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WAUSAU MOSINEE PAPER CORP
Form 10-K
March 15, 2005

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

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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-MOSINEE PAPER CORPORATION
(Exact name of registrant as specified in charter)

100 PAPER PLACE WISCONSIN
MOSINEE, WISCONSIN 54455 (State of incorporation)
(Address of principal executive office) 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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark 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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

As of June 30, 2004, the aggregate market value of the common stock shares held by non-affiliates was approximately \$810,356,815. For purposes of this calculation, the registrant has assumed its directors and executive officers are affiliates. As of February 18, 2005, 51,695,251 shares of common stock were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE
PROXY STATEMENT FOR USE IN CONNECTION WITH 2005 ANNUAL MEETING OF SHAREHOLDERS
(TO THE EXTENT NOTED HEREIN): PART III

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PART I

ITEM 1. BUSINESS

GENERAL

Wausau-Mosinee Paper Corporation (the "Company") manufactures, converts, and sells paper and paper products within three principal operating groups: Specialty Products, Printing & Writing and Towel & Tissue. Its principal office is located in Mosinee, Wisconsin. At December 31, 2004, the Company had approximately 3,200 employees at eleven operating facilities located in seven states.

During 2004, the Company introduced the Wausau Paper trademark as part of a unified branding initiative. All three of the Company's business segments currently market their products under the Wausau Paper label.

This report contains certain of management's expectations and other forward-looking information regarding the Company. See the subcaption "Cautionary Statement Regarding Forward-Looking Statements" in this Item 1.

FINANCIAL INFORMATION ABOUT SEGMENTS

Information relating to the Company's sales, a measure of operating profit or loss, and total assets by segment is set forth in Note 12 of the Notes to

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Consolidated Financial Statements.

NARRATIVE DESCRIPTION OF BUSINESS

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

The Company'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,

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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 FLEXCAL (reg-trade-mark), ExperTec (trademark), DuraTec (trademark), ProTec (trademark), ProGard (trademark), ProRedi (trademark), and ProPly (trademark).

Primary competition for Specialty Products comes from approximately 12 paper producing companies including International Paper Corporation, Longview Fibre Corporation, and Fraser Paper, Inc.

PRINTING & WRITING

Printing & Writing produces and converts two lines of paper products in six facilities. At facilities in Appleton and Brokaw, Wisconsin; Groveton, New Hampshire; and Brainerd, Minnesota, the Group manufactures and converts a broad line of premium uncoated printing, writing, and imaging papers in various weights, colors, sizes, and finishes. Approximately 50% 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, and Professional Series (reg-trade-mark) products. These papers are used for printed and photocopied documents such as annual reports, brochures, announcements, and greeting cards. Over 80% 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 stores to reach small- and home-office customers. Products are also sold in

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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.

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

Printing & Writing 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

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containers. Mosinee Converted Products' moisture barrier laminated roll wrap sales is estimated to be approximately 50% 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.

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, the Company 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 Bay West. Major competitors include Georgia-Pacific Corporation, Kimberly Clark Corporation, and SCA Hygiene Products.

EXPORT SALES

Currently, foreign sales represent approximately 8 percent of the Company's net sales. In January 2002, the Appellate Body of the World Trade Organization held that the United States extraterritorial income exclusion ("ETI") was a prohibited export subsidy similar to the 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 Act of 2004 included the repeal of ETI and provided a deduction with respect to income of certain

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United States manufacturing activity in 2005. ETI regime repeal becomes fully effective in 2007. For transactions prior to 2005, the Company will retain 100 percent of their ETI benefits. For transactions in 2005 and 2006, the ETI benefit will be available, but at a reduced rate of the prior benefit of 80 percent and 60 percent, respectively. The Company is currently evaluating the financial impact of the repeal of ETI and the implementation of the qualified production activities deduction.

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RAW MATERIALS

Pulp is the basic raw material for paper production and represents approximately one-half of the cost of making paper. The Mosinee and Brokaw mills are the only Company facilities with pulping operations. These pulp mills provide a percentage of the fiber needs to our Wisconsin paper operations as follows: Mosinee, 56%; Brokaw 51%; and Rhinelander, 7%.

