WAUSAU PAPER CORP.
Form 10-K
March 15, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

(box) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

COMMISSION FILE NUMBER 1-13923

WAUSAU PAPER CORP.
(Exact name of registrant as specified in charter)

100 PAPER PLACE MOSINEE, WISCONSIN 54455 (Address of principal executive office)	WISCONSIN (State of incorporation) 39-0690900 (I.R.S. Employer Identification Number)

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

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

Title of each class	Name of each exchange on which registered
COMMON STOCK, NO PAR VALUE	NEW YORK STOCK EXCHANGE

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of

"accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange

Act.

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

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

As of June 30, 2005, the aggregate market value of the common stock shares held by non-affiliates was approximately $556,501,154. For purposes of this calculation, the registrant has assumed its directors and executive officers are affiliates. As of February 16, 2006, 51,021,276 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
PROXY STATEMENT FOR USE IN CONNECTION WITH 2006 ANNUAL MEETING OF SHAREHOLDERS (TO THE EXTENT NOTED HEREIN): PART III

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

GENERAL

Wausau Paper Corp. ("Wausau Paper") manufactures, converts, and sells paper and paper products within three principal operating segments: Specialty Products, Printing & Writing and Towel & Tissue. All three of our business segments market their products under the Wausau Paper(trademark) label. Our principal office is located in Mosinee, Wisconsin. At December 31, 2005, we had approximately 3,000 employees at eleven operating facilities located in seven states.

FINANCIAL INFORMATION ABOUT SEGMENTS

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

NARRATIVE DESCRIPTION OF BUSINESS

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

Wausau Paper's eleven operating facilities are organized into the three business segments as described below.

SPECIALTY PRODUCTS

Specialty Products produces a wide variety of technical specialty papers at three facilities located in Rhinelander, Wisconsin; Mosinee, Wisconsin; and Jay, Maine. The markets for technical specialty papers are diverse and highly fragmented. Specialty Products' market position varies by product, but it is a leading producer of supercalendered backing papers used as a base from which "peel-and-stick" pressure sensitive labels are dispensed. These backing papers are designed for high-speed labeling machines, which apply labels on consumer products such as shampoo and deodorant. Specialty Products is also North America's largest producer of unsaturated masking tape base paper used in the production of masking tape. Other products include a broad range of food, medical, and industrial papers used in a variety of applications including grease-resistant protective barrier paper for pet food and microwave popcorn,

lightweight paper for sterilized medical packaging, interleaver paper used in steel processing and to protect polished steel after production, and coating and laminating base papers used in composite can labeling.

Specialty Products' papers are sold to manufacturers and converters, primarily in the United States, that serve a host of industries including consumer products, food service, pet food, medical packaging, and manufacturing. Under the Wausau Paper(trademark) label, products are marketed under a variety of brands including ExperTec(trademark), DuraTec(trademark), InvenTec(trademark), ProGard(trademark), ProRedi(trademark), ProPly(trademark), and ProTec(trademark).

Primary competition for Specialty Products comes from approximately 12 paper producing companies of which our principal competitors include Thilmany LLC, Longview Fibre Company, Stora Enso, and Fraser Paper, Inc.

Specialty Products also operates converting facilities in Columbus, Wisconsin, and Jackson, Mississippi, which produce moisture-barrier laminated roll wrap used to protect rolls of paper during storage and shipment, and related specialty finishing and packaging products such as custom coating, laminating, and converting. These products are sold to manufacturers and converters who serve multiple industries including paper, industrial packaging, and corrugated containers. Specialty Products' moisture-barrier laminated roll wrap sales are estimated to be approximately 44% of the North American roll wrap market.

Primary competition in roll wrap comes from approximately 4 other wax and poly laminators and includes Cascades/Sonoco, Inc. and Ludlow Coated Products.

PRINTING & WRITING

Printing & Writing produces and converts fine printing and writing paper products in four facilities. At facilities in Appleton and Brokaw, Wisconsin; Groveton, New Hampshire; and Brainerd, Minnesota, Printing & Writing manufactures and converts a broad line of premium uncoated printing, writing, imaging, text, cover; and board grades, in various weights, colors, sizes, and finishes. Approximately 55% of the fine printing and writing papers produced are colored papers. Distribution warehouses are currently maintained in Appleton and Brokaw, Wisconsin; Groveton, New Hampshire; Dallas, Texas; and Los Angeles, California.

