WAUSAU PAPER CORP.
Form 10-Q
May 10, 2007

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2007**

OR

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

SECURITIES EXCHANGE ACT OF 1934

For the transition period from____________ to _________________

Commission file number: **1-13923**

WAUSAU PAPER CORP.

(Exact name of registrant as specified in charter)

WISCONSIN

39-0690900

(State of incorporation)

(I.R.S. Employer Identification Number)

100 Paper Place

Mosinee, Wisconsin 54455-9099

(Address of principal executive office)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes T No £

Indicate by check mark whether the registrant 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 £

Accelerated filer T

Non-accelerated filer £

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

The number of common shares outstanding at April 30, 2007 was 50,746,947.

WAUSAU PAPER CORP.

AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1.

Financial Statements

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended March 31,	
(all amounts in thousands, except per share data)	**2007**	2006
Net sales	**$ 299,393**	$ 283,663
Cost of products sold	**271,307**	260,057
Gross profit	**28,086**	23,606
Selling and administrative expenses	**20,802**	20,976
Restructuring		132
Operating profit	**7,284**	2,498
Interest expense	**(2,807)**	(2,713)
Other income, net	**206**	42
Earnings (loss) before income taxes and cumulative effect of a change in accounting principle	**4,683**	(173)
Credit for income taxes	**(10,282)**	(64)
Earnings (loss) before cumulative effect of a change in accounting principle	**14,965**	(109)
Cumulative effect of a change in accounting		

principle (net of income taxes)				(427)
Net earnings (loss)	**$**	**14,965**	$	(536)
Earnings (loss) per share before cumulative effect of a change in accounting principle basic and diluted	**$**	**0.29**	$	0.00
Cumulative effect of a change in accounting principle (net of income taxes), per share				(0.01)
Net earnings (loss) per share basic and diluted	**$**	**0.29**	$	(0.01)
Weighted average shares outstanding basic		**50,746**		51,041
Weighted average shares outstanding diluted		**51,100**		51,041

See Notes to Condensed Consolidated Financial Statements.

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Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(all dollar amounts in thousands)	**March 31, 2007 (unaudited)**	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 16,832**	$ 26,122
Receivables, net	**111,653**	104,801
Refundable income taxes	**353**	737
Inventories	**130,155**	122,531
Deferred income taxes	**6,398**	7,444
Other current assets	**32,799**	32,612
Total current assets	**298,190**	294,247
Property, plant, and equipment net	**462,793**	468,372
Other assets	**37,680**	36,495
Total Assets	**$ 798,663**	$ 799,114
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	**$ 170**	$ 184
Accounts payable	**87,593**	83,441
Accrued and other liabilities	**58,976**	71,557
Total current liabilities	**146,739**	155,182
Long-term debt	**166,555**	160,287

Deferred income taxes	**51,236**	66,574
Post-retirement benefits	**102,393**	101,513
Pension	**9,245**	14,259
Other noncurrent liabilities	**31,410**	27,225
Total liabilities	**507,578**	525,040
Stockholders equity	**291,085**	274,074
Total Liabilities and Stockholders Equity	**$ 798,663**	$ 799,114

See Notes to Condensed Consolidated Financial Statements.

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(all dollar amounts in thousands)	Three Months Ended March 31, **2007**	2006
Net cash used in operating activities	**$ (6,355)**	$ (10,409)
Cash flows from investing activities:		
Capital expenditures	**(5,986)**	(4,912)
Proceeds from property, plant, and equipment disposals	**893**	1,655
Net cash used in investing activities	**(5,093)**	(3,257)
Cash flows from financing activities:		
Net issuances of commercial paper	**6,500**	9,500
Payments under capital lease obligation and note payable	**(64)**	(35)
Dividends paid	**(4,313)**	(4,340)
Proceeds from stock option exercises		1,405
Excess tax benefits related to stock options	**35**	94
Payments for purchase of company stock		(967)
Cash provided by financing activities	**2,158**	5,657
Net decrease in cash and cash equivalents	**(9,290)**	(8,009)
Cash and cash equivalents, beginning of period	**26,122**	15,500
Cash and cash equivalents, end of period	**$ 16,832**	$ 7,491
Supplemental Cash Flow Information:		
Interest paid-net of amount capitalized	**$ 5,240**	$ 5,170

Income taxes paid	**$ 2,794**	$ 658

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

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1.

