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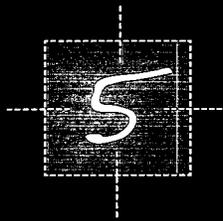
Focused, Targeted, Determined.

PROCESSED

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THOMSON
FINANCIAL

BADGER PAPER
2003 Annual Report



Fundamentals

Two years ago, responding to a rapidly changing business landscape, Badger Paper embarked on a new strategic direction. We began narrowing our focus to target specific markets that emphasize value-added products. We began building the capabilities that would allow us to serve these specialty arenas.

The strategy is based on two important elements. First, by developing business in specialty markets, our smaller size becomes an advantage because we can respond and adapt faster. Second, by repositioning the Company in value-added products through new product development and targeted capital investments, we are creating a more competitive company. So we are, in a very real sense, creating our future for ourselves.

Although we have made significant progress, much remains. We are venturing into territories where success depends not just on new products and customers, but equally on a new way of thinking and doing business. To sustain the unique advantages our strategy provides, Badger Paper must also transform its very culture.

Individually and collectively, we must embrace a defined set of fundamental principles. These must permeate every aspect of our business dealings becoming an instinctive part of our nature. Ultimately this will result in short- and long-term success for Badger Paper.

About Badger Paper

Badger Paper manufactures specialty papers with a particular focus on wax-coated and foil laminated products. The Company produces a variety of products for the food service, packaging and fine paper markets, including waxed and foil laminated sandwich wraps, baking cup papers, confectionery wraps, tissue and film overwraps, as well as recycled content papers for business and book applications. Badger Paper operates a full-service printing and converting operation, adding value to various flexible packaging products using paper, film, foil, and non-woven materials. Badger Paper has plants in Peshtigo and Oconto Falls, Wisconsin. The Company stock trades on the NASDAQ® SmallCap Market under the symbol: BPMI.

Financial Highlights

For the Years Ended December 31,

(Thousands of Dollars Except Per Share Data)	2003	2002	Change
Operating Results			
Net Sales	\$71,691	\$73,772	(\$2,081)
Gross Profit	\$1,219	\$7,829	(\$6,610)
Gross Profit as % of Sales	1.7%	10.6%	(8.9%)
Income (Loss) Before Income Tax*	(\$4,294)	\$1,699	(\$5,993)
Net (Loss) Income	(\$3,091)	\$1,899	(\$4,990)
Per Share of Common Stock			
Net (Loss) Income — Fully Diluted	(\$1.52)	\$0.91	(\$2.43)
Average Shares Outstanding	2,033,391	2,085,841	(52,450)
Balance Sheet			
Total Assets	\$38,478	\$41,808	(\$3,330)
Long-term debt including current portion	\$11,511	\$7,967	(\$3,544)
Total Equity	\$19,349	\$22,392	(\$3,043)
Working Capital	\$5,132	\$6,457	(\$1,325)
Number of Employees	292	299	(7)

*Does not include gain on sale of non-core assets.



President's Letter

John Swanson, President and CEO

To our shareholders, customers and employees, thank you for your continuing support of Badger Paper.

Even though 2003 was an exceptionally poor year for the paper industry and for Badger Paper, our employees' commitment and professionalism have been constants. Throughout the long history of Badger Paper, our people have rallied in times of adversity. We find ways to better serve our customers and do things differently to lower our costs. In 2003 we made significant progress in improving our quality and service as the year progressed. We worked hard and we made changes to deliver consistent product quality and to ensure better on time delivery.

Rapidly increasing costs (especially natural gas and pulp), continued oversupply in many markets, lower selling prices and the effect of increasing imports characterized 2003. Additionally, we also had too much waste and inefficiency in our own processes.

A combination of these market and performance factors resulted in a poor 2003. Badger Paper cannot change the market situation, but has responded and will continue to respond by reducing costs and moving into more specialty markets.

In response to our poor results, we have put in place several key initiatives for implementation in 2004 — workplace redesign, manufacturing waste reduction, and improved targeting of specialty markets.

Badger is redesigning the workplace as we implement lean manufacturing. This process will result in a 20% reduction in both the union and salaried workforces. We are utilizing a well-recognized consultant to implement workplace redesign in the Peshtigo manufacturing operation. Both of our unions — PACE and GCIU — strongly endorsed this effort. They actively participated in the selection of the consultant and will share equally with manufacturing management in workplace redesign.

We know that such actions can be extremely difficult on our employees, their families and our community. To cushion this effect, we have offered a voluntary early retirement benefit to our more senior union employees. Our jointly stated goal is to have no employee leave involuntarily. The decisions of the individuals who are eligible for the benefit will determine the success of this goal. If enough senior people accept the benefit, our less senior employees will not be downsized.

One thing we do know for sure is that work at Badger Paper will be done differently in the future. The foundation of workplace redesign is a team concept where employees have the flexibility to flow to the work that needs to be accomplished. Employees will have the responsibility to make real-time decisions to manufacture quality products in an efficient and safe manner, which will result in increased job security.

We also reduced the salaried workforce with workplace redesign. This process continues in manufacturing, customer service, sales and finance. The key is having our employees define what they truly need to accomplish to obtain business results and eliminate inefficient and unnecessary practices.

Although we reduced the size of our salaried workforce in 2003, we added several very capable people who are helping to lead our transformation. We attracted talented executives such as Vice President, Operations Robert Spanuth, who joined us from Mead/Westvaco. We also upgraded our sales, marketing and technical staffs.

Companies either improve or decline — they rarely stay the same. The extremely poor industry conditions resulted in many competitor mill and machine shutdowns in 2003. Those industry conditions and our unacceptable financial performance galvanized all of us at Badger to do things very differently as we move forward. This resolve includes a major cost reduction effort in our manufacturing area.

Despite the extremely difficult market conditions in 2003, we are undeterred in our efforts to target niche specialty markets that allow us to leverage Badger Paper's unique capabilities in producing, printing and laminating specialty papers. We continue to focus on specialty paper markets and technical solutions for our customers. Late in the year we formalized our new business development process. This new process will shorten the timeline to commercialization of new products. We recognize that a specialty business such as ours must have significant new product activity to replace products at the end of their life cycle.

In the coming year we shall build upon our strengths of a committed workforce, our core assets (including our MG paper machine, our world-class waxer/winder and our new foil laminator) and our workplace redesign to more efficiently serve our customers with superior quality at significantly lower costs. We are also taking a detailed look at our No. 2 paper machine, waxing operations, printing operations and finishing area to better strategically position these assets for the future.

We shall continue to challenge ourselves to rapidly implement the change needed to accomplish our transformation. While the management team anticipates that all our employees will rise to the challenge, we shall insert talents as required to accomplish our goals. We respect that people make the difference. We are committed to continue to provide excellent wages and benefits to our employees.

We expect every Badger employee to accept more responsibility for what they do, continually identify ways to improve quality and lower costs, communicate better and learn to work more effectively in a team-based environment. To meet this expectation, we implemented the following business fundamentals at Badger Paper in 2003:

- *Do everything right the first time.*
- *Significantly improve quality.*
- *React faster and with a sense of urgency.*
- *Aggressively reduce costs.*
- *Maintain open and honest communications/teamwork.*

These fundamentals were put in place to ensure that our people work together more efficiently and make decisions that are right for the overall organization. We believe their application will significantly improve business results. These fundamentals will also serve as criteria for annual employee performance reviews.

What do we foresee for 2004? We expect the improving economy will finally touch the paper industry. Through workplace redesign we shall do things differently at Badger — all with the goals of better serving our customers and producing product at significantly lower costs. We shall see significant volume growth of new products in our targeted specialty markets. Our employees will have more responsibility and authority in their team environments. Badger's financial performance will significantly improve.

In 2004 we shall continue the transformation of Badger Paper into a specialty manufacturer. The aim of our cost reduction focus is to ensure that we have a competitive cost position in the markets we serve. We plan to leverage our recent investments to grow select markets and improve profitability. We shall target investments in equipment and training to complement our growth in specialty markets and to continuously improve our new team-based culture.

We appreciate our loyal customers and thank them for their business. They tell us we do many things right. That is an excellent foundation to build upon. We thank our employees for their commitment to improve Badger Paper and their willingness to change. We are focused on accomplishing all those things that will result in significantly improved business results.