Wood fiber required for operation of the Company's pulp mills is purchased on the open market in the form of pulpwood and chips from independent contractors. In addition, approximately 8% of the timber consumed in pulping operations is produced from Company-owned timberlands. Open-market pulpwood is 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 are also purchased from independent sawmills. The balance of the Company's pulp needs at Mosinee and Brokaw and all of the pulp used at the Company's other facilities (an aggregate of nearly 400,000 air-dried metric tons annually) is purchased on the open market, principally from pulp mills throughout the United States and Canada. The Company has 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.

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 35% of Towel & Tissue's parent roll supply needs are purchased from outside sources at 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

The Company's paper mills require large amounts of electrical and steam energy which are adequately supplied by public utilities or generated at Company operated facilities. The Company generates approximately 35% of its electrical power needs from spent pulping liquor, fuel oil, coal, wood chips, fibercake, natural gas, and hydropower. Spent pulping liquor, wood chips, and fibercake are byproducts of mill operations. The Company continues to explore alternative power sources as an ongoing business process and is party to an operating lease for a co-generation electrical power facility for its Groveton mill.

The Company contracts for the supply and delivery of natural gas at some of its facilities. Under these contracts, the Company is committed to the transportation of a fixed volume of natural gas from the Company's natural gas suppliers to the Company's facilities. The Company is not required to buy or

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sell minimum gas volumes under the agreement but is required to pay a

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minimum transportation fee for the contracted period. Contracts expire at various times between 2005 and 2019. At December 31, 2004, the Company also has commitments for the purchase of machine clothing from various suppliers and volume commitments for the supply of fuel oil, natural gas, coal, and certain raw materials. These obligations expire in 2005. The Company may also purchase, from time to time, natural gas contracts with fixed prices for a certain portion of the Company's requirements.

PATENTS AND TRADEMARKS

The Company develops and files trademarks and patents, as appropriate. Trademarks include Wausau Paper (trademark), FLEXCAL (reg-trade-mark), ExperTec (trademark), DuraTec (trademark), ProTec (trademark), ProGard (trademark), ProRedi (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. The Company's patents cover various paper towel dispensers and metering or other mechanisms for towel dispensers and cabinets and certain silicone release papers. The Company considers its trademarks and patents, in the aggregate, to be material to its business, although the Company believes the loss of any one such mark or patent right would not have a material adverse effect on its business. The Company does not own or hold material licenses, franchises or concessions.

SEASONAL NATURE OF BUSINESS

The markets for some of the grades of paper produced by the Company tend to be somewhat seasonal. However, the marketing seasons for these grades are not necessarily the same. Overall, the Company generally experiences 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, the Company carries adequate amounts of raw materials and finished goods inventory to facilitate the manufacture and rapid delivery of paper products to its customers.

MAJOR CUSTOMERS

A substantial portion of the Company's business is with customers in various paper converting, paper merchant, or distribution businesses. No single customer accounted for 10% or more of the consolidated net sales during 2004.

BACKLOG

Consolidated order backlogs increased to approximately 35,100 tons representing \$42.0 million in sales as of December 31, 2004. This compares to 31,600 tons, or \$33.4 million in sales as of December 31, 2003, and 33,500 tons, or \$35.3 million in sales at December 31, 2002. Improvements in customer order backlog were evident in all three business segments as of December 31, 2004 compared to December 31, 2003. Specialty Products' backlog tons were

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22,800 tons at December 31, 2004 compared to 21,700 tons at December 31, 2003. Printing & Writing's backlog tons improved to 9,900 tons at December 31, 2004 from 8,600 tons at December 31, 2003. In the Towel & Tissue business segment, backlog tons were 2,400 tons at December 31, 2004 and 1,300 tons at December 31, 2003. The change in customer backlog at December 31, 2004 compared to December 31, 2003 does not necessarily indicate a change in

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business conditions, as a large portion of orders is shipped directly from inventory upon receipt and do not impact backlog numbers. The entire backlog at December 31, 2004 is expected to be shipped during fiscal 2005.

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 \$1,858,000 in 2004, \$2,155,000 in 2003, and \$2,145,000 in 2002.

ENVIRONMENT

The Company 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 the Company to obtain and operate in compliance

with conditions of permits and other governmental authorizations. Future regulations could materially increase the Company's capital requirements and certain operating expenses in future years.