Basis of Presentation

The condensed consolidated financial statements include the results of Wausau Paper Corp. and our consolidated subsidiaries. All significant intercompany transactions have been eliminated. The accompanying condensed financial statements, in the opinion of management, reflect all adjustments, which are normal, and recurring in nature and which are necessary for a fair statement of the results for the periods presented. Results for the interim period are not necessarily indicative of future results. In all regards, the financial statements have been presented in accordance with accounting principles generally accepted in the United States of America. Refer to notes to consolidated financial statements, which appear in the Annual Report on Form 10-K for the year ended December 31, 2006, for our accounting policies and other disclosures, which are pertinent to these statements.

Note 2.

New Accounting Pronouncements

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities. This FSP prohibits companies from recognizing planned major maintenance costs under the accrue-in-advance method that allowed the accrual of a liability over several reporting periods before the maintenance is performed. We have adopted the direct expensing method, under which the costs of planned major maintenance activities are expensed in the period in which the costs are incurred. The condensed consolidated financial statements for 2006 have been adjusted to apply the new method retrospectively. The application of FSP AUG AIR-1 will effect our 2006 interim period reporting and will not result in a cumulative effect adjustment to our annual consolidated financial statements. The following table illustrates the effect of applying the direct expensing method on individual line items in the condensed consolidated financial statements for the three months ended March 31, 2006:

(all amounts in thousands, except per share data)	**Before Application of FSP AUG AIR-1**	**Adjustment**	**After Application of FSP AUG AIR-1**
Condensed Consolidated Statements of Operations			
Cost of products sold	$ 261,338	$ (1,281)	$ 260,057
Credit for income taxes	(538)	474	(64)

Net earnings (loss)	(1,343)	807	(536)
Net earnings (loss) per share basic and diluted	(0.03)	0.02	(0.01)

The effect of applying the direct expensing method retrospectively will result in an increase in net earnings of $0.1 million for the three months ended June 30, 2006, a decrease in net earnings of $0.3 million, or $0.01 per basic and diluted share for the three months ended September 30, 2006, and a decrease in net earnings of $0.6 million, or $0.01 per basic and diluted share for the three months ended December 31, 2006.

Note 3.

Income Taxes

On January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Income Tax Uncertainties (FIN 48). FIN 48 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a taxing authority. As a result of the implementation of FIN 48, we recognized a $0.04 million increase in the liability for unrecognized tax benefits, which was accounted for as a decrease to retained earnings at January 1, 2007.

On January 1, 2007, the liability for uncertain tax positions was $4.8 million, all of which would impact our effective tax rate if recognized, and was recorded as a current liability. We record penalties and accrued interest related to uncertain tax positions in miscellaneous expense and interest expense, respectively. At the beginning of 2007, approximately $0.5 million was included in the liability for uncertain tax positions for the possible payment of interest and penalties. There were no significant changes in the components of the liability in the first quarter of 2007.

The Internal Revenue Service (IRS) has commenced examinations of our 1998 to 2003 tax returns that are anticipated to be concluded by the end of 2007. These examinations relate to certain research and development credits recorded during these respective tax return years. In addition, we are currently open to audit under the statute of limitations by the IRS for the years ending December 31, 2004 through 2006. We also file income tax returns in numerous state jurisdictions with varying statutes of limitations. The anticipated charges with respect to the aforementioned items are included in the liability for uncertain tax positions recorded at March 31, 2007.

Note 4.

Reorganization

Effective January 1, 2007, we reorganized the various subsidiaries which comprised our operating segments to align more closely with our operating structure. Each segment is now organized as a single member limited liability company and operates as a direct subsidiary of Wausau Paper Corp. The new structure allowed us to utilize state net operating loss and credit carryovers of certain subsidiaries for which valuation allowances had been previously established due to the fact that separate state tax returns were filed under our previous structure. During the three months ended March 31, 2007, we recorded state tax benefits of $12.0 million primarily as a result of the reversal of these valuation allowances. No additional state tax benefits resulting from the reorganization are anticipated.

The major temporary differences that give rise to the deferred tax assets and liabilities are as follows:

(all dollar amounts in thousands)		March 31, 2007	December 31, 2006
Deferred tax assets:			
	Accrued compensated absences	**$ 4,251**	$ 4,281
	Pensions	**2,955**	1,648
	Post-retirement benefits	**41,252**	40,522
	State net operating loss carry forward	**15,279**	15,466
	Other	**25,018**	25,088
	Gross deferred tax asset	**88,755**	87,005
	Less valuation allowance	**(1,591)**	(12,267)
	Net deferred tax assets	**87,164**	74,738
Deferred tax liabilities:			
	Property, plant, and equipment	**(117,972)**	(120,271)
	Other	**(14,030)**	(13,597)
	Gross deferred tax liability	**(132,002)**	(133,868)
	Net deferred tax liability	**$ (44,838)**	$ (59,130)

Note 5.