Ronald E. Swanson
President and CEO
February 23, 2004



—Foil Laminator, Oconto Falls
Continued investments ensure
efficiencies and cost-effectiveness



Do Everything Right the First Time

We must put this principle into practice because we can't afford to do things any other way. In today's business environment, the demand for efficiency constantly intensifies while there is less tolerance for errors. Mistakes must be reduced to the lowest rates possible. We must always keep in mind that our customers have customers. A failure to meet our obligations can mean that our customers fail to meet theirs.

Progress Report — New Business Development

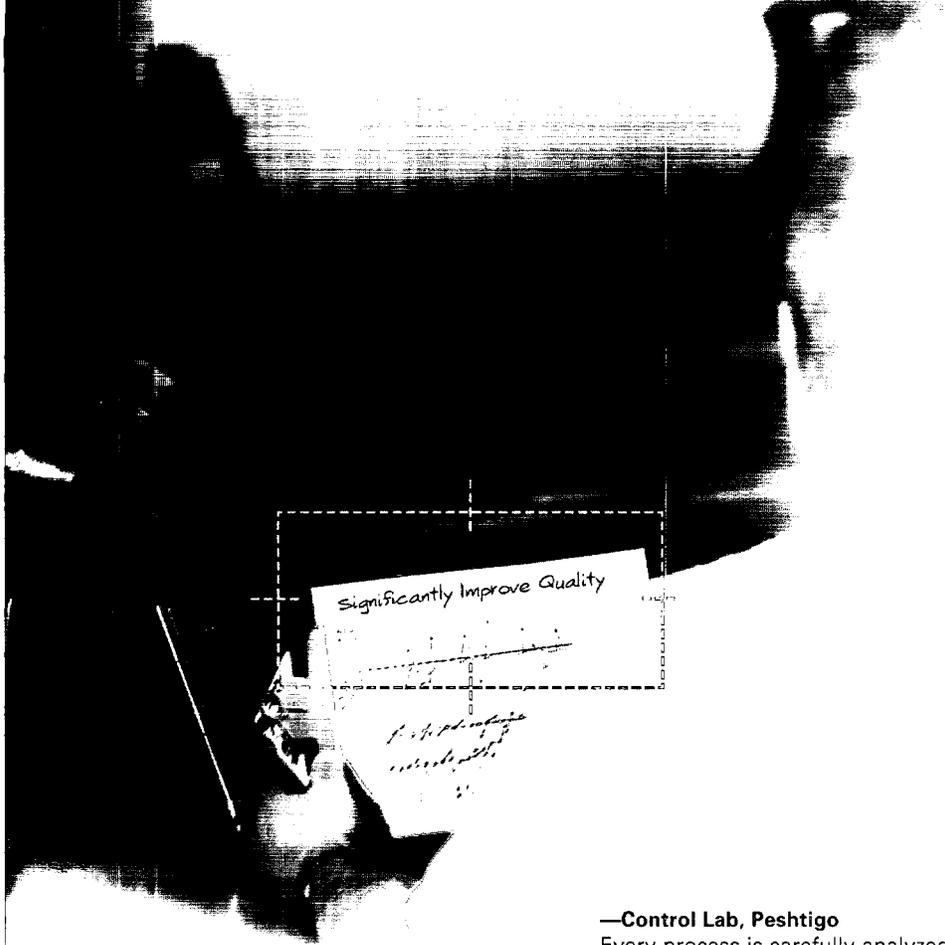
During 2003, Badger Paper continued to focus on market development that supports our product line strategies and is consistent with our overall goals. A cross-functional team developed a formalized process to review new business opportunities. This group thoroughly assesses markets and products to ensure viability for the future and compatibility with our strategy. Our prospects are prioritized to increase the success rate of new business endeavors while minimizing the number of trials required to develop and commercialize products.



Case Study

Value Added Converting

Badger Paper continues to sharpen its position by concentrating on adding value to products. Market areas for these capabilities include confectionery, sandwich wraps, toilet tissue overwraps and other packaging applications. Fully integrated production means single source control — from base manufacture to printing, waxing, punching and slitting. As we move forward, we will encounter increasing demand for printing services on new substrates as well as for more sophisticated designs. Badger Paper is poised to meet these needs. Our capabilities in substrate types and calipers now rank among the best in the industry. Continued investment by Badger Paper, such as our new laminator, further enhances our ability to provide a variety of specialty offerings.



—Control Lab, Peshtigo
Every process is carefully analyzed
for measurable improvement

2 Significantly Improve Quality

The quality of a company is not simply defined by the products and services it provides. It extends to all aspects of what it does and how it does them. Badger Paper must never be content with its current quality performance. We must passionately pursue improvement. Every element of our work must be subject to careful analysis, redesign and optimization. No part of the process is too small or too large to escape rigorous, ongoing scrutiny. Our definition of quality must be set far beyond the standard of exceeding our customers' expectations.

Progress Report (Customer Quality Teams)

In 2003, Badger Paper instituted dedicated Customer Quality Teams charged with proactively tracking critical issues for our major customers. These teams are responsible for identifying the customers' critical quality and product needs and for proposing solutions and improvement initiatives. The teams interact directly with customers to develop meaningful feedback loops, to ensure responsive follow-through, and to monitor ongoing business for the customer.

Case Study — Badger Paper & FORMAX

Badger Paper's commitment to ongoing improvement is exemplified in how we resolved quality issues that arose in our waxer operation in the past year.

In response to specific concerns

expressed by an important customer,

we quickly assembled a task team

representing engineering, customer

service, sales, wax room operations,

maintenance and manufacturing. The

team methodically examined the basic

problems and implemented furnish and

paper machine changes that resolved

the concerns with wax porosities and

sheet stiffness. Further issues with

contamination, roll width and lineal

footage were also successfully

addressed. By analyzing the entire

process, the task team achieved

effective results that improved both our

performance as well as our customer's

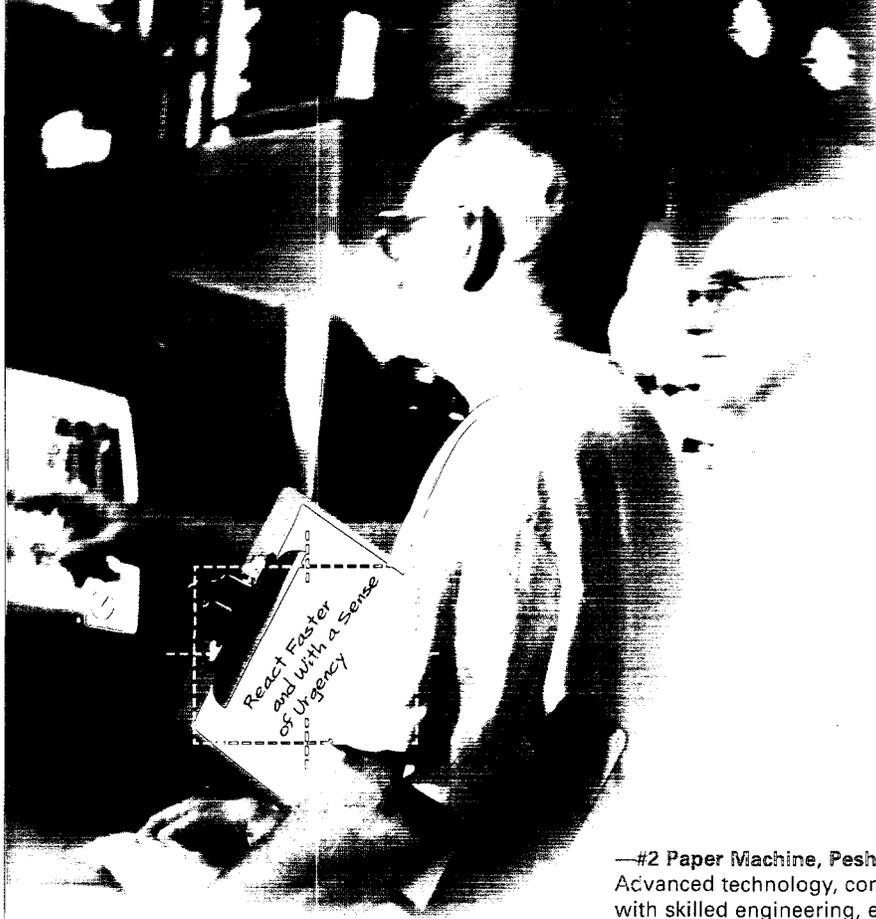
satisfaction. The task team combined

the skills and expertise of its members

in a coordinated, cooperative customer-

focused effort.





