WAUSAU PAPER CORP.
Form 10-Q
May 11, 2009

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2009**

OR

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

SECURITIES EXCHANGE ACT OF 1934

For the transition period from____________ to _________________

Commission file number: **1-13923**

WAUSAU PAPER CORP.

(Exact name of registrant as specified in charter)

WISCONSIN

39-0690900

(State of incorporation)

(I.R.S. Employer Identification Number)

100 Paper Place

Mosinee, Wisconsin 54455-9099

(Address of principal executive office)

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

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

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

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

Large accelerated filer £

Accelerated filer S

Non-accelerated filer £

Smaller reporting company £

(Do not check if a smaller reporting company)

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

The number of common shares outstanding at April 30, 2009 was 48,918,405.

WAUSAU PAPER CORP.

AND SUBSIDIARIES

INDEX

PART II.

OTHER INFORMATION

i

PART I. FINANCIAL INFORMATION

Item 1.

Financial Statements

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended March 31,	
(all amounts in thousands, except per share data)	**2009**	2008
Net sales	**$ 238,771**	$ 298,718
Cost of sales	**218,523**	284,783
Gross profit	**20,248**	13,935
Selling and administrative	**19,031**	20,955
Restructuring	**789**	1,146
Operating profit (loss)	**428**	(8,166)
Interest expense	**(2,659)**	(2,821)
Other income, net	**66**	184
Loss before income taxes	**(2,165)**	(10,803)
Credit for income taxes	**(812)**	(3,997)
Net loss	**$ (1,353)**	$ (6,806)
Net loss per share basic and diluted	**$ (0.03)**	$ (0.14)
Weighted average shares outstanding basic and diluted	**48,810**	49,559

See Notes to Condensed Consolidated Financial Statements.

1

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(all dollar amounts in thousands)	**March 31, 2009 (unaudited)**	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 11,638**	$ 4,330
Receivables, net	**98,056**	96,740
Refundable income taxes	**5,023**	5,510
Inventories	**121,336**	118,195
Deferred income taxes	**5,067**	5,793
Spare parts	**26,900**	27,375
Other current assets	**6,065**	4,619
Total current assets	**274,085**	262,562
Property, plant, and equipment net	**410,032**	405,408
Other assets	**43,442**	42,880
Total Assets	**$ 727,559**	$ 710,850
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	**$ 16,044**	$ 51
Accounts payable	**75,019**	73,747
Accrued and other liabilities	**66,772**	69,934
Total current liabilities	**157,835**	143,732

Long-term debt	**200,168**	191,963
Deferred income taxes	**22,926**	25,588
Post-retirement benefits	**68,935**	70,552
Pension	**38,382**	38,901
Other noncurrent liabilities	**31,613**	32,533
Total liabilities	**519,859**	503,269
Stockholders equity	**207,700**	207,581
Total Liabilities and Stockholders Equity	**$ 727,559**	$ 710,850

See Notes to Condensed Consolidated Financial Statements.

2

Wausau Paper Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(all dollar amounts in thousands)	Three Months Ended March 31, **2009**	2008
Net cash provided by (used in) operating activities	**$ 7,489**	$ (4,699)
Cash flows from investing activities:		
Capital expenditures	**(20,813)**	(6,944)
Proceeds from property, plant, and equipment disposals	**403**	1,736
Net cash used in investing activities	**(20,410)**	(5,208)
Cash flows from financing activities:		
Issuances of commercial paper, net	**2,380**	12,500
Borrowings under credit agreements, net	**22,000**	
Payments under capital lease obligation and notes payable		(45)
Dividends paid	**(4,151)**	(4,235)
Payments for purchase of company stock		(4,494)
Net cash provided by financing activities	**20,229**	3,726
Net increase (decrease) in cash and cash equivalents	**7,308**	(6,181)
Cash and cash equivalents, beginning of period	**4,330**	18,121
Cash and cash equivalents, end of period	**$ 11,638**	$ 11,940

See Notes to Condensed Consolidated Financial Statements.

3

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1.

Basis of Presentation

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

Note 2.