Earnings Per Share

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

(all amounts in thousands, except per share data)	Three Months Ended March 31, 2007	2006
Net earnings (loss)	**$ 14,965**	$ (536)
Basic weighted average common shares outstanding	**50,746**	51,041
Effect of dilutive securities:		

Share-based compensation awards	**354**	
Diluted weighted average common shares outstanding	**51,100**	51,041
Net earnings (loss) per share:		
Basic	**$ 0.29**	$ (0.01)
Diluted	**$ 0.29**	$ (0.01)

Share-based compensation awards for which the exercise price exceeds the average market price over the applicable period have an antidilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS. For the three months ended March 31, 2007, 511,326 shares issued under share-based compensation plans were excluded from the diluted EPS calculation because the shares were antidilutive. Due to the loss reported in the three months ended March 31, 2006, 2,180,942 share-based compensation award shares issued were considered to be antidilutive.

Note 6.

Receivables

Accounts receivable consisted of the following:

(all dollar amounts in thousands)	**March 31, 2007**	December 31, 2006
Trade	**$ 110,442**	$ 104,049
Other	**2,539**	2,113
	112,981	106,162
Less: allowances for doubtful accounts	**(1,328)**	(1,361)
	$ 111,653	$ 104,801

Note 7.

Inventories

The various components of inventories were as follows:

(all dollar amounts in thousands)	**March 31, 2007**	December 31, 2006
Raw materials	**$ 38,081**	$ 37,393
Work in process and finished goods	**123,049**	114,584
Supplies	**7,655**	9,457
Inventories at cost	**168,785**	161,434
Less: LIFO reserve	**(38,630)**	(38,903)
	$ 130,155	$ 122,531

Note 8.

Accumulated Depreciation

The accumulated depreciation on fixed assets was $723.7 million as of March 31, 2007, and $712.0 million as of December 31, 2006. The provision for depreciation, amortization, and depletion was $14.6 million for the three months ended March 31, 2007 and 2006.

Note 9.

Debt

As of March 31, 2007, we had $6.5 million of commercial paper outstanding under an existing unrated commercial paper placement agreement with a bank. This agreement requires unused credit availability under our $125 million unsecured revolving-credit agreement that expires July 27, 2011, equal to the amount of outstanding commercial paper.

At March 31, 2007, under the $125 million facility that expires July 27, 2011, we have the ability and the intent to refinance on a long-term basis the amount of outstanding commercial paper and the $35 million of unsecured private placement notes maturing on August 31, 2007. As a result, we have classified the amounts as long-term on our Condensed Consolidated Balance Sheets.

Note 10.

Pension and Other Post-retirement Benefit Plans

The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006, are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2007	2006	**2007**	2006
Service cost	**$ 1,908**	$ 1,958	**$ 641**	$ 804
Interest cost	**2,755**	2,596	**1,304**	1,243
Expected return on plan assets	**(3,354)**	(3,003)		
Amortization of:				
Prior service cost (benefit)	**544**	539	**(908)**	(1,038)
Actuarial loss	**618**	797	**583**	410
Net periodic benefit cost	**$ 2,471**	$ 2,887	**$ 1,620**	$ 1,419

We previously disclosed in our consolidated financial statements for the year ended December 31, 2006, that although we do not have a minimum funding requirement for defined benefit pension plans in 2007, we may elect to make contributions of up to $16.2 million directly to pension plans. As of March 31, 2007, we have made payments of approximately $2.9 million to our pension plans. In addition, as previously reported, we expect to contribute $4.1 million directly to other post-retirement plans in 2007. As of March 31, 2007, we have contributed $1.2 million to our post-retirement plans.

Note 11.

Share-Based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), using the modified prospective application transition method. Prior to January 1, 2006, we measured compensation cost for stock-based compensation plans using the intrinsic value based method prescribed under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

Under SFAS 123R, share-based payment awards that are settled in cash continue to be classified as a liability; however, rather than remeasuring the award at the intrinsic value each reporting period, the award is remeasured at its fair value each reporting period until final settlement. The difference between the liability as previously computed (i.e., intrinsic value) and the fair value of the liability award on January 1, 2006, was $0.4 million, net of any related tax effects ($0.7 million pretax), and was recorded as a cumulative effect of a change in accounting principle in the accompanying Condensed Consolidated Statements of Operations.