—#2 Paper Machine, Peshtigo
Advanced technology, combined
with skilled engineering, ensure
prompt response and consistent
turnaround

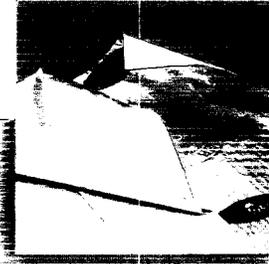
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React Faster and with a Sense of Urgency

Our customers always have options. Value-added markets require Badger Paper to meet higher standards. To succeed we must learn faster, react faster, and change faster. Our key advantage lies in our size and our ability to respond swiftly. But we must continually leverage that ability to stay ahead of our competition. The same applies to anticipating and proactively meeting the needs of our customers. We must demonstrate a sense of urgency because our very future depends on prompt implementation of changes to meet shifting market demand.

Progress Report (Foil Laminator Installation Team)

The efforts of this Badger Paper foil laminator project team exemplify our commitment to improved responsiveness. The team, comprised of people from both management and the plant, worked in concert with the equipment manufacturer to facilitate an efficient installation. While the equipment was being built, plant personnel underwent onsite training in Italy to ensure they'd be ready for a swift start-up. Only two months after delivery, the foil laminator was supplying quality production for customer trials.



Case Study Foil Laminator

Badger Paper's state-of-the-art foil laminator, located in our Oconto Falls plant, enhances our value-added capabilities as well as expands our offering to existing markets and customers. In addition, this investment has provided exposure to new end-use areas. With the ability to marry two substrates together, we can provide products with enhanced barrier performance and image. This new capability adds to our competitive advantages while establishing a stronger position and commitment to specialty products.



Case Story —

Machine Scheduling

Smaller orders from customers in 2003 were significantly increasing costs associated with grade changes and machine downtime. Badger Paper worked cooperatively with customers to develop a process that brought small orders into our system sooner. This not only facilitated on-time delivery, but also effectively increased production efficiency. The results included more paper produced per hour, reduced cost per ton through lower grade change waste and machine downtime for cleanups.

—Waxer, Peshtigo

Every resource is continually evaluated to reduce waste and increase output

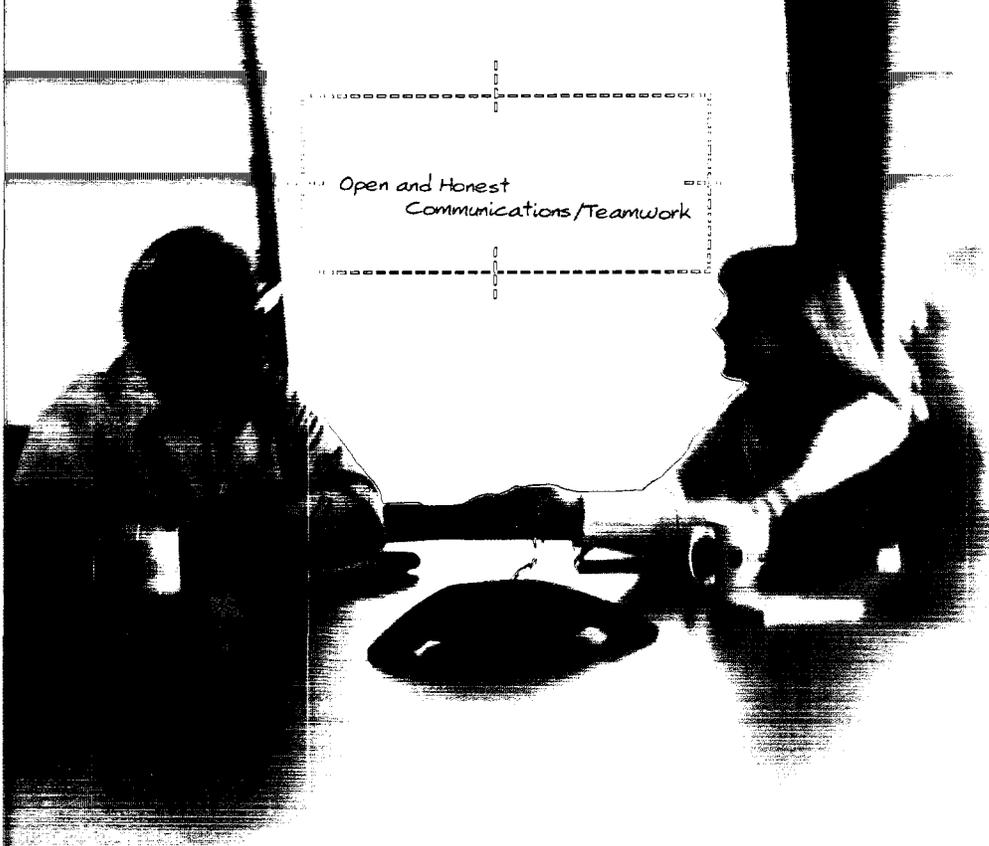


Aggressively Reduce Costs

The pressure to squeeze more out of less is a universal tenet of business. The difference between profit and loss can turn on the thinnest factors. In the face of growing global competition, every successful company must cut costs to remain competitive. Expenditures must be carefully examined and justified. Every asset must be treated as a scarce resource. We must continually find ways to eliminate waste and increase efficiency for ourselves as well as our customers.

Progress Report (Cost Reduction Teams)

Badger Paper's Cost Reduction Teams are working at all levels of the organization. In 2003, a CRT in our Peshtigo facility sought to eliminate waste caused by streaking during start-up and roll changes in our high-speed winder/waxer. The team analyzed the situation, developed solutions, and effectively resolved the problem. The result: significant reduction in waste and improved quality for our customer.



—Customer Service, Peshtigo
A collaborative and dedicated approach to achieving trust in all relationships

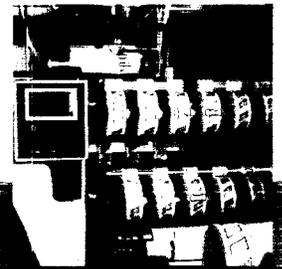


Open and Honest Communications/Teamwork

Badger Paper has always emphasized integrity. We recognize that business ultimately comes down to relationships between people. Objectivity and cooperation among co-workers and with our customers, vendors and investors are more important than ever. Honesty is not only the foundation of trust, but also the critical element in working together to achieve common goals. Relationships must be founded in genuine teamwork, mutual respect, dependability and unquestioned trustworthiness. Only then can the performance, quality, response and efficiency defined in the first four fundamentals be fully realized.

Progress Report (Customer Service Team)

To improve the overall performance of our customer service, Badger Paper established a Customer Service Team. This group, made up of people with varying skills and experience, is mapping out roles, responsibilities and flow patterns for the purpose of identifying areas for speed and service improvement. In addition to recommendations for process enhancements, the team is defining both goals and measurement tools.



Case Study

Work Redesign

Putting all these fundamentals into practice requires initiative and support of people at all levels of our organization.

To be more competitive, to meet our customer's needs, we must be open to change. We must rethink how we work. We must ask difficult questions and pursue honest answers.

Transformation does not happen without effort. We've made capital investments in pursuit of new markets. Through training and education, we are also making the human investment to ensure the culture we need for our future.

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2003

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 No. 0-795

BADGER PAPER MILLS, INC.

(Exact name of registrant as specified in its charter)

200 West Front Street
P.O. Box 149
Peshtigo, Wisconsin 54157-0149
(Address of principal executive office)

Wisconsin
(State of incorporation)
39-0143840
(I.R.S. Employer Identification Number)

Registrant's telephone number, including area code: (715) 582-4551

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Without Nominal or Par Value

Indicate by checkmark 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 reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark 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 checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes No

As of June 30, 2003 the aggregate market value of the common stock (based upon the closing sale price of the common stock as reported on the Nasdaq SmallCap Market) held by non-affiliates was approximately \$11,142,533. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement, and registrant is not bound by this determination for any other purpose.