The Company has a strong commitment to protecting the environment. Like its competitors in the paper industry, the Company faces increasing capital investments and operating costs to comply with expanding and more stringent environmental regulations. The Company estimates that its capital expenditures for environmental purposes will approximate \$2.4 million in 2005. The Company believes that capital expenditures associated with compliance with environmental regulations will not have a material adverse effect on its competitive position, consolidated financial condition, liquidity, or earnings.

The Company 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 the Company that under Wisconsin environmental laws it 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 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, the Company entered into an agreement with three other parties to fund a study of

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the landfill to determine possible remediation strategies. The Company 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. The Company estimates that the costs of remediation of the entire site for all parties will be approximately \$3 million, based upon the remediation method the Company's 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. The Company's 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 potentially responsible parties, the Company is of the opinion that such costs will not have a material adverse

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effect on the operations, financial condition, or liquidity of the Company. The Company is also pursuing insurance coverage of its 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 9 of the Notes to Consolidated Financial Statements discusses the Company's 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 potentially responsible parties. The Company believes that its share of the costs of cleanup for its current remediation site will not have a material adverse impact on its consolidated financial position. As is the case with most manufacturing and many other entities, there can be no assurance that the Company 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

The Company had approximately 3,200 employees at the end of 2004. Most hourly mill employees are covered under collective bargaining agreements. One new five-year labor agreement with the Paper, Allied-Industrial, Chemical & Energy Workers International Union at Specialty Products' Jay, Maine facility was negotiated in 2004. Labor agreements will expire in other facilities in 2005, 2006, 2007, and 2008. The Company expects that new multi-year contracts will be negotiated at competitive rates. The Company maintains good labor relations at all facilities.

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EXECUTIVE OFFICERS OF THE COMPANY

The following information relates to executive officers of the Company as of March 15, 2005. Unless otherwise specified, current positions listed for an executive officer have been held for a minimum of five years.

SAN W. ORR, JR., 63

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, 55

President and Chief Executive Officer of the Company since August, 2000. 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, 58

Executive Vice President, Administration since October, 2000. 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, 57

Senior Vice President, Specialty Products since October, 2000. Previously, Vice President of Operations (1996 - 2000), Vice President of

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Engineering (1990 - 1996), and Director of Engineering (1983-1990), Rhinelander Paper Company, Inc.

THOMAS W. CRAVEN, 51

Senior Vice President, Printing & Writing since October, 2004. Previously, Vice President-Operations Wausau Papers (2003-2004), Vice President-Operations Brokaw Mill (1999-2003), and Vice President-Operations (1997-1999), Director of Operations (1995-1997), and Director of Purchasing (1993-1995), Groveton Mill.

PETE R. CHIERICOZZI, 61

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).

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SCOTT P. DOESCHER, 45

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).

DENNIS M. URBANEK, 60

Senior Vice President, Engineering and Environmental Services since 1998. 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 the Company's 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, in the Company's website by going to "Investor Information- SEC Filings" at www.wausaupaper.com, as soon as reasonably practicable after the Company electronically files such reports with or furnishes them to the Securities and Exchange Commission.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). In addition, certain statements in future filings by the Company with the Securities and Exchange Commission, reports to shareholders, press releases, and other oral and written statements made by or with the approval of the Company which are not statements of historical fact will constitute forward-looking statements within the meaning of the Reform Act.

Forward-looking statements of the Company may be identified by, among other things, expressions of the Company's or Company officers' beliefs or expectations that certain events may occur or are anticipated, and projections or statements of expectations with respect to (i) various aspects of the Company's business (including, but not limited to, net income, the availability or price of raw materials, and customer demand for Company products), (ii) the Company's plans or intentions, (iii) the Company's stock performance, (iv) the industry within which the Company operates, (v) the economy, and (vi) any other expressions of similar import or covering other matters relating to the Company, its business, and its operations. In making forward-looking statements within the meaning of the Reform Act, the Company undertakes no

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obligation to publicly update or revise any such statement.