Stock Options, Restricted Stock Awards, and Performance Units

During the three months ended March 31, 2007 and March 31, 2006, share-based compensation expense related to fixed option grants and performance unit awards

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was approximately $0.2 million and $0.1 million, respectively, and was included as a component of selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. We recognize compensation expense on grants of stock options, restricted stock, and performance unit share-based compensation awards on a straight-line basis over the requisite service period of each award. Forfeiture rates are estimated based upon our historical experience for each grant type. As of March 31, 2007, total unrecognized compensation cost related to share-based compensation awards was approximately $0.4 million, net of estimated forfeitures, which we expect to recognize over a weighted average period of approximately 1.0 year.

No grants of restricted stock were made during the three months ended March 31, 2007.

During the first quarter of 2007, we granted 413,102 stock options and 37,410 performance unit awards as part of a performance-based compensation award for the year ended December 31, 2007. The vesting of these performance-based awards is subject to (1) achieving certain operating profit levels and (2) completion of a service requirement. No compensation expense was recognized for this grant for the three months ended March 31, 2007, as it was not probable that the performance based criteria would be achieved as of March 31, 2007.

Stock Appreciation Rights and Dividend Equivalents

Share-based compensation provisions or credits related to stock appreciation rights and dividend equivalents are determined based upon a remeasurement to their fair value at each interim reporting period in accordance with the provisions of SFAS 123R. During the three months ended March 31, 2007 and March 31, 2006, we recognized a credit of approximately $0.1 million and a provision of approximately $0.8 million, respectively, in share-based compensation as a component of selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations related to stock appreciation rights and dividend equivalents.

Note 12.

Pulp Mill Closure

In July 2005, we announced plans to permanently close the sulfite pulp mill at our Brokaw, Wisconsin, facility. The pulp mill was closed in November 2005 and the related long-lived assets were abandoned. Pre-tax restructuring expense related to certain assets disposed as a direct result of the closure and other associated costs were $0.1 million for the three months ended March 31, 2006. No restructuring expense was incurred during the three months ended March 31, 2007, and no additional restructuring expenses are anticipated.

Note 13.

Interim Segment Information

We have reclassified certain prior-year interim segment information to conform to the 2007 presentation. The adjustments and reclassifications are the result of a reporting change, effective January 1, 2007, to reflect the adoption of FSP AUG AIR-1 and as a result of restructuring the assets and operating results of one facility from the Corporate and Unallocated segment to the Towel & Tissue segment. For additional information on the adoption of FSP AUG AIR-1, please refer to Note 2 New

Accounting Pronouncements. For additional information on the restructuring, please refer to Note 4 Reorganization.

Factors Used to Identify Reportable Segments

Our operations are classified into three principal reportable segments: Specialty Products, Printing & Writing, and Towel & Tissue, each providing different products. Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies.

Products from which Revenue is Derived

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

Reconciliations

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

	Three Months Ended March 31,	
(all dollar amounts in thousands)	**2007**	2006
Net sales external customers:		
Specialty Products	**$ 123,955**	$ 121,492
Printing & Writing	**105,914**	99,318
Towel & Tissue	**69,524**	62,853
	$ 299,393	$ 283,663
Operating profit (loss):		

Specialty Products	**$ 2,673**	$ 3,207
Printing & Writing	**(1,792)**	(6,846)
Towel & Tissue	**9,693**	9,181
Corporate & eliminations	**(3,290)**	(3,044)
	$ 7,284	$ 2,498

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		March 31, 2007	December 31, 2006
Segment assets:			
	Specialty Products	**$ 324,007**	$ 319,387
	Printing & Writing	**245,240**	243,362
	Towel & Tissue	**187,323**	184,140
	Corporate & Unallocated*	**42,093**	52,225
		$ 798,663	$ 799,114

*

Segment assets do not include intersegment accounts receivable, cash, deferred tax assets, and certain other assets, which are not identifiable with segments.

Note 14.