Under the Wausau Paper(trademark) label, products are marketed under a variety of brands, including Astrobrights(reg-trade-mark), Astropaque(reg-trade-mark), Royal, Professional Series(trademark), and Creative Collection(trademark). These papers are used for printed and photocopied documents such as annual reports, brochures, announcements, and greeting cards. Approximately 75% of Printing & Writing's products are sold in sheet form to paper distributors, who sell to commercial printers, in-plant print shops, quick printers, and copy centers and to office supply and mass merchandisers to reach consumers. Products are also sold in roll form to converters that serve the greeting card, envelope, and announcement industry. The segment's fine printing and writing sales are estimated to be less than 3% of the total uncoated free-sheet market although greater share is held in certain segments of the market.

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Competition in printing and writing grades comes from specialty divisions of major integrated paper companies as well as smaller, privately held non-integrated companies. We estimate that the number of principal competitors in the printing and writing grade papers portion of the uncoated free-sheet market is approximately 14 of which our principal competition includes International Paper Company, Domtar, Inc., and Weyerhaeuser Company.

TOWEL & TISSUE

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

Under the Wausau Paper(trademark) name, Bay West(reg-trade-mark) towel and tissue products, made primarily from recycled material, are marketed under a number of brands including DublSoft(reg-trade-mark), EcoSoft(trademark), OptiCore(trademark), Revolution(trademark), and Dubl-Tough(reg-trade-mark). These products include washroom roll and folded towels, tissue products, a variety of towel, tissue, and soap dispensers, windshield folded towels, industrial wipers, dairy towels, household roll towels, and other premium towel and tissue products. Products are sold to paper and sanitary supply distributors in North America that serve factories and other commercial and industrial locations, health service facilities, office buildings, restaurants, theme parks, airports, and hotels. Towel & Tissue's paper mill is located in

Middletown, Ohio and its converting facility and main distribution warehouse are located in Harrodsburg, Kentucky. In addition, Towel & Tissue currently maintains a distribution warehouse in Los Angeles, California.

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

EXPORT SALES

Currently, foreign sales represent approximately 8 percent of Wausau Paper's consolidated net sales, with sales to Canada representing 6 percent of consolidated net sales. Refer to Note 13 of the Notes to Consolidated Financial Statements for our geographic data.

In January 2002, the Appellate Body of the World Trade Organization ("WTO") held that the United States extraterritorial income exclusion ("ETI") was a prohibited export subsidy similar to the benefits derived from a foreign sales corporation. The United States enacted legislation in October 2004 which addressed the European Union's objections regarding the ETI regime. The American Jobs Creation Act of 2004 included the repeal of ETI and provided a deduction with respect to income of certain United States manufacturing activity in 2005. The ETI regime repeal becomes fully effective in 2007. For transactions prior to 2005, we will retain 100 percent of the ETI benefit. For transactions in 2005 and 2006, the ETI benefit will be available, but at a reduced rate of 80 percent and 60 percent, respectively. During February 2006, the WTO appellate panel ruled that because the American Jobs Creation Act of 2004 allowed for a gradual phaseout of ETI, the United States is still in breach of the WTO rules. In the absence of a

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resolution to the dispute, European Union sanctions could be imposed by May 14, 2006. We are currently evaluating the financial impact of the repeal of ETI and the implementation of the qualified production activities deduction.

RAW MATERIALS

Pulp is the basic raw material for paper production and represents approximately one-half of the total raw material cost of making paper. The

Mosinee and Brokaw mills were our only facilities with pulping operations. In November 2005, the Brokaw pulping operation was permanently shut down. During 2005, the pulp mills provided a percentage of the fiber needs to our Wisconsin paper operations as follows: Mosinee, 60%; Brokaw, 51%; and Rhinelander, 5%.