Restructuring and Divestitures

In August 2008, we announced plans to permanently shut down one of the two paper machines at our Specialty Products mill in Jay, Maine. The shutdown of this machine was completed in December 2008. In March 2009, we announced further plans to permanently shut down the remaining paper machine and all operations at the Jay, Maine mill. The operations of the mill are expected to cease by May 31, 2009. The cost of sales in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2009, includes $3.3 million in pre-tax charges for accelerated depreciation on assets and other associated closure costs, primarily due to the planned shutdown of the mill. Pre-tax restructuring expense, as reflected in the Condensed Consolidated Statements of Operations, includes $0.5 million related to severance and benefit continuation costs primarily related to the shutdown of the mill for the three months ended March 31, 2009. At March 31, 2009, approximately $0.3 million was recorded as a current liability for restructuring expenses, consisting primarily of severance and benefit continuation costs. Additional pre-tax closure charges of approximately $21.1 million, primarily related to accelerated depreciation on assets and severance and benefit continuation costs, are anticipated to be incurred during the remainder of 2009.

In September 2008, we announced plans to permanently close Printing & Writing s converting operations at our Appleton, Wisconsin facility. The operations at the Appleton facility are being reduced in a phased manner and are expected to be permanently closed prior to December 31, 2009. The converting equipment at the Appleton facility is being relocated to our other Printing & Writing mills. The cost of sales, as reflected in the Condensed Consolidated Statements of Operations, includes $0.4 million in pre-tax charges in related closure costs for the three months ended March 31, 2009. Restructuring expense in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2009, includes $0.2 million in pre-tax charges related to severance and benefit continuation costs. At March 31, 2009, approximately $0.2 million was recorded as a current liability for restructuring expenses, consisting primarily of severance and benefit continuation costs. Additional pre-tax closure charges of approximately

$2.7 million, primarily related to

4

equipment relocation and outside converting costs, are anticipated to be incurred during the remainder of 2009.

In December 2007, the roll wrap portion of our Specialty Products business was sold to Cascades Sonoco, Inc. We continued to manufacture roll wrap and related products for the buyer during a post-closing transition period that expired on July 2, 2008. Pre-tax restructuring expense, as reflected in the Condensed Consolidated Statements of Operations, includes $0.3 million related to severance and benefit continuation costs and other associated closure costs for the three months ended March 31, 2008. We have retained and intend to sell the real property at the roll wrap production facilities. At March 31, 2009, the facilities met the classification requirements of net assets held for sale as defined in Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, the land, buildings, and land improvements less accumulated depreciation are classified as net assets held for sale, which are included in other current assets on the Condensed Consolidated Balance Sheets. No significant costs related to the sale and closure of the roll wrap business have been or are expected to occur in 2009.

In October 2007, we announced plans to cease Printing & Writing s papermaking operations at our Groveton, New Hampshire mill. The papermaking operations permanently ceased during December 2007. The cost of sales in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2008, includes $6.8 million in pre-tax charges for accelerated depreciation on assets and other associated closure costs. Pre-tax restructuring expense, as reflected in the Condensed Consolidated Statements of Operations, includes $0.1 million and $0.8 million related to other associated closure costs for the three months ended March 31, 2009 and 2008, respectively. At March 31, 2009, we have recorded a current liability and long-term liability for restructuring expenses of $1.5 million and $8.8 million, respectively, consisting of contract termination costs. We will continue to make payments related to the contract over the contractual term. No significant additional closure charges related to the closure of the Groveton mill are anticipated during the remainder of 2009.

Note 3.

Income Taxes

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

At March 31, 2009, we have recorded a gross liability for unrecognized tax benefits of $1.3 million, all of which would impact our effective tax rate if recognized. There was no material change in the amount or components of the gross liability for unrecognized tax benefits from those recorded at December 31, 2008. We record penalties and accrued interest related to uncertain tax positions in the provision for income taxes in the Condensed Consolidated Statements of Operations. At March 31, 2009, we have recorded a liability for potential interest and penalties of approximately $0.5 million, which is included in the liability for uncertain tax

5

positions. The total liability for uncertain tax positions at March 31, 2009, was $1.8 million, with $0.3 million of the liability recorded as a current liability and $1.5 million recorded as a noncurrent liability.

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

Note 4.

Earnings Per Share

Due to the net losses reported in the three months ended March 31, 2009 and 2008, there are no dilutive securities from our stock-based compensation plans as stock-based grants for 2,600,540 and 2,135,543 shares, respectively, are considered to be antidilutive. Hence, there are no items that require reconciliation in the comparison of basic and diluted earnings per share.

Note 5.

Receivables

Accounts receivable consisted of the following:

(all dollar amounts in thousands)	**March 31, 2009**	December 31, 2008
Trade	**$ 93,900**	$ 93,327
Other	**5,206**	4,336
	99,106	97,663
Less: allowances for doubtful accounts	**(1,050)**	(923)
	$ 98,056	$ 96,740

Note 6.