As of December 31, 2003, 2,039,155 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed with the Commission under Regulation 14A is incorporated by reference into Part III of this Form 10-K to the extent indicated in Part III hereof.

Statement Regarding Forward-Looking Information

This Annual Report Form 10-K, each of Badger Paper Mills, Inc.'s (the "Company") annual reports to shareholders, Forms 8-K and 10-Q, definitive proxy statements, and any other written or oral statement made by or on behalf of the Company subsequent to the filing of this Annual Report on Form 10-K may include one or more "forward-looking statements" that may state the Company's or management's intentions, hopes, beliefs, expectations or predictions for the future. In the following discussion and elsewhere in this Annual Report on Form 10-K, statements containing words such as "expect," "anticipate," "believe," "estimate," "goal," "objective" or similar words are intended to identify forward-looking statements. In making such forward-looking statements, the Company undertakes no obligation to publicly update or revise any such statements.

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 differ materially from those projected, expressed or implied by such forward-looking statements. In addition to specific factors, which may be described in connection with any of the Company's forward-looking statements, factors that could cause actual results to differ materially include:

- Increased competition from domestic or foreign paper producers, or providers of alternatives to the Company's products, including increases in competitive production capacity and/or weakness in demand for paper products. As a paper manufacturer, the Company, if it wants to achieve acceptable production costs, must operate its paper mill at a relatively high percentage of its available production capacity. The Company's competitors face the same or similar situations. Therefore, when the overall market for paper products softens, the Company (and other paper manufacturers) will generally accept lower selling prices for its products in order to maintain acceptable production efficiencies and costs.
- Changes in the price of pulp, the Company's main raw material. The Company purchases all of its pulp on the open market and price changes for pulp have a significant impact on the Company's costs. Pulp price changes can occur due to changes in worldwide consumption of pulp, pulp capacity additions, expansions or curtailments affecting 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 and other variables. During 2003, the market price for pulp increased. The Company anticipates that the market price for pulp will continue to increase into 2004.
- Interruptions in the supply of, or increases and/or changes in the price of energy (principally natural gas and electricity) that the Company needs to run manufacturing operations. During the latter part of 2002 and early in 2003, energy prices rose significantly. The current market price of natural gas has stabilized at historically high levels. Future energy costs are uncertain.
- Changes in demand for the Company's products due to overall economic activity affecting the rate of consumption of the Company's paper products, growth rates of the end markets for the Company's products, technological or consumer preference changes and acceptance of the Company's products by the markets it serves.
- Unforeseen operational problems at any of the Company's facilities causing significant lost production and/or higher operating costs.
- Changes in laws or regulations affecting the Company, particularly environmental laws and regulations affecting air quality and wastewater discharges.
- The Company's profitability may be adversely affected by increases in interest rates because a significant portion of the Company's debt bears interest at variable interest rates.

Five-Year Comparison of Selected Financial Data

	Year ended December 31,				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operations (dollars in thousands):					
Net sales	\$ 71,691	\$ 73,772	\$76,305	\$ 76,137	\$69,231
Cost of sales	70,472	65,943	66,463	73,451	62,478
Gross profit	1,219	7,829	9,842	2,686	6,753
Selling and administrative expenses	5,097	5,779	5,559	5,128	4,890
Loss on write-off of trade credits	--	--	--	440	--
Loss on disposal of property, plant and equipment	--	--	8	22	--
Operating income (loss)	(3,878)	2,050	4,283	(2,882)	1,863
Other income	24	51	237	175	617
Gain on sale of non-core assets	--	1,125	1,627	--	--
Interest expense	440	402	927	1,250	1,064
Income (loss) before income taxes *	(4,294)	2,824	5,220	(3,957)	1,416
Provision (benefit) for income taxes	(1,203)	925	1,374	(891)	279
Net income (loss) *	(3,091)	1,899	3,846	(3,066)	1,137
Common Stock:					
Number of shareholders of record	307	337	380	392	434
Weighted average of shares outstanding	2,033,391	2,026,299	2,004,664	1,981,716	1,966,111
Net earnings (loss) per share basic	\$ (1.52)	\$ 0.94	\$ 1.92	\$ (1.55)	\$ 0.58
Net earnings (loss) per share diluted	\$ (1.52)	\$ 0.91	\$ 1.89	\$ (1.55)	\$ 0.58
Book value per share	\$ 9.52	\$ 11.05	\$ 10.19	\$ 8.32	\$ 9.91
Financial Position (dollars in thousands):					
Working capital	\$ 5,132	\$ 6,457	\$ 6,717	\$ (9,950)	\$ 8,259
Capital expenditures	730	3,165	1,439	2,265	2,815
Total assets	38,478	41,808	40,280	43,357	46,894
Long-term debt	10,637	7,377	9,794	1,310	15,705
Shareholders' equity	19,349	22,392	20,445	16,482	19,484

* Includes the gain on the sale of non-core assets of \$1,125,000 in 2002 and \$1,627,000 in 2001.

PART I

Item 1. Business

Badger Paper Mills, Inc. ("Badger" or the "Company") has been producing paper and paper products in Wisconsin since it was incorporated under the laws of the State of Wisconsin in 1929.

The Company has two operating facilities. In Peshtigo, Wisconsin and adjacent to the Company's principal executive offices, the Company manufactures paper on two paper machines (a "Yankee" paper machine and a "Fourdrinier" paper machine). The Company also performs certain converting operations in Peshtigo. The Company's physical facilities in Peshtigo are sometimes collectively referred to in this Annual Report as the "Peshtigo Facilities."

The Company also has production facilities in Oconto Falls, Wisconsin (approximately 30 miles from Peshtigo, Wisconsin), which consist of a Company-owned manufacturing facility and certain leased warehouse space. The Company's owned and leased facilities in Oconto Falls are sometimes collectively referred to in this Annual Report as the "Oconto Falls Facilities."

Products and Distribution

At the Peshtigo Facilities, the Company manufactures paper on its Yankee paper machine and its Fourdrinier paper machine, and converts paper in accordance with customer specifications. Converting operations include punching, sheeting, trimming, sealing, perforating, rewinding, waxing and drilling of paper for uses in several applications.

Products produced on the Yankee paper machine include converted printed and unprinted waxed papers for quick service restaurants, grades used in laminating applications, colored papers, specialty-coated papers and papers used in applications where twisting is required to seal product. The Company's sales personnel and commissioned brokers sell these products to manufacturers and converters.

The Fourdrinier paper machine produces fine paper grades utilizing fiber purchased on the open market, including pre- and post-consumer recycled fibers. Papers produced on the Fourdrinier paper machine are used in several applications including business papers, printing, high quality writing papers, book publishing stock, reply card, watermarked, industrial and consumer papers that require water-oil-grease resistant attributes, copier papers and specialty papers. The Company offers a wide range of colored papers and specializes in color matching. A portion of the products produced by the Company are sold under certain trademarks and trade names, including Ta-Non-Ka®, Copyrite®, ENVIROGRAPHIC®, Northern Brights®, Artopaque®, Marks of Distinction® and DuraEdge®. Other products are sold through paper merchants, brokers and value-added converters who, in turn, sell to other value-adding entities or direct to the consumer.

The Company's two paper machines produce papers that have different features. Paper produced on the Yankee paper machine has a very smooth surface on one side of the paper, which is referred to as machine glazed ("MG"). The smooth finish on MG paper allows the paper to work well in certain coating and printing applications.

Paper produced on the Fourdrinier paper machine does not have a glazed finish, rather it is machine finished ("MF"). MF paper works well in a broad range of applications including publishing, writing paper and certain printing applications.

Products produced at the Oconto Falls manufacturing facility complement the Company's overall product offerings by adding value to certain paper grades through printing and converting of paper and plastic substrates. At this facility, the Company produces a variety of printed products on paper and plastic substrates and manufactures polyethylene bags.

Badger sells its products produced at each facility to a wide range of converting companies throughout the United States. These sales are conducted through the Company's sales personnel. The largest concentration of the Company's customers can be found in the Midwestern states including Wisconsin, Illinois, Michigan and Ohio. However, as a result of expanded national sales efforts, the Company has made significant progress toward expanding its customer base into other regions of the United States.

The Company's foreign net sales are immaterial to its operations.