Forward-looking statements are not guarantees of performance. Forward-looking statements of the Company are based on information available to the Company as

of the date of such statements and reflect the Company's expectations as of such date, but are subject to risks and uncertainties that may cause actual results to vary materially. Many of the factors that will

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determine these results are beyond the Company's ability to control or predict. Shareholders and others are cautioned not to put undue reliance on any forward-looking statements.

In addition to specific factors which may be described in connection with any of the Company's forward-looking statements, factors which could cause actual results to differ materially include, but are not limited to, the following:

(circle) Increased competition from either domestic or foreign paper producers or providers of alternatives to the Company's products, and general over capacity in the paper industry, resulting in sales declines from reduced shipment volume and/or lower net selling prices in order to maintain shipment volume. The Company competes in three segments of the paper industry. The Company has several competitors in most of its market segments, many of which are larger and have greater capital and marketing resources than the Company. Changes within the paper industry, including the consolidations of producers of products which compete with the Company and consolidation within the distribution channels for Company products, have and may continue to occur and may adversely affect the Company's financial performance.

(circle) The failure to develop new products to attain the Company's overall goal of generating at least 25% of revenue from products introduced within the previous three years could adversely affect the overall demand for Company products. In addition, changes in customer demand for the Company's products due to overall economic activity affecting the rate of consumption of the Company's products, growth rates of the end markets for the Company's products, and technological or consumer preference changes, may significantly reduce revenues and income.

(circle) Changes in the price of raw materials, in particular market pulp, purchased parent rolls, and wastepaper. Raw materials comprise approximately 50% of the Company's 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 additions, expansions or curtailments of the supply of pulp, inventory building or depletion at pulp consumer levels which affect short-term demand, and pulp producer cost changes related to wood availability, environmental issues, or other variables.

(circle) Changes in energy prices or difficulty in obtaining adequate supplies of needed fuels or sources of power.

(circle) Unforeseen or recurring operational problems at any of the Company's facilities causing significant lost production and/or cost increases.

(circle) Significant changes to the Company's strategic plans such as a major acquisition or expansion, the disposition of assets or

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product lines, the failure to successfully

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execute major capital projects or other strategic plans, or the inability to successfully integrate an acquisition.

(circle) Changes in laws or regulations which affect the Company. The paper industry is subject to stringent environmental laws and regulations and any changes required to comply with such laws or regulations may increase the Company's capital expenditures and operating costs, and decrease the amount of funds available for investment in other areas of operation. In addition, the costs of remediation of known environmental sites, as described in Note 9 of the Notes to Consolidated Financial Statements, may exceed current estimates and there may be additional sites not now known to the Company that may require significant remediation expenses in the future.

(circle) Unforeseen liabilities arising from current or prospective litigation, including liabilities which may arise from claims under environmental laws which may impose liability for the release of hazardous materials whether or not the Company had knowledge of or was responsible for such release.

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ITEM 2. PROPERTIES

The Company'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. The Company's operating facilities consist of the following:

| Facility | Product | Number of Paper Machines | Practical Capacity* (tons) | 2004 Actual (tons) |
|-------------------------------------|-----------------------------|--------------------------|----------------------------|--------------------|
| Printing & Writing Brokaw, WI | Paper | 4 | 177,000 | 168,000 |
| | Pulp | | 99,000 | 81,000 |
| Groveton, NH | Paper | 2 | 117,000 | 115,000 |
| Brainerd, MN | Paper | 2 | 170,000 | 7,000 |
| Appleton, WI | Converting | N/A | 45,000 | 24,000 |
| Columbus, WI and Jackson, MS | Laminated/ Coated Papers | N/A | 150,000 | 73,000 |
| Specialty Products Rhineland, WI | Paper | 4 | 150,000 | 148,000 |
| Otis, ME | Paper | 2 | 73,000 | 69,000 |
| Mosinee, WI | Paper | 4 | 119,000 | 116,000 |
| | Pulp | | 96,000 | 76,000 |
| Towel & Tissue Middletown, OH | Towel & Tissue | 2 | 110,000 | 106,000 |
| | Deink Pulp | | 110,000 | 103,000 |

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| | | | | |
|-----------------|-----------------------------|-----|---------|---------|
| Harrodsburg, KY | Converted Towel & Tissue | N/A | 190,000 | 153,000 |
|-----------------|-----------------------------|-----|---------|---------|