agreement and the note purchase and private-shelf agreement. At June 30, 2014, we were in compliance with all required covenants. On March 28, 2014, the revolving-credit and the note purchase and private-shelf agreements were amended to adjust certain covenant requirements. The amendment to the private-shelf agreement resulted in an additional 0.5% per annum fee on all outstanding notes for the fiscal quarter ending March 31, 2014 and a 1% per annum fee thereafter on all outstanding notes under this agreement. Effective with the amendments dated March 28, 2014, to the agreements, we agreed to seek approval from our Board of Directors to secure the debt obligations by liens on substantially all of our assets within 60 days of the amendments' effective date. On June 27, 2014, both the revolving-credit and the note purchase and private-shelf agreements were further amended to adjust certain covenants and to extend the date to secure our debt obligations by liens on substantially all of our assets by July 28, 2014.

On July 25, 2014, the Company received an extension under the note purchase and private-shelf agreement and the revolving credit agreement until July 31, 2014, to secure the debt obligations by liens on substantially all of its assets. On July 30, 2014, the Company prepaid the existing

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\$150 million of outstanding obligations with various maturities under the note purchase and private-shelf agreement utilizing proceeds received under a new \$175 million secured term loan facility. Also, on July 30, 2014, we terminated the \$80 million revolving credit agreement expiring June 2015, and entered into a new \$50 million secured revolving credit facility. In addition to the prepayment of the outstanding obligations under the note purchase and private-shelf notes, net proceeds of \$171.5 million under the term loan facility were used to pay \$14.4 million in accrued interest and make-whole payments to the note holders and \$3.4 million of transaction-related fees and expenses. The remainder of the net proceeds will be used for general corporate purposes.

The \$50 million secured revolver matures in July 2019 and the \$175 million term loan facility has a final maturity in July 2020. The secured debt agreements contain various restrictive covenants, including fixed charge coverage ratios in the case of the secured revolver and leverage ratios in the case of the term loan facility, and contain restrictions on dividends and other restricted payments. Both agreements are secured by substantially all of the assets of the Company.

The \$175 million secured term loan amortizes in equal quarterly installments in an aggregate annual amount equal to 1 percent of the original principal amount, with the remainder due at maturity. In addition to the annual amortization, the secured term loan is subject to mandatory prepayments subject to excess cash flow requirements. The annual interest rate will be LIBOR, subject to a 1 percent floor, plus 5.5 percent, or at the option of the Company, a base rate as defined in the agreement, plus 4.5 percent.

Borrowings under the \$50 million secured revolving credit facility will bear interest at a rate equal to LIBOR or a base rate plus an applicable margin determined on the first day of the calendar month following each fiscal quarter end. Until December 31, 2014, the applicable margin for LIBOR-based borrowings is 1.75 percent and, for base rate borrowings is 0.75 percent. The revolving credit facility is subject to an unused line fee that ranges from 25 basis points to 37.5 basis points.

Coincident with the securitization of the Company's debt obligations, a settlement agreement was entered into with the Pension Benefit Guaranty Corporation (the "PBGC") with respect to the Company's unfunded defined benefit pension obligations. Under the agreement, the Company has agreed to grant a lien on substantially all of its assets to the PBGC that is junior and subordinate to the lien security interest on assets pledged under the secured term loan and revolving credit agreements. The Company has also agreed to make contributions in excess of minimum funding requirements of up to \$36 million to its defined benefit pension plans through 2018, with the first contribution under this agreement of \$7.5 million due within 30 days following the close of the \$50 million secured revolver and \$175 million term loan facility.

At June 30, 2014, there were approximately 2.0 million shares available for repurchase through an authorization approved by our Board of Directors in 2008. There were no repurchases during the first six months of 2014 or 2013. Repurchases may be made from time to time in the open market or through privately negotiated transactions.

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*Dividends*

On December 19, 2013, the Board of Directors declared a quarterly cash dividend of \$0.03 per common share. The dividend was paid on February 18, 2014, to shareholders of record on February 3, 2014. On April 17, 2014, the Board of Directors declared a quarterly cash dividend of \$0.03 per common share. The dividend was paid on May 15, 2014 to shareholders of record on May 1, 2014. On June 19, 2014, the Board of Directors declared a quarterly cash dividend of \$0.03 per common share. The dividend is payable August 15, 2014 to shareholders of record on August 1, 2014.

*Capital Allocation Policy*

On October 17, 2013, we announced a capital allocation policy targeting a return of approximately 50% of free cash flow to shareholders through dividends or share repurchases. The capital allocation policy is subject to continuing review by the Board of Directors, discussions with lenders, business and general economic conditions, as well as other capital allocation priorities that may be established in the future. Although a target level of return of capital has been established, actual payout amounts may be more or less than the target in any particular measurement period.

We define free cash flow as net cash provided by operating activities in a period less payments for property and equipment. Free cash flow is considered a non-GAAP financial measure. We believe that free cash flow, which measures our ability to generate additional cash from operations, is a key financial measure for use in evaluating financial performance. Although other companies report free cash flow, numerous methods may exist for calculating a company's free cash flow. As a result, the method we utilize to calculate free cash flow may differ from the methods used by other companies.