Future Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans (SFAS 158), which requires that we recognize in our financial statements the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires additional disclosures regarding certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service credits, and transition assets or obligations. We adopted the recognition and disclosure provisions of SFAS 158 on December 31, 2006. In addition, SFAS 158 requires the measurement of the funded status of a plan as of the date of the financial statements. SFAS 158 s provisions regarding the change in measurement date of post-retirement plans will require us to change our measurement date from September 30 to our fiscal year end date beginning with fiscal year 2008. We are currently evaluating whether we will early adopt the measurement provisions in fiscal 2007.

Item 2.

Management s Discussion and Analysis of Financial Condition and Results of Operations

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, 2006, for our accounting policies and other disclosures which are pertinent to these statements.

We have reclassified certain prior-year interim segment information to conform to the 2007 presentation. The reclassifications are the result of a reporting change, effective January 1, 2007, in accordance with FSP AUG AIR-1, and as a result of restructuring the assets and operating results of one facility from the Corporate and Unallocated segment to the Towel & Tissue segment. For additional information on the adoption of FSP AUG AIR-1, please refer to Note 2 New Accounting Pronouncements in the Notes to Condensed Consolidated Financial Statements. For additional information on the restructuring, please refer to Note 4 Reorganization in the Notes to Condensed Consolidated Financial Statements.

Overview

For the first quarter of 2007, we reported net earnings of $15.0 million, or $0.29 per share compared to a prior-year net loss of $0.5 million or $0.01 per share. Included in first-quarter 2007, were one-time state tax benefits of $12.0 million, or $0.24 per share, related to the January 1, 2007, restructuring of our subsidiaries to realign them more closely with our current operating structure. The subsidiary realignment allows for the future utilization of previously reserved state net operating loss and credit carryovers. For additional information on the restructuring, please refer to Note 4 Reorganization in the Notes to Condensed Consolidated Financial Statements. The net loss for the first three months of 2006 included a charge for the cumulative effect of a change in accounting principle, net of related income taxes, of $0.4 million or $0.01 per share as a result of our adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment on January 1, 2006.

Compared to the first quarter of 2006, net sales increased 6%, with each of our business segments reporting year-over-year improvement. Improvements in product pricing and sales volume, combined with overall lower energy costs and increased productivity, more than offset significant increases in fiber-related costs experienced in the first three months of 2007 compared to the same period in 2006.

Operations Review

Net Sales

(all dollar amounts in thousands)	Three Months Ended March 31, 2007	2006
Net sales	**$ 299,393**	$ 283,663
Percent increase	**6%**	6%

Consolidated net sales of $299.4 million for the three months ended March 31, 2007, improved 6% over consolidated net sales of $283.7 million for the three months ended March 31, 2006. Shipments increased approximately 1% quarter-over-quarter with 226,593 tons shipped during the first quarter of 2007 and 224,207 tons shipped during the first quarter of 2006. During the same comparative periods, average net selling price improved nearly 5%, or approximately $13 million, with actual product selling price improvements fully absorbing a slight erosion in product mix.

Specialty Products net sales for the first quarter of 2007 were $124.0 million, an increase of 2% over net sales of $121.5 million reported during the same period in 2006. The increase in net sales was driven by an average net selling price increase of nearly 5% or more than $5 million, with actual selling price increases generating the entire improvement as mix remained essentially flat. Partially offsetting the improvement in average selling price was a 2% reduction in volume of products shipped. In the first three months of 2007, the business segment shipped 99,919 tons compared to 102,287 tons in the first quarter of 2006. The decline is partially due to reduced paper mill packaging shipments.

For the three months ended March 31, 2007, Printing & Writing recorded net sales of $105.9 million, an increase of 7% over reported net sales in the first three months of 2006 of $99.3 million. The current quarter improvement in net sales was due to a 3% increase in volume as 86,101 tons were shipped during the first quarter of 2007 compared to 83,631 tons during the first quarter of 2006 and an improvement in average net selling price of nearly 4% for the same quarterly period. The increase in average net selling price is due to actual selling price increases, as an improving pricing environment in the uncoated freesheet market more than offset a weaker quarter over quarter product mix.

Towel & Tissue reported net sales of $69.5 million for the three-month period ended March 31, 2007, an increase of 11% from net sales of $62.9 million reported in the same three-month period of 2006. Shipments of higher-margin value added products increased 23% in the current quarter as total shipments increased 6% to 40,573 tons from 38,289 tons during the same period last year. Average net selling price increased approximately 5%, or more than $3 million, in the first quarter of 2007 over the first quarter of 2006, with actual selling price increases and stronger product mix contributing equally to the improvement.

Gross Profit

Three Months Ended
March 31,