Inventories

The various components of inventories were as follows:

(all dollar amounts in thousands)	**March 31, 2009**	December 31, 2008
Raw materials	**$ 38,716**	$ 46,515
Work in process and finished goods	**120,457**	115,539
Supplies	**6,950**	7,390
Inventories at cost	**166,123**	169,444
Less: LIFO reserve	**(44,787)**	(51,249)
	$ 121,336	$ 118,195

Note 7.

Property, Plant, and Equipment

The accumulated depreciation on fixed assets was $752.3 million as of March 31, 2009, and $748.9 million as of December 31, 2008. The provision for depreciation, amortization, and depletion was $15.6 million and $19.8 million for the three months ended March 31, 2009 and 2008, respectively.

Included in cost of sales in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2009, were net gains on sales of property, plant, and equipment of $0.1 million, including an insignificant amount of gains on sales of timberlands. Included in cost of sales for the three months ended March 31, 2008, were net gains on sales of property, plant, and equipment of $1.7 million, including gains of sales of timberlands of $2.0 million.

Note 8.

Debt

A summary of total debt is as follows:

(all dollar amounts in thousands)	**March 31, 2009**	December 31, 2008
Unsecured private placement notes	**$ 103,500**	$ 103,500
Industrial development bonds	**19,000**	19,000
Revolving-credit agreement with financial institutions	**74,500**	52,500
Commercial paper placement agreement	**18,290**	15,910
Note payable	**195**	195
Subtotal	**215,485**	191,105
Premium on unsecured private placement notes	**727**	909
Total debt	**216,212**	192,014
Less: current maturities of long-term debt	**(16,044)**	(51)
Total long-term debt	**$ 200,168**	$ 191,963

On March 27, 2009, we amended our existing $165 million unsecured revolving-credit and the $103.5 million of unsecured private placement note agreements. Under the amendments, the minimum net worth covenant was adjusted to eliminate the impact of accumulated other comprehensive income or loss up to $70 million. At the time of the amendment to the agreements, we were in full compliance with the existing terms of all financial and other covenants under the agreements. At March 31, 2009, we were in compliance with all required covenants and expect to remain in full compliance throughout the remainder of 2009.

At March 31, 2009, the amount of commercial paper outstanding and $52.5 million of the total $68.5 million unsecured private placement notes maturing on August 31, 2009 were classified as long-term on our Condensed Consolidated Balance Sheets as we have the ability and intent to refinance that portion of the maturing notes on a long-term basis under the revolving-credit agreement. The remaining $16.0 million of unsecured private placement notes maturing on August 31, 2009, was included in current maturities of long-term debt on the Condensed Consolidated Balance Sheets at March 31, 2009.

Note 9.

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, 2009 and 2008, are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2009	2008	**2009**	2008
Service cost	**$ 1,401**	$ 1,594	**$ 362**	$ 450
Interest cost	**3,108**	3,101	**1,145**	1,166
Expected return on plan assets	**(3,757)**	(3,695)		
Amortization of:				
Prior service cost (benefit)	**499**	470	**(873)**	(867)
Actuarial loss	**295**	488	**453**	504
Settlements	**207**			
Net periodic benefit cost	**$ 1,753**	$ 1,958	**$ 1,087**	$ 1,253

We previously disclosed in our consolidated financial statements for the year ended December 31, 2008, that although we do not have a minimum funding requirement for defined benefit pension plans in 2009, we may elect to make contributions of up to $10.8 million directly to pension plans. As of March 31, 2009, we have made payments of approximately $1.1 million to our pension plans. In addition, as previously reported, we expect to contribute $4.6 million directly to other post-retirement plans in 2009. As of March 31, 2009, we have contributed approximately $1.4 million to our other post-retirement plans.

Note 10.

Share-Based Compensation

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

Stock Options, Restricted Stock Awards, and Performance Units

During the three months ended March 31, 2009 and March 31, 2008, share-based compensation expense related to fixed option grants, restricted stock awards, and performance unit awards was approximately $1.3 million and $0.3 million, respectively. 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, 2009, total unrecognized compensation cost related to share-based compensation awards was approximately $2.3 million, net of estimated forfeitures, which we expect to recognize over a weighted average period of approximately 0.9 years.

During the three months ended March 31, 2009, we granted 125,000 fixed stock options with an average exercise price of $11.44. Also, as a component of the director compensation policy, we awarded 14,298 of performance units during the first quarter of 2009.