Wood fiber required for operation of our pulp mills in 2005 was purchased on the open market in the form of pulpwood and chips from independent contractors. In addition, approximately 9% of the timber consumed in pulping operations is produced from Wausau Paper-owned timberlands. Open-market pulpwood was purchased from approximately 200 independent loggers at market prices under contracts that typically provide for the delivery of a specified amount of wood and are entered into on a quarterly basis. Open-market chips were also purchased from independent sawmills. The balance of our pulp needs at Mosinee and Brokaw and all of the pulp used at our other facilities (an aggregate of approximately 450,000 air-dried metric tons in 2005) was purchased on the open market, principally from pulp mills throughout the United States and Canada. We have purchased, and may, from time to time in the future, purchase pulp futures contracts as a hedge against significant future increases in the market price of pulp.

Recycled, de-inked fiber with a high content of post-consumer waste is purchased from domestic suppliers as part of the fiber requirements for Printing & Writing's recycled products. Recycled fiber is in adequate supply and readily obtainable. Additionally, Towel & Tissue fulfills substantially all of its de-inked fiber needs from 100% recycled wastepaper which is readily available from domestic suppliers. Approximately 150,000 standard tons of wastepaper is consumed annually. In addition, approximately 40% of Towel & Tissue's parent roll supply needs are purchased from outside sources at then current market prices.

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

ENERGY

Wausau Paper's paper mills require large amounts of electrical and steam energy which are adequately supplied by public utilities or generated at Wausau Paper operated facilities. We generate approximately 33% of our electrical power needs from spent pulping liquor, fuel oil, coal, wood chips, fiber cake, natural gas, and hydropower. Spent pulping liquor, wood chips, and fiber cake are byproducts of mill operations. We continue to explore alternative power sources as an ongoing business process and are party to an operating lease for a co-generation electrical power facility for our Groveton mill.

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Wausau Paper contracts for the supply and delivery of natural gas at some of our facilities. Under these contracts, we are committed to the transportation of a fixed volume of natural gas from our natural gas suppliers to our facilities. We are not required to buy or sell minimum gas volumes under the agreement but are required to pay a minimum transportation fee for the contracted period. Contracts expire at various times between 2006 and 2019. At December 31, 2005, we also have volume commitments for the supply of fuel oil, natural gas, coal, paper, and certain raw materials. These obligations expire in 2006 and 2007. Wausau Paper may also purchase, from time to time, natural gas contracts with fixed prices for a certain portion of our facility requirements.

PATENTS AND TRADEMARKS

Wausau Paper develops and files trademarks and patents, as appropriate. Trademarks include Wausau Paper(trademark), ProPly(trademark), ExperTec(trademark), DuraTec(trademark), InvenTec(trademark), ProGard(trademark), ProRedi(trademark), ProTec(trademark), Astrobrights(reg-trade-mark), Astropaque(reg-trade-mark), Exact(reg-trade-mark), Bay West(reg-trade-mark), EcoSoft(trademark), DublSoft(reg-trade-mark), OptiCore(trademark), Revolution(trademark), and Wave 'N Dry(reg-trade-mark), among others. Our patents cover various paper towel dispensers and metering or other mechanisms for towel dispensers and cabinets and certain silicone release papers. We consider our trademarks and patents, in the aggregate, to be material to our business, although we believe the loss of any one such mark or patent right would not have a material adverse effect on our business. We do not own or hold material licenses, franchises or concessions.

SEASONAL NATURE OF BUSINESS

The markets for some of the grades of paper produced by Wausau Paper tend to be somewhat seasonal. However, the marketing seasons for these grades are not necessarily the same. Overall, we generally experience lower sales in the first quarter, in comparison to the rest of the year, primarily due to reduced business activity for many customers following the year-end holiday season.

WORKING CAPITAL

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

MAJOR CUSTOMERS

A substantial portion of our business is with customers in various paper converting, paper merchant, or distribution businesses. No single customer accounted for 10% or more of our consolidated net sales during 2005. On a segment basis, one customer accounted for approximately 18% of our Printing & Writing business net sales and one customer accounted for approximately 13% of our Towel & Tissue net sales while no single customer in Specialty Products' business segment comprised 10 % or more of the respective segment net sales.