Competition

Badger's products are sensitive to competition from numerous sources, including other paper products and products of other composition. Product quality, price, volume and service are all competitive factors. Badger's paper production represents less than 1% of the production capacity in the United States for these products. Competition for all grades of paper manufactured by the Company includes International Paper Company, Georgia-Pacific Corporation, Domtar, Inc., Wausau-Mosinee Paper Corporation and smaller, non-integrated paper companies. Many of the Company's larger competitors have greater financial, technical, marketing and public relation resources, larger client bases and greater brand or name recognition than Badger.

Raw Materials; Inventory

The principal raw material used by the Company is pulp. Badger utilizes a variety of fibers to meet the formulation requirements of the papers it produces. Northern and southern softwood and hardwood pulps, pre-consumer and post-consumer recycled pulps, and hard white rolls make up the total fiber requirements. Badger purchases all its fiber requirements on the open market. Other raw materials used in the manufacturing process include inks and polyethylene substrates. Other raw materials are purchased directly from manufacturers and distributors.

Badger has at least two sources of supply for major items. Shortages of pulp or certain chemicals (including petrochemicals) could have an adverse effect on Badger's ability to manufacture its products, and could adversely affect product mix. Although Badger does not anticipate shortages of raw materials, it is anticipated that there will be near-term increases in pulp prices and the cost of polyethylene.

Energy

Badger is a large consumer of energy, including electricity and natural gas. In 2003, 9.7% of Badger's cost of sales represented energy costs compared to 7.8% of Badger's cost of sales in 2002. Badger purchases electricity from local public utilities, and it purchases natural gas from various sources in the United States and Canada. Two dual-fueled boilers capable of burning natural gas or fuel oil and one natural gas boiler supply the Peshtigo Facilities' heating and manufacturing requirements. During 2002, the Company removed its fuel oil storage tanks at its Peshtigo Facilities. As a result, the Company will not have the flexibility to switch between natural gas and fuel oil as a source of fuel.

Although Badger experienced temporary interruptions of electrical service in the summer of 2002 due to regional shortages of electricity during peak demand periods, the Company believes that current sources of electricity and natural gas are adequate to meet its needs. Such interruptions caused the Company to temporarily stop the manufacture of paper. There is no damage to equipment during these temporary power interruptions. Badger could experience similar interruptions in the future.

The market price for natural gas stabilized at historically high levels during the second half of 2003. In order to reduce the risk of fluctuating market prices for natural gas, the Company has purchased a significant portion of its natural gas requirements for the first half of 2004 at a fixed price.

Patents

The Company possesses certain patents and licenses used in connection with its business, none of which individually, or in the aggregate, are material.

Research and Development

The Company maintains a dedicated technical staff of employees charged with the responsibility of researching and developing new products. The Company also relies on outside consultants from time to time for special research and development projects. The Company's technical staff also refines and improves existing products in response to customer requirements and market demands. The Company spent \$673,000 in 2003, \$769,000 in 2002 and \$469,000 in 2001 on product research and development activities.

A significant percentage of the Company's research and development costs are spent working on concepts and designs for new and/or improved paper products for customers. Since many of the Company's customers for paper products are converters, these customers need trial production runs of paper products to evaluate how the Company's new or modified paper products perform in actual use on the customers' paper converting machinery and equipment. If such trial production runs are unsuccessful, the Company charges the associated costs to research and development. If such trial production runs are successful, the Company sells the product to the customers. Revenues from successful trial production runs are included in sales and the associated costs are accounted for in cost of sales.

Backlog

As of December 31, 2003, the value of the Company's order backlog was approximately \$2,221,000 as compared to \$1,270,000 and \$2,837,000 at December 31, 2002 and 2001, respectively.

Customers

In 2003, 2002 and 2001, no customer represented over 10% of Badger's net sales.

Environmental Matters

In 2000, the Company received final regulatory approval from the Wisconsin Department of Natural Resources ("WDNR") of its Title V air operating permit for its Peshtigo Facilities. The permit does not require the Company to install new or additional pollution control equipment, and as such, the Company is responsible for the costs associated with routine monitoring, record keeping and reporting requirements. These costs are minimal.

Prior to January 30, 2002, effluent flow from Badger's Peshtigo Facilities was directed into a joint municipal wastewater treatment plant, which Badger operated under contract with the City of Peshtigo, Wisconsin. Effective January 30, 2002, Badger sold this wastewater treatment plant to the City of Peshtigo for approximately \$1,250,000; however, Badger continues to operate this wastewater treatment plant under contract with the City of Peshtigo. Management believes that this wastewater treatment plant continues to meet or exceed all currently applicable environmental requirements and that Badger's use of the treatment plant is in compliance with all regulatory requirements. In 2000, Badger renewed its wastewater discharge permit for this wastewater treatment plant.

In January 2000, the WDNR approved a final closure report filed by the Company with respect to its former Harbor Road Landfill. The WDNR will continue to review the effectiveness of this closure. If the WDNR subsequently determines that the closure was ineffective, then the WDNR may require the Company to undertake further remedial actions. Based on the Company's consultant's report (dated April 1999), the Company estimated that the potential future cost of such future environmental remedial efforts (assuming that the WDNR determines that the closure was ineffective) was approximately \$300,000. The Company has not subsequently updated this consultant's report. Management believes that the Company is in compliance with all WDNR Net Worth Financial Responsibility Tests as of December 31, 2003.

Soil contamination was identified at the Company's French Street location in Peshtigo during the removal of four above ground storage tanks. The Company performed site investigation work and in October 2003, requested that the case be transferred from the WDNR to the Wisconsin Department of Commerce ("Commerce") for case closure with a soil Geographic Information System Registry and a Wisconsin Administrative Code Chapter NR 140 Preventative Action Limit exemption. Commerce requested additional information in February 2004. The requested documents and information were provided to Commerce. As of the filing of this Annual Report on Form 10-K, the Company has not received a response regarding closure from Commerce. It is not possible to determine the costs, if any, that may be incurred in completing any additional investigation or required remediation.

The Company's Peshtigo Facilities are located near the Lower Fox River/Green Bay Area of Concern ("AOC"). Pursuant to the Great Lakes Water Quality Agreement, 43 AOC's have been identified and re-located throughout the Great Lakes Basin. The Company has not been identified by WDNR or the United States Environmental Protection Agency ("EPA") as responsible for the environmental problems within the Lower Fox/Green Bay AOC.

The Company does not anticipate any material capital expenditures for pollution control equipment during the next two fiscal years.

The Company holds an air-operating permit by the WDNR for its Oconto Falls Facilities. The permit expires on January 29, 2006. The permit limits emissions so that the facility is considered a "synthetic minor" under the EPA's Title V air permit program. The permit authorizes the operation of the flexographic printing process at the Oconto Falls Facilities.

Badger believes it has in force all of the necessary environmental permits from Federal, state and local authorities to continue production of current business activities. The Company began production on new foil laminating equipment in late 2003, which requires a permit for additional volatile organic compounds emissions. The Company is currently operating its laminating equipment under the construction permit it received in 2003. The construction permit will expire in January 2005.

Employees

As of December 31, 2003, the Company had 292 employees, including 183 employees at the Peshtigo Facilities covered by three-year collective bargaining agreements running through May 2005. The Company has begun a process to redesign workflow in order to reduce the number employees necessary to produce its products. Teams comprised of management and union employees are working to redesign workflow with the objective of improving efficiency and quality. Another result will be fewer employees required to meet manufacturing requirements. It is anticipated that workforce reductions will begin during the second quarter of 2004.

Available Information

The Company maintains a website with the address www.badgerpaper.com. Additional information regarding the Company can be found on this website. The Company is not including the information contained in the Company's website as a part of, or incorporating it by reference into, this Form 10-K.

Item 2. Properties*

<u>Properties</u>			
<u>Location</u>	<u>Owned or Leased</u>	<u>Approximate Floor Area in Square Feet</u>	<u>Principal Uses</u>
Peshtigo, WI	Owned(1)	3,750	Principal executive offices
Peshtigo, WI	Owned(1)	88,500	Manufacture and Converting of Paper
Oconto Falls, WI	Owned	40,000	Printing and Converting
Oconto Falls, WI	Leased(2)	20,300	Warehouse space

- (1) As a result of the November 2001 refinancing of its revolving and long-term debt, two of the Company's lenders hold mortgages on the Peshtigo Facilities.
- (2) The lease for the warehouse space is a five-year lease (triple net lease basis) which commenced on October 1, 2000. The current base rent is approximately \$54,000 per year, increasing incrementally to \$56,000 per year in the final year of the lease.
- * The Company leases equipment. Information related to these leases can be found in Note L to the Company's 2003 audited financial statements.