During the first quarter of 2009, we granted 66,000 shares of restricted stock. The 66,000 shares were valued based upon the closing price of Wausau Paper s common stock on the date of the grant and reflected in equity as a reduction in treasury stock outstanding. Compensation expense is recognized for the restricted stock awards on a straight-line basis over the vesting period of the entire award with the balance of unearned compensation reflected in the equity section of the balance sheet. Under the plan, shares of restricted stock have voting rights. Cash dividends on the restricted shares are deferred and held by us until satisfaction of the vesting requirements. Total compensation expense recognized for restricted stock was $0.4 million for the three months ended March 31, 2009.

On an annual basis, we generally grant performance unit awards as part of a performance-based compensation award to certain employees of Wausau Paper. The vesting of these performance-based awards is subject to (1) achieving certain operating profit levels and (2) completion of a service requirement. During the first quarter of 2009, we granted 213,937 performance unit awards as part of a performance-based compensation award for the year ended December 31, 2009. During the three months ended March 31, 2009, we have recognized approximately $0.2 million in share-based compensation expense related to the performance-based awards for 2009, as it is probable a portion of the awards will vest as performance criteria are met.

In addition, during the first quarter of 2009, we granted 69,869 performance unit awards as part of a retention-based compensation award to certain employees of Wausau Paper. The vesting of these performance unit awards is subject to the completion of a service requirement. Compensation expense is recognized for these awards on a straight-line basis over the requisite service period of each award. During the three months ended March 31, 2009, we have recognized approximately $0.3 million in share-based compensation expense related to these performance unit awards.

Stock Appreciation Rights and Dividend Equivalents

Share-based compensation provisions or credits related to stock appreciation rights and dividend equivalents are determined based upon a remeasurement to their fair value at each interim reporting period in accordance with the provisions of SFAS 123R. During the three months ended March 31, 2009 and 2008, we recognized credits of approximately $0.9 million and $0.3 million, respectively, in share-based compensation related to stock appreciation rights and dividend equivalents.

9

Note 11.

Interim Segment Information

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 and Mosinee, Wisconsin. Operations at Specialty Products Jay, Maine mill will permanently cease by May 31, 2009. In 2008, Specialty Products also included two converting facilities that produced laminated roll wrap and related specialty finishing and packaging products. For additional information on the closure of the Jay, Maine mill and the sale of the roll wrap portion of the Specialty Products business, please see Note 2 to the Condensed Consolidated Financial Statements. Printing & Writing produces a broad line of premium printing and writing grades at manufacturing facilities in Brokaw, Wisconsin; and Brainerd, Minnesota. Printing & Writing also includes a converting facility which converts printing and writing grades. The converting facility will be permanently closed by December 31, 2009. For additional information on the closure of the converting facility, please see Note 2 to the Condensed Consolidated Financial Statements. 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:

(all dollar amounts in thousands)		Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net sales external customers:			
	Specialty Products	**$ 85,408**	$ 126,195
	Printing & Writing	**79,586**	97,929
	Towel & Tissue	**73,777**	74,594
		$ 238,771	$ 298,718
Operating profit (loss):			
	Specialty Products	**$ (3,543)**	$ (361)
	Printing & Writing	**309**	(12,484)
	Towel & Tissue	**7,280**	6,094
	Corporate & eliminations	**(3,618)**	(1,415)
		$ 428	$ (8,166)

		March 31, 2009	December 31, 2008
Segment assets:			
	Specialty Products	**$ 269,264**	$ 279,354
	Printing & Writing	**189,412**	180,221
	Towel & Tissue	**222,194**	210,977
	Corporate & Unallocated*	**46,689**	40,298
		$ 727,559	$ 710,850

*

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

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, 2008, for our accounting policies and other disclosures which are pertinent to these statements.

Operations Review

Overview

Consolidated	Three Months Ended March 31,	
(all dollar amounts in thousands)	**2009**	2008
Net sales	**$ 238,771**	$ 298,718
Net loss	**(1,353)**	(6,806)

For the first quarter of 2009, we reported a net loss of $1.4 million, or $0.03 per share, compared to a prior year net loss of $6.8 million, or $0.14 per share. Net sales and product shipments both decreased in the three months ended March 31, 2009, as compared to the same period in 2008, due to continuing demand weakness in several market categories and anticipated volume reductions resulting from facility closures. Though hampered by these continued weak economic and market conditions, comparing the first three months of 2009 to first three months of 2008, all three of our business segments reported operating profit improvement, excluding one-time charges associated with facility closures and capital-related expenses. During the first quarter of 2009 we have taken appropriate actions to conserve cash, further reduce costs, and limit capital spending. These actions included the suspension of cash dividends, which will result in cash savings of more than $16 million annually, the closure of Specialty Products Jay, Maine mill, and a reduction of operating costs through a series of workforce, capital spending, and working capital initiatives. We continued to pursue our core business strategies during the first quarter of 2009, focusing on strategic markets, product innovation, benchmark customer service, and operational excellence. For additional information on the facility closures, please refer to Note 2-Restructuring and Divestitures in the Notes to Condensed Consolidated Financial Statements.