BACKLOG

Consolidated order backlogs at December 31, 2005 increased to approximately 42,500 tons representing $52.1 million in sales compared to 35,100 tons, or $42.0 million of sales at December 31, 2004 and 31,600 tons, or $33.4 million in sales at December 31, 2003. The change in customer order backlog at December 31, 2005 compared to December 31, 2004 does not necessarily indicate a change in business conditions, as a large portion of orders is shipped directly from inventory upon receipt and does not impact backlog numbers. A backlog of unmade customer orders is monitored to optimize paper machine production. The majority of our customer orders are filled within 15 days of receipt. The entire backlog at December 31, 2005 is expected to be shipped during fiscal 2006. Information on backlogs by business segment is included in Item 7 of this report.

RESEARCH AND DEVELOPMENT

Research and development projects for the last three fiscal years primarily involved development of new release liners for Specialty Products' line of "peel-and-stick" liner papers, food-packaging/food-service papers and the development of new color and writing grades at Printing & Writing. Expenditures for product development were $1.9 million in 2005, $1.9 million in 2004, and $2.2 million in 2003.

ENVIRONMENT

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

Wausau Paper has a strong commitment to protecting the environment. Like our competitors in the paper industry, we face increasing capital investments and operating expenses to comply with expanding and more stringent environmental regulations. We estimate that our capital expenditures for environmental purposes will approximate $3.5 million in 2006.
We believe that capital expenditures associated with compliance with environmental regulations will not have a material adverse effect on our competitive position, consolidated financial condition, liquidity, or results of operations.

Wausau Paper is not involved in any proceedings under the Comprehensive Environmental Response, Compensation and Liability Act. In 1986, the Wisconsin

Department of Natural Resources ("DNR") notified a subsidiary of Wausau Paper that under Wisconsin environmental laws we may be a potentially responsible party ("PRP") for the Gorski landfill in Mosinee, Wisconsin, and nominated the landfill to the Environmental Protection Agency's ("EPA") National Priorities List. The DNR had identified elevated concentrations of chlorinated volatile organic compounds in three private water supply wells located in close proximity to the landfill. The DNR has identified 10 PRPs. No action was taken by either the DNR or the EPA until June

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2000, when the DNR requested certain parties who had disposed of waste at the site to form an ad hoc group to cooperatively investigate the environmental contamination at the site. In October 2001, we entered into an agreement with three other parties to fund a study of the landfill to determine possible remediation strategies. We worked with the DNR on the development of the study and work plan which was initiated in early 2003. A report based upon the study was submitted to the DNR in 2004. The DNR has not provided a response to the study submission. We estimate that the costs of remediation of the entire site for all parties will be approximately $3 million, based upon the remediation method our consultants believe to be the most likely to be used. This estimate is preliminary. Actual costs of remediation of the site could be materially different since no timetable or decision on the actual remediation work has yet been developed. Our share of the cost of such remediation cannot be determined with certainty at this time, but based on the estimated costs at year-end and the number and nature of other PRPs, we are of the opinion that such costs will

not have a material adverse effect on the consolidated financial condition, liquidity, or results of operations of Wausau Paper. We are also pursuing insurance coverage of our remediation costs following a 2003 Wisconsin Supreme Court decision in an unrelated case that remediation claims may amount to damages for purposes of general liability insurance.

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

EMPLOYEES

Wausau Paper had approximately 3,000 employees at the end of 2005. Most hourly mill employees are covered under collective bargaining agreements. A new four-year labor agreement was negotiated with USW International Union at Specialty Products' Mosinee, Wisconsin facility in 2005. The labor contract at our Specialty Products' Rhinelander, Wisconsin facility expired on December 31, 2005 and is in the process of being negotiated. Labor agreements will expire at other facilities in 2006, 2007, 2008 and 2009. We maintain good labor relations at all facilities and expect that new multi-year contracts will be negotiated at competitive rates.

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EXECUTIVE OFFICERS OF THE COMPANY

The following information relates to executive officers of Wausau Paper as of March 15, 2006. Unless otherwise specified, current positions listed for an executive officer have been held for a minimum of five years.

SAN W. ORR, JR., 64
Chairman of the Board of the Company and Advisor, Estates of A. P.