Item 3. Legal Proceedings

The Company does not have any material legal proceedings pending, and does not have any litigation or governmental proceedings with respect to environmental matters pending (except to the extent identified under the "Environmental Matters" caption in Item 1 of Part I of this Annual Report on Form 10-K).

Item 4. Submission of Matters to a Vote of Shareholders

No matters were submitted to a vote of the Company's shareholders in the fourth quarter of 2003.

Executive Officers of the Registrant

The following table sets forth certain information as of December 31, 2003 concerning the Company's executive officers.

<u>Name</u>	<u>Age</u>	<u>Office</u>	<u>Period Served In This Office</u>
Ronald E. Swanson	54	President and Chief Executive Officer of the Company, Director Senior Vice President – SENA Magazine Papers Stora Enso North America Senior Vice President Consolidated Papers, Inc.	2003 - Present 2000-2002 1997-2000

<u>Name</u>	<u>Age</u>	<u>Office</u>	<u>Period Served In This Office</u>
William H. Peters	45	Vice President, Chief Financial Officer, Secretary, and Treasurer of the Company	2001-Present
		Executive Vice President and Treasurer, North Shore Capital (small market venture capital firm)	1996-2001
J. Glenn Davis	46	Vice President-Sales and Marketing of the Company	2002-Present
		Business Manager, International Papers (specialty papers)	2000-2001
		President, JND Company, Inc. (food processing)	1998-2000
		Director, Specialty Products Appleton Papers (carbonless papers)	1998
Robert J. Spannuth	56	Vice President, Operations of the Company	2003-Present
		Director – Source & Support Mead Westvaco	2001-2002
		Vice President & Mill Manager Fraser Papers	1999-2001

Officers are elected to hold office until the next annual meeting of the Board of Directors following the annual meeting of shareholders or until their successors are elected and qualified. There is no arrangement or understanding among any of the above officers or any other person pursuant to which such officer was selected for the office held. No family relationship of any kind exists between the officers.

PART II

Item 5. Market For the Registrant's Common Stock and Related Shareholder Matters

The Company's Common Stock trades on the Nasdaq SmallCap Market under the symbol "BPML." As of December 31, 2003, the Company had 307 shareholders of record. Information about the trading prices for shares of the Company's Common Stock and dividends on the Common Stock is included in this Annual Report on Form 10-K under the caption "Stock Price and Dividend Information." Information about equity compensation plans is included in this Annual Report on Form 10-K under Item 12.

Item 6. Selected Financial Data

Selected Company financial data is presented in this Annual Report on Form 10-K under the caption "Five-Year Comparison of Selected Financial Data."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Executive Overview

The Company saw a decline in net sales during 2003 as a result of decreased shipment volume. Reduced shipment volume can be attributed to declining market demand for certain products manufactured by the Company. The Company also realized increases in costs for pulp and natural gas in 2003 as compared to 2002.

The combination of reduced shipment volume and higher manufacturing costs resulted in a decrease in gross profit. In 2003, gross profit was \$1,219,000 and 1.7% of net sales, compared to \$7,829,000 and 10.6% in 2002. As a result of lower gross profit, the Company generated a net loss for 2003 of \$3,091,000 as compared to net earnings of \$1,899,000 in the previous year. The results for 2002 include a pretax gain of \$1,125,000 (after tax gain of \$747,000) from the sale of non-core assets. The Company did not have a similar gain in 2003.

The increases in the cost of pulp and natural gas are driven by market conditions outside of the Company's control. In order to reduce internal costs, the Company has begun a process to redesign workflow. Teams comprised of management and union employees are redesigning workflow with the objective of improving efficiency and quality. Another result will be fewer employees required to meet manufacturing requirements. The teams began meeting in the first quarter of 2004. It is anticipated that workforce reductions will begin during the second quarter of 2004.

2003 versus 2002

Net Sales

Net sales in 2003 were \$71,691,000 compared to \$73,772,000 in 2002, a decrease of \$2,081,000 and 2.8%. The reduction in net sales can be attributed to decreased shipment volume of paper products combined with increased sales of printed products. The shipment volume of paper products in 2003 as compared to 2002 declined by 5.3% while the average price for paper products increased 0.8%. The Company realized an increase in the sales of printed and converted products of \$1,487,000 in 2003 as compared to 2002.

The decrease in shipment volume in 2003 as compared to 2002 can be directly related to the Company's decline in sales of fine paper products. Net sales in 2003 of fine paper products declined 19.6% when measured in sales dollars, and declined 22.0% when measured in tons shipped when compared to 2002. The reduction in fine paper volume resulted in increased downtime on the Fourdrinier paper machine in 2003 as compared to 2002. The decline in fine paper business can be attributed to difficult market conditions resulting in lower pricing in the market.

Cost of Sales

Cost of sales in 2003 was \$70,472,000 and 98.3% of net sales compared to \$65,943,000 and 89.4% of net sales in 2002. During 2003 the market price for pulp increased resulting in higher pulp costs for the Company. The Company also incurred significantly higher costs for natural gas in 2003 as compared to 2002. The increases in the cost of pulp and natural gas combined with the inability to increase prices due to difficult market conditions resulted in higher cost of sales when measured as a percentage of sales.

The Company's overall cost for pulp increased \$594,000 and 2.7% in 2003 as compared to 2002 on 6.7% lower production volume. The disproportionate increase in pulp costs is a result of higher market prices for pulp.

The Company anticipates that the market price of pulp will continue to increase into 2004. The Company has entered into contracts with pulp suppliers to purchase a portion of its pulp requirements at a fixed price. The Company anticipates that approximately half of its pulp requirements in 2004 will be purchased under these agreements.

During the first quarter of 2003, the market price for natural gas increased significantly. The market price for natural gas stabilized at historically high levels during the second half of 2003. Because of the increases in the market price of natural gas, the Company's cost for natural gas in 2003 increased \$1,649,000 and 57.3% from 2002. In order to reduce the risk of fluctuating market prices for natural gas, the Company has purchased a significant portion of its natural gas requirements for the first half of 2004 at a fixed price.

Gross Profit

Gross profit in 2003 was \$1,219,000 and 1.7% of net sales compared to \$7,829,000 and 10.6% of net sales in 2002. The decrease in gross profit is the result of higher costs for pulp and natural gas combined with the Company's inability to increase pricing on fine paper products due to difficult market conditions.

Selling & Administrative Expense

Selling and administrative expenses in 2003 were \$5,097,000 and 7.1% of net sales compared to \$5,779,000 and 7.8% in 2002. The reduction in selling and administrative expenses is the result of lower employment related costs and reduced spending on outside professional services.

Income Tax

In 2003, the Company had an income tax benefit of \$1,203,000 and 28% of the loss before income taxes compared to income tax expense of \$925,000 and 32.8% of income before taxes in 2002. The differences between statutory rates and the Company's effective rate are a largely the result of increases in the valuation allowance.

Other Income & Expense

During 2003 other income and expense was a \$416,000 expense compared to a \$774,000 net income in 2002. In 2002, the Company recognized a gain on the sale of a wastewater treatment facility of \$1,125,000. The Company did not have a similar gain in 2003.

2002 versus 2001

Net Sales

Net sales in 2002 were \$73,772,000 compared to \$76,305,000 in 2001, a decrease of \$2,533,000 and 3.3%. The reduction in net sales can be attributed to volume and pricing. The sale of paper in 2002 as compared to 2001 increased by 4.5% while average pricing decreased by 3.7%. The Company also realized a decrease of \$3,050,000 in the shipment of printed products in 2002 versus 2001.

Net sales volume as measured in weight increased on each paper machine, while total average pricing decreased. The decrease in average pricing was driven entirely by pricing on machine finished (MF) paper grades. The average selling price of machine glazed (MG) products increased an average of 1.7%. The increase in the average price of MG products is a result of shifting the product offering to specialty markets.

The decrease in net sales of printed products is a result of losing business from a number of customers through competitive bidding processes.