Specialty Products (all dollar amounts in thousands)	Three Months Ended March 31, **2009**	2008
Net sales	**$ 85,408**	$ 126,195
Operating loss	**(3,543)**	(361)

Specialty Products financial performance in the first quarter of 2009 was negatively impacted by continued declines in demand in virtually all market segments, but was favorably impacted by a decline in input costs. In response to market demand weakness, we reduced production capacity by approximately 10 percent during the quarter and announced the closure of our paper mill in Jay, Maine. Operations at the Jay, Maine mill will cease in the second quarter of 2009. The planned closure of the Jay, Maine mill negatively impacted operating profits by approximately $3.8 million during the three months ended March 31, 2009. Additional information on the closure of the Jay, Maine mill is available in Note 2-Restructuring and Divestitures in the Notes to Condensed Consolidated Financial Statements.

Printing & Writing (all dollar amounts in thousands)	Three Months Ended March 31, **2009**	2008
Net sales	**$ 79,586**	$ 97,929
Operating profit (loss)	**309**	(12,484)

Printing & Writing s financial performance in the first quarter of 2009 was negatively impacted by an estimated 16 percent decline in demand for uncoated freesheet papers, which resulted in our decision to incur market-related downtime equal to 10 percent of the business unit s production capacity. However, during the same period, Printing & Writing was favorably impacted by a decline in input costs. We also continued to execute against the profit recovery plan announced in October 2007. As part of that plan, in late 2008 we announced the implementation of a converting and distribution initiative, which included the permanent closure of the converting facility in Appleton, Wisconsin. The Appleton facility will be closed prior to December 31, 2009, and the converting equipment is being relocated to our other Printing & Writing mills. The planned closure of the Appleton, Wisconsin facility negatively impacted operating profits by approximately $0.6 million during the three months ended March 31, 2009. Additional information on the closure of the Appleton, Wisconsin facility is available in Note 2-Restructuring and Divestitures in the Notes to Condensed Consolidated Financial

Statements. In addition, the converting and distribution initiative also includes the relocation of distribution activities to a distribution hub in Bedford Park, Illinois. There were $0.6 million of expenses incurred in the first quarter of

2009 associated with the start-up of the Bedford Park distribution center. The converting and distribution initiative is expected to be completed by the end of 2009. We are also continuing with a $15 million fiber handling project at our Brokaw, Wisconsin mill, which is expected to be completed in the second quarter of 2009. Completion of these projects is a key element in returning Printing & Writing to profitability levels that exceed its cost of capital.

Towel & Tissue	Three Months Ended March 31,	
(all dollar amounts in thousands)	**2009**	2008
Net sales	**$ 73,777**	$ 74,594
Operating profit	**7,280**	6,094

Towel & Tissue s financial performance remained strong during the first quarter of 2009, despite an estimated 4% decline in demand in the away-from-home towel and tissue market in which the business segment competes. Although product pricing eased slightly during the first quarter of 2009 relative to the fourth quarter of 2008, Towel & Tissue was able to achieve meaningful benefit from a favorable decline in input costs. Also, we completed the towel machine rebuild in the first quarter of 2009. The rebuild is expected to increase our toweling capacity by 16,000 tons once full benefits are achieved over the second half of 2009. We incurred one-time expenses of approximately $2.5 million related to the towel machine rebuild during the three months ended March 31, 2009. We continue to focus our efforts on our value-added product lines, such as our Green Seal™-certified products, to improve our competitive strength and operating margins.

Outlook

With continuing economic and market uncertainty, our focus remains on improving the long-term cost structure and competitive position of our business. The benefits of recent restructuring and capital investment initiatives are expected to build over the second half of 2009 and strengthen our financial performance in future years. In addition, recent cost reduction, cash conservation, and capacity management actions are anticipated to allow us to improve financial results and reduce debt as we move through this period of economic uncertainty.

Net Sales and Gross Profit on Sales

Consolidated	Three Months Ended March 31,