Woodson and family; Chief Executive Officer of the Company (2000; 1994-1995; 1989-1990); formerly Chairman of the Board (1987-1997) and a Director (1972-1997) of Mosinee Paper Corporation; also a Director of Marshall & Ilsley Corporation.

THOMAS J. HOWATT, 56
President and Chief Executive Officer. Previously, Senior Vice President, Printing & Writing (1997-2000), Vice President and General Manager, Printing & Writing Division (1994-1997), Vice President and General Manager, Wausau Papers of New Hampshire (1993-1994), Vice President Operations, Brokaw Division (1990-1993), and prior thereto, Vice President, Administration, Brokaw Division.

STUART R. CARLSON, 59
Executive Vice President, Administration. Previously, Senior Vice President, Specialty Paper Group (1997-2000), and Senior Vice President - Administration (1993-1996), and Vice President Human Resources (1991-1993) of Mosinee Paper Corporation. Also Director of Human Resources, Georgia Pacific, Inc. (1990-1991) and Corporate Director of Industrial Relations, Great Northern Nekoosa Corporation (1989-1990).

ALBERT K. DAVIS, 58
Senior Vice President, Specialty Products and Acting Senior Vice President, Printing & Writing. Previously, Vice President of Operations (1996 - 2000), Vice President of Engineering (1990 - 1996), and Director of Engineering (1983-1990), Rhinelander Paper Company, Inc.

PETE R. CHIERICOZZI, 62
Senior Vice President, Towel & Tissue since September, 2003. Previously, Consultant, Self-employed (2002), Vice President, Sales and Marketing, SCA Tissue (2001), Executive Vice President, Sales and Marketing, Georgia-Pacific Tissue (2000), Executive Vice-President, Wisconsin Tissue (Division of Chesapeake Corporation) (1999).

SCOTT P. DOESCHER, 46
Senior Vice President, Finance, Secretary and Treasurer since May, 2001. Previously, Vice President, Finance, Printing & Writing Group (1998-2001), Director of Finance, Printing & Writing Division (1992-1998) and Corporate Director Financial Analysis and Internal Audit and Assistant Secretary/Treasurer (1988-1992).

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DENNIS M. URBANEK, 61
Senior Vice President, Engineering and Environmental Services. Previously, Vice President, Engineering and Environmental Services (1996-1997) of Mosinee Paper Corporation, Vice President and General Manager of Mosinee's Pulp & Paper Division (1992-1996), and Vice President and General Manager, Sorg Paper Company (1990-1992).

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

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

THE SEGMENTS OF THE PAPER INDUSTRY IN WHICH WE OPERATE ARE HIGHLY COMPETITIVE AND INCREASED COMPETITION COULD REDUCE OUR SALES AND PROFITABILITY.

We compete in different markets within the paper industry on the basis of the quality of our products, customer service, product development activities, price, and distribution. All of our markets are highly competitive. Our competitors vary in size, and many have greater financial and marketing resources than we do. In some of our markets, the industry's capacity to make products exceeds current demand levels. Competitive conditions in some of our

segments have caused us to incur lower net selling prices and reduced gross margins and net earnings. These conditions may continue indefinitely. See Item 1 of this report for information regarding the number and identities of our competitors in our operating segments. See Item 7 concerning recent competitive conditions in the markets we serve.

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

CHANGES WITHIN THE PAPER INDUSTRY MAY ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

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

OUR BUSINESS AND FINANCIAL PERFORMANCE MAY BE ADVERSELY AFFECTED BY DOWNTURNS IN THE TARGET MARKETS THAT WE SERVE OR REDUCED DEMAND FOR THE TYPES OF PRODUCTS WE SELL.

Demand for our products is often affected by general economic conditions as well as product-use trends in our target markets. These changes may result in decreased demand for our products. For example, our "away-from-home" towel and tissue business usually declines during periods of economic slowdowns as business and recreational travel is curtailed. Also, demand for uncoated freesheet papers, the broad market category in which Printing & Writing competes, has declined in five of the last six years due to such factors as general economic conditions, office employment trends and the increased use of electronic communications. There may be periods during which demand for our products is insufficient to enable us to operate our production facilities in an economical manner. The occurrence of these conditions is beyond our ability to control and, when they occur, they may have a significant impact on our sales and results of operations.