**Discontinued Operations**

In May 2013, we announced that our Board of Directors had approved the sale of our specialty paper business. The sale of the specialty paper business and substantially all related assets and selected liabilities, excluding the Brainerd mill, closed on June 26, 2013. We determined that the sale of the specialty paper business met the criteria for discontinued operations presentation as established in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 205-20, Discontinued Operations.

The sale of the specialty paper business and primarily all related assets and selected liabilities, excluding Brainerd, closed on June 26, 2013. The sale generated a pre-tax impairment charge of \$63.7 million, which is recorded in loss from discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2013. Included in the impairment charge is a net pre-tax credit of approximately \$5.9 million related to pension and other postretirement plan settlements, curtailments, and special termination benefits resulting from modifications made to the plans in connection with the transaction. Additionally, pre-tax charges related to severance and benefits, contract termination, and other associated closure costs totaled \$0.1 million and \$4.3 million for the three months ended June 30, 2014 and June 30, 2013, respectively. For the six months ended June 30, 2014 and June 30, 2013, the aforementioned pre-tax closure charges were \$0.7 million and \$4.3 million, respectively.

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In February 2013, we announced the planned closure of the Brainerd paper mill ( Brainerd ) and the facility permanently closed on March 29, 2013. In the second quarter of 2013, we determined the closure of Brainerd in conjunction with the sale of the specialty paper business met the criteria for discontinued operations presentation in accordance with FASB ASC Subtopic 205-20, Discontinued Operations. Pre-tax charges recorded for the six months ended June 30, 2014 were \$0.1 million, related to severance and benefit continuation costs and other associated closure costs; there were not any additional charges recognized for the three months ended June 30, 2014. Pre-tax charges for severance and benefit continuation costs and other associated closure costs totaled \$0.7 million for the three months ended June 30, 2013. For the six months ended June 30, 2013, pre-tax charges included accelerated depreciation on long lived assets of \$35.7 million; inventory and spare parts write downs of \$6.7 million; and other associated closure costs of \$2.6 million. These charges are included in loss from discontinued operations in the Condensed Consolidated Statements of Comprehensive Loss.

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**Critical Accounting Policies and Estimates**

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Please refer to the notes to the financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2013, for our accounting policies and other disclosures which are pertinent to these statements.

**Information Concerning Forward-Looking Statements**

The foregoing discussion and analysis of our financial condition and results of operations contain forward-looking statements that involve risks, uncertainties, and assumptions. Forward-looking statements are not guarantees of performance. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Wausau Paper and our consolidated subsidiaries may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements may be identified by, among other things, beliefs or expectations that certain events may occur or are anticipated and projections or statements of expectations with respect to various aspects of our business, our plans or intentions, our stock performance, the industry within which we operate, the markets in which we compete, the economy, and any other expressions of similar import or covering other matters relating to our business and operations. Risks, uncertainties, and assumptions relating to our forward-looking statements include the level of competition for our products, downturns in our target markets, changes in the away-from-home towel and tissue industry, changes in the price or availability of raw materials and energy, the failure to develop new products that meet customer needs, adverse changes in our relationships with large customers and labor unions, the failure to recruit and retain key personnel, 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, changes in tax laws, increasing costs of certain employee and retiree benefits, unforeseen liabilities arising from current or prospective claims, unforeseen claims concerning intellectual property rights, unexpected disruptions in the availability of our computer systems, attempts by shareholders to effect changes at or acquire control over the Company, 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, 2013, and from time to time in our other filings with the Securities and Exchange Commission after the date of such annual report. We assume no obligation, and do not intend, to update these forward-looking statements.

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

There has been no material change in the information provided in response to Item 7A of our Form 10-K for the year ended December 31, 2013.

**Item 4. Controls and Procedures**

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

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, this report should be considered in light of the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition, or future results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing Wausau Paper. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

**Item 6. Exhibits**

- 31.1 Certification of CEO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32.1 Certification of CEO and CFO pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document\*

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101.SCH XBRL Taxonomy Extension Schema\*

101.CAL XBRL Taxonomy Extension Calculation Linkbase\*

101.LAB XBRL Taxonomy Extension Label Linkbase\*

101.PRE XBRL Extension Presentation Linkbase\*

101.DEF XBRL Taxonomy Definition Linkbase\*

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\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this quarterly report on Form 10-Q shall be deemed furnished and not filed.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WAUSAU PAPER CORP.

August 7, 2014

SHERRI L. LEMMER  
Sherri L. Lemmer  
Senior Vice President and Chief Financial Officer

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

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**EXHIBIT INDEX**  
  
**to**  
  
**FORM 10-Q**  
  
**of**  
  
**WAUSAU PAPER CORP.**  
  
**for the quarterly period ended June 30, 2014**  
  
Pursuant to Section 102(d) of Regulation S-T  
  
(17 C.F.R. Section 232.102(d))

The following exhibits are filed as part of this report:

- 31.1 Certification of CEO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32.1 Certification of CEO and CFO pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document\*
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- 101.DEF XBRL Taxonomy Definition Linkbase\*

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\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this quarterly report on Form 10-Q shall be deemed furnished and not filed.