Cost of Sales

The cost of sales for 2002 was \$65,943,000 and 89.4% of net sales compared to \$66,463,000 and 87.1% in 2001. During 2002, the production volume of printed products declined when compared to the previous year. This decline in business resulted in a portion of the decline in the cost of sales as measured in dollars. The increase in cost of sales relative to sales is driven primarily by the decrease in the average selling prices while, at the same time, maintaining a relatively flat cost for pulp.

During 2002, production activity on the Company's two paper machines increased 4.2% compared to 2001. Total cost for pulp in 2002 increased 5.1% when compared to 2001. The disproportionate increase in pulp cost when compared to production activity is the combined effect of the average cost for fiber and the utilization efficiency.

Gross Profit

Gross profit during 2002 was \$7,829,000 and 10.6% of net sales compared to \$9,842,000 and 12.9% of net sales in 2001. The decrease in gross profit is the combined result of the decrease in net sales as it relates to pricing, while at the same time holding certain production costs consistent with the previous year. The overall average selling price during 2002 decreased 3.7% when compared to 2001. The reduction in average pricing is the result of pricing pressure on certain commodity grades still manufactured by the Company.

Selling & Administrative Expense

In 2002, selling and administrative expenses were \$5,779,000 and 7.8% of net sales compared to \$5,559,000 and 7.3% in 2001. The increase in selling and administrative expenses is a result of cost associated with additional resources necessary to develop and market products for specialty markets that are consistent with the Company's strategy to move from commodity grades to specialty paper markets. During 2002, the Company incurred \$252,000 associated with management restructuring costs. Had the Company not incurred management restructuring costs, selling and administrative expenses would have been \$5,527,000 in 2002 compared to \$5,559,000 the previous year.

Income Tax

Income taxes in 2002 were \$925,000 and 32.8% of income before taxes and reflect the statutory tax rates.

Income taxes in 2001 were \$1,374,000 and 26.3% of income before taxes. The difference between statutory tax rates and the Company's effective tax rate is the realization of the benefits related to the Federal net operating loss carryforward utilized in 2001.

Other Income & Expense

During 2002, the Company realized a gain of \$1,125,000 on the sale of a wastewater treatment facility. The Company continues to manage the facility under an operating agreement with the City of Peshtigo.

During 2001, the Company realized \$1,627,000 in gains from the sale of timberland that was not used in the day-to-day operations of the business since the Company closed its pulp mill several years ago.

Liquidity and Capital Resources

Capital Expenditures

Capital expenditures in 2003 were \$1,880,000 (\$1,150,000 of which were financed through a capital lease) compared to \$3,165,000 in 2002. The largest project in 2003 was the purchase of foil laminating equipment. The total cost of the project was \$1,257,000. In 2002, the Company purchased waxer / winder equipment with a total estimated cost of \$2,822,000. As of December 31, 2003, the Company had invested \$2,319,000 into this equipment. The Company will continue to purchase interchangeable components as necessary to keep the equipment operating on a continuous basis.

The Company anticipates that total capital expenditures in 2004 will not exceed \$2,000,000.

Capital Resources

In November 2001, the Company obtained a revolving credit agreement with a commercial bank providing for asset-based financing which was scheduled to expire in November 2004. In November 2003, the Company received a two-year extension of the revolving credit agreement. The financing is now scheduled to expire in November 2006. The line of credit provides for maximum borrowings of \$15,000,000, limited to certain percentages of receivables and inventory, and reduced by outstanding letters of credit. The line of credit bears interest at a variable rate based on alternative interest rate bases at the Company's option (4.50% at December 31, 2003). A facility fee of 0.25% is payable for unused amounts. The line of credit is collateralized by accounts receivable and inventory.

As of December 31, 2003, the Company's capital resources included \$656,000 in cash and the Company's \$15,000,000 revolving credit facility. Borrowings under this facility totaled \$2,756,000 as of December 31, 2003. Based on the balances in inventory and accounts receivable, the Company had \$4,555,000 of availability under the revolving credit facility at December 31, 2004.

At December 31, 2003, the revolving line of credit required, among other items, the Company to maintain \$3,500,000 in unused availability and a minimum tangible net worth. Capital expenditures are limited to \$3,000,000 in 2003 and each subsequent year while the revolving line of credit is in effect.

The Company obtained a variable rate term loan in November 2001. The agreement provides for monthly payments of principal and interest, with interest at prime plus 0.25%. Borrowings are collateralized by certain property, plant and equipment.

The Urban Development Action Grant debt, including additional funding obtained in November 2001, is due in monthly installments of \$17,931, including interest at 5.0%, through maturity in November 2011. This loan is collateralized by certain property.

The Company obtained a variable rate loan in September 2002 to finance capital expenditures. This agreement provides for up to \$2,000,000 in borrowings and was due in January 2004. In May 2003, the Company refinanced this loan with variable rate term debt. The long-term debt agreement provides for monthly payments of \$17,336, including interest at 4.25% through maturity in November 2015.

During 2003, the Company violated the fixed charge coverage ratio covenant contained in the credit facility and the debt service coverage ratio included in the Company's long-term debt agreement. As of December 31, 2003, the Company has obtained waivers for these violations. The Company has also received waiver for the possible violation of the fixed charge coverage ratio and the minimum tangible net worth covenants contained in its credit facility for the first quarter of 2004. The Company believes that cash provided by operations and its revolving credit facility are sufficient to meet its current and anticipated working capital needs as well as to fund its planned capital expenditures.

In November 2003, the Company entered into a lease purchase agreement for \$1,150,000 to finance the purchase of certain converting equipment. The monthly lease payments are \$14,913, including interest at an effective rate of 5.9% with a purchase option in December 2010.

Cash Flows

Net cash required to support operations in 2003 was \$2,110,000 compared to cash generated by operations of \$4,306,000 in 2002. The reduction of cash flow during 2003 relative to 2002 is the result of reduced profitability and reductions in accounts payable and accrued liabilities.

Net cash used in investing activities in 2003 was \$730,000 compared to \$1,627,000 in 2002. During 2002, the Company realized proceeds from the sale of non-core assets of \$1,374,000, which it used to pay down debt. The Company did not have a similar gain in 2003. The Company invested \$730,000 in fixed assets in 2003 compared to \$3,165,000 in 2002.

Cash flow generated from financing activities in 2003 was \$2,394,000 compared to using \$2,241,000 for financing activities in 2002. The increase in cash provided by financing activities is the combined result of reduced cash flow from operations and investments in property, plant and equipment.

In November of 2003 the Company borrowed \$1,150,000 under the terms of a lease purchase agreement to finance the purchase of foil laminating equipment.

During the first quarter of 2002, the Company sold its wastewater treatment facility. Proceeds from the sale were used to reduce the outstanding advances under its revolving credit facility.

The Company believes that its cash flow from operations, together with available borrowings, will be sufficient to allow the Company to meet its obligations in 2004.

Contractual Obligations

The following table of certain material contractual obligations at December 31, 2003 summarizes the effect that these obligations are expected to have on the Company's cash flow in future periods set forth below:

<u>Contractual Obligations</u>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Long-Term Debt	\$10,395,000	\$727,000	\$5,074,000	\$2,210,000	\$2,384,000
Capital Lease Obligations	1,116,000	147,000	470,000	499,000	-
Operating Leases	1,221,000	571,000	568,000	82,000	-
Purchase Obligations	17,082,000	14,052,000	3,030,000	-	-
Other Long-Term Liabilities	-	-	-	-	-
Total	\$29,814,000	\$15,497,000	\$9,142,000	\$2,791,000	\$2,384,000

Application of Critical Accounting Policies and Estimates

The discussion and analysis of the Company's financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires Management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that involve significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of our financial condition and results of operations. Management believes the accounting policies described below meet these characteristics.

Revenue Recognition

Revenue is recognized when goods are shipped. Terms of sale are generally free on board destination. Estimated rates of return are fairly consistent and the Company has recorded a reserve to account for such anticipated returns.

Research and Product Development Costs

The Company's strategy is to expand its product offering into specialty and niche markets. The costs associated with the development of new products are expensed when incurred. To the extent that new product trials are successful, customers will pay for the product and the products will be included in sales for the period.