THE COST OF RAW MATERIALS AND ENERGY USED TO MANUFACTURE OUR PRODUCTS

COULD INCREASE.

Raw materials comprise approximately 50% of our cost of sales, with market pulp, purchased parent rolls, and wastepaper accounting for more than one-half of this total. Raw material prices will change based on supply and demand on a worldwide spectrum. Pulp price changes can occur due to worldwide consumption levels of pulp, pulp capacity, expansions or curtailments, inventory building or depletion, and pulp producer cost changes related to wood availability, environmental issues, or other variables.

We generate approximately 33% of our energy needs. Energy costs may fluctuate significantly due to increased worldwide consumption levels, disruptions in supply due to natural catastrophes or political turmoil, or decreased production capacity.

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

We currently purchase approximately 40%, or more than 60,000 tons per year, of our towel and tissue parent roll needs from other producers in the paper industry. A disruption in supply of these parent rolls could have an adverse affect on our ability to meet demand for our products and a significant increase in the cost of these parent rolls could unfavorably impact profitability.

THE FAILURE TO DEVELOP NEW PRODUCTS COULD REDUCE THE OVERALL DEMAND FOR OUR PRODUCTS AND OUR NET INCOME.

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

IF WE FAIL TO MAINTAIN SATISFACTORY RELATIONSHIPS WITH OUR LARGER CUSTOMERS, OUR BUSINESS MAY BE HARMED.

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

WE MAY BE UNABLE TO MAINTAIN OUR RELATIONSHIPS WITH ORGANIZED LABOR UNIONS.

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

THE COSTS OF COMPLYING WITH ENVIRONMENTAL REGULATIONS MAY INCREASE SUBSTANTIALLY AND ADVERSELY AFFECT OUR CONSOLIDATED FINANCIAL CONDITION, LIQUIDITY, OR RESULTS OF OPERATIONS.

We are subject to various environmental laws and regulations that govern discharges into the environment and the handling and disposal of hazardous substances and wastes. Environmental laws impose liability and clean-up responsibility for releases of hazardous substances into the environment. We will continue to incur substantial capital and operating expenses in order to comply with current law. Any changes in these laws or their interpretation by government agencies or the courts may significantly increase our capital expenditures and operating expenses and decrease the amount of funds available for investment in other areas of operation. In addition, we may be required to eliminate or mitigate any adverse effects on the

environment caused by the release of hazardous materials, whether or not we had knowledge of, or were responsible for, such release. We may also incur liability for personal injury and property damages as a result of discharges into the environment. The costs of remediation of known environmental sites, such as described in Note 10 of the Notes to Consolidated Financial Statements, may exceed current estimates and there may be additional sites not now known to us that may require significant remediation expenses in the future. If costs or liabilities related to environmental compliance increase significantly, our consolidated financial condition, liquidity, or results of operations may be adversely affected.

WE MAY BE UNABLE TO GENERATE SUFFICIENT CASH FLOW TO SIMULTANEOUSLY FUND OUR OPERATIONS, FINANCE CAPITAL EXPENDITURES, SATISFY OTHER OBLIGATIONS, AND MAKE DIVIDEND PAYMENTS ON OUR COMMON STOCK.

Our business is capital intensive and requires significant expenditures for equipment maintenance and new or enhanced equipment for environmental compliance matters, and to support our business strategies. We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, sale of timberlands, our existing credit facility or other bank lines of credit, and other long-term debt. If we are unable to generate sufficient cash flow from these sources or if we are unable to secure needed credit, we could be unable to meet our near- and longer-term cash needs or make dividend payments.

IF WE HAVE A CATASTROPHIC LOSS OR UNFORESEEN OR RECURRING OPERATIONAL PROBLEMS AT ANY OF OUR FACILITIES, WE COULD SUFFER SIGNIFICANT LOST PRODUCTION AND/OR COST INCREASES.

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

OUR ACQUISITIONS, FACILITY CLOSINGS, OR OTHER STRUCTURAL CHANGES MAY RESULT IN FINANCIAL RESULTS THAT ARE DIFFERENT THAN EXPECTED.

In the normal course of business, we frequently engage in discussions with third parties relating to the possible acquisition of additional facilities and may consider, from time to time, the acquisition of another business. We also continually review and may implement structural changes designed to improve our operations or to reflect anticipated changes in long-term market conditions. As a result of recent or similar future transactions, our financial results may differ from the investment community's expectations in a given quarter, or over the long term. We may have difficulty integrating the acquisition of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. We may also have difficulty integrating a new manufacturing facility into current operations. These difficulties can arise for a variety of reasons, including, the size and

complexity of the acquisition, the retention of key employees, the retention of key customers, and the ability to integrate manufacturing systems and transfer our corporate culture to new employees and facilities. If we do not realize the expected benefits or synergies of such transactions, our consolidated financial position, liquidity, and results of operations could be negatively impacted.

IF WE INCUR A MATERIAL WEAKNESS IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, OPERATING RESULTS, AND STOCK PRICE.

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

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

FUTURE CHANGES IN FINANCIAL ACCOUNTING STANDARDS MAY ADVERSELY AFFECT OUR REPORTED RESULTS OF OPERATIONS.

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

WE MAY INCUR SIGNIFICANT, UNEXPECTED LIABILITIES FROM CURRENT OR FUTURE CLAIMS, INCLUDING MATTERS NOW THREATENED OR IN LITIGATION.

We deal with claims which are threatened or made by third parties in the normal course of our business. Some claims result in formal administrative or legal proceedings in which the amounts claimed are significant. We assess each claim and make a judgment whether the claim will have a material adverse effect on our consolidated financial condition, liquidity, or results of operations. Claims which we believe could have material adverse effect if not resolved in our favor, or other claims which we believe to be significant, are discussed in Item 3 of this report

and in Note 10 of the Notes to Consolidated Financial Statements for the most recent fiscal year which are included in Item 8 of this report. Our reports do not disclose or discuss all claims of which we are aware. Our assessment of the materiality of any claim is based upon the amount involved, the underlying facts, and our assessment of the likelihood of a material adverse outcome. If our assessment of a claim as immaterial is not correct, we may not have made adequate provision for such loss and our consolidated financial condition, liquidity, or results of operations could be harmed.

WE MAY BECOME INVOLVED IN CLAIMS CONCERNING INTELLECTUAL PROPERTY RIGHTS, AND WE COULD SUFFER SIGNIFICANT LITIGATION OR RELATED EXPENSES IN DEFENDING OUR OWN INTELLECTUAL PROPERTY RIGHTS OR DEFENDING CLAIMS THAT WE INFRINGED THE RIGHTS OF OTHERS.

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

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

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

SOME ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF INCORPORATION AND BYLAWS, AS WELL AS PROVISIONS OF WISCONSIN LAW, COULD IMPAIR A TAKEOVER ATTEMPT.

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

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

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

(circle) divide our board of directors into three classes of directors serving staggered terms;

(circle) allow the board of directors to fill any vacancies on our board;

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

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

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

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

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

- (circle)require a vote by the holders of four-fifths of our outstanding shares to amend the provisions of our articles or bylaws described above; and

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

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ITEM 2. PROPERTIES

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

	Number of Paper	Practical	2005

Facility	Product	Machines	Capacity*(tons)	Actual(tons)
Specialty Products				
Rhinelander, WI	Paper	4	150,000	147,500
Otis, ME	Paper	2	71,000	68,800
Mosinee, WI	Paper	4	116,000	112,800
	Pulp		96,000	77,300
Columbus, WI and Jackson, MS	Laminated/ Coated Papers	N/A	150,000	66,700
Printing & Writing				
Brokaw, WI	Paper	4	177,000	150,000
Groveton, NH	Paper	2	117,000	111,400
Brainerd, MN	Paper	2	170,000	76,900
Appleton, WI	Converting	N/A	70,000	35,000
Towel & Tissue				
Middletown, OH	Towel & Tissue	2	110,000	109,100
	Deink Pulp		110,000	106,200
Harrodsburg, KY	Converted Towel & Tissue	N/A	200,000	163,500