Bad Debt

Each accounting period, the Company determines an amount to be set aside to cover potentially uncollectible accounts. The Company's determination is based upon an evaluation of accounts receivable for risk associated with a client's ability to make payments. These determinations require considerable judgment in assessing the ultimate potential for realization of these receivables, including reviewing the financial stability of the customer and gauging current market conditions. If the Company's evaluation of a client's ability to pay is incorrect, future charges may be incurred.

Benefit Accruals

Each accounting period, the Company estimates the amount to be accrued for medical costs incurred but not yet reported under its self-funded employee medical insurance plans. The Company's determination is based on an evaluation of past rates of claim payouts and trends in the amount of payouts. This determination requires significant judgment and is dependent upon the likelihood that past trends are representative of future payment patterns. A significant shift in usage and payment patterns within the Company's medical plans could necessitate significant adjustments to these accruals in future accounting periods.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest on its debt. The revolving credit facility provides for borrowings up to \$15,000,000 (subject to a collateral formula) and extends to November 2006. An annual commitment fee of 0.25% is payable for unused amounts. The Company's interest rate floats, based on the lender's prime rate. As of December 31, 2003, the Company was paying 4.5% annual rate on amounts borrowed against this revolving credit facility.

A majority of the Company's debt is at variable interest rates, and a hypothetical 1.0% (100 basis point) change in interest rates would cause an estimated increase in annual interest expense of \$115,000.

The Company does not use financial instruments for trading purposes and is not a party to any leveraged derivatives.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
Badger Paper Mills, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Badger Paper Mills, Inc. and Subsidiary as of December 31, 2003 and 2002 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Badger Paper Mills, Inc. and Subsidiary as of December 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP
Appleton, Wisconsin
February 2, 2004 (except for Note F, as to which the date is March 1, 2004)

Badger Paper Mills, Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS

December 31

(dollars in thousands)

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 656	\$ 1,102
Accounts receivable, net	4,991	5,080
Inventories	5,896	6,615
Refundable income taxes	414	469
Deferred income taxes	-	1,367
Prepaid expenses and other	<u>539</u>	<u>599</u>
Total current assets	12,496	15,232
PROPERTY, PLANT AND EQUIPMENT, NET	25,510	26,105
OTHER ASSETS	<u>472</u>	<u>471</u>
Total assets	<u>\$ 38,478</u>	<u>\$ 41,808</u>
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 874	\$ 590
Accounts payable	2,608	4,156
Accrued liabilities	<u>3,882</u>	<u>4,029</u>
Total current liabilities	7,364	8,775
LONG-TERM DEBT	10,637	7,377
DEFERRED INCOME TAXES	340	2,471
OTHER LONG-TERM LIABILITIES	788	793
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY		
Common stock, no par value; 4,000,000 shares authorized		
2,160,000 shares issued	2,700	2,700
Additional paid-in capital	49	59
Retained earnings	18,021	21,112
Treasury stock, at cost, 120,845 and 129,815 shares in 2003 and 2002	<u>(1,421)</u>	<u>(1,479)</u>
Total shareholders' equity	<u>19,349</u>	<u>22,392</u>
Total liabilities and shareholders' equity	<u>\$ 38,478</u>	<u>\$ 41,808</u>

The accompanying notes are an integral part of these statements.

Badger Paper Mills, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31,

(dollars in thousands, except for per share data)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 71,691	\$ 73,772	\$ 76,305
Cost of sales	<u>70,472</u>	<u>65,943</u>	<u>66,463</u>
Gross profit	1,219	7,829	9,842
Selling, general and administrative expenses	<u>5,097</u>	<u>5,779</u>	<u>5,559</u>
Operating income (loss)	(3,878)	2,050	4,283
Other income (expense)			
Interest and dividend income	6	23	77
Interest expense	(440)	(402)	(927)
Gain on sale of non-core assets	-	1,125	1,627
Miscellaneous, net	<u>18</u>	<u>28</u>	<u>160</u>
	<u>(416)</u>	<u>774</u>	<u>937</u>
Income (loss) before income taxes	(4,294)	2,824	5,220
Provision (benefit) for income taxes	<u>(1,203)</u>	<u>925</u>	<u>1,374</u>
Net income (loss)	<u>\$ (3,091)</u>	<u>\$ 1,899</u>	<u>\$ 3,846</u>
Net income (loss) per share - basic	<u>\$ (1.52)</u>	<u>\$ 0.94</u>	<u>\$ 1.92</u>
Net income (loss) per share - diluted	<u>\$ (1.52)</u>	<u>\$ 0.91</u>	<u>\$ 1.89</u>

The accompanying notes are an integral part of these statements.

Badger Paper Mills, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 Years ended December 31,
 (dollars in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Common Stock			
Balance, December 31	<u>\$ 2,700</u>	<u>\$ 2,700</u>	<u>\$ 2,700</u>
Additional paid-in capital			
Balance, January 1	59	54	170
Treasury stock issued	<u>(10)</u>	<u>5</u>	<u>(116)</u>
Balance, December 31	<u>49</u>	<u>59</u>	<u>54</u>
Retained earnings			
Balance, January 1	21,112	19,213	15,367
Net income (loss)	<u>(3,091)</u>	<u>1,899</u>	<u>3,846</u>
Balance, December 31	<u>18,021</u>	<u>21,112</u>	<u>19,213</u>
Treasury stock			
Balance, January 1	(1,479)	(1,522)	(1,755)
Shares issued (8,970, 6,600 and 35,168 shares in 2003, 2002 and 2001, respectively)	<u>58</u>	<u>43</u>	<u>233</u>
Balance, December 31	<u>(1,421)</u>	<u>(1,479)</u>	<u>(1,522)</u>
Shareholders' equity			
Balance, December 31	<u>\$19,349</u>	<u>\$22,392</u>	<u>\$ 20,445</u>

The accompanying notes are an integral part of these statements.

Badger Paper Mills, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

(dollars in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:			
Net income (loss)	\$ (3,091)	\$ 1,899	\$ 3,846
Adjustments to reconcile to net cash (used in) provided by operating activities			
Depreciation	2,475	2,442	3,355
Directors' fees paid in shares	48	48	117
Deferred income taxes	(764)	415	689
Gain on sale of non-core assets	-	(1,125)	(1,627)
Other	-	-	8
Changes in operating assets and liabilities:			
Accounts receivable, net	89	1,027	501
Inventories	719	(1,632)	1,536
Accounts payable and accrued liabilities	(1,695)	1,472	(3,103)
Income taxes refundable (payable)	55	(699)	530
Other	<u>54</u>	<u>459</u>	<u>(112)</u>
Net cash (used in) provided by operating activities	(2,110)	4,306	5,740
Cash flows from investing activities:			
Additions to property, plant and equipment	(730)	(3,165)	(1,439)
Proceeds from sale of non-core assets	-	1,374	1,761
Net maturities (purchases) of certificates of deposit	<u>-</u>	<u>64</u>	<u>(64)</u>
Net cash provided by (used in) investing activities	(730)	(1,627)	258
Cash flows from financing activities:			
Increase (decrease) in revolving credit agreement	2,737	(4,927)	(6,554)
Proceeds from long-term debt	325	3,211	4,114
Payments on long-term debt	<u>(668)</u>	<u>(525)</u>	<u>(3,874)</u>
Net cash provided by (used in) financing activities	<u>2,394</u>	<u>(2,241)</u>	<u>(6,314)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(446)	438	(316)
Cash and cash equivalents:			
Beginning of year	<u>1,102</u>	<u>664</u>	<u>980</u>
End of year	<u>\$ 656</u>	<u>\$ 1,102</u>	<u>\$ 664</u>

The accompanying notes are an integral part of these statements.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003, 2002 and 2001

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Badger Paper Mills, Inc. ("the Company") manufactures paper and paper products and provides printing and converting services to customers throughout North America, with concentrations in the Midwestern States of Wisconsin, Illinois, Michigan and Ohio. The Company's wholly owned subsidiary, Peshtigo Power, LLC ("Peshtigo") produces steam for the Company.

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

1. Consolidation Principles

The consolidated financial statements include the accounts of Badger Paper Mills, Inc. and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Operating Segments

The Company previously operated in the paper products segment and flexible packaging segment. During the third quarter of 2002, the Company reorganized its operations into a single business segment. Financial statements have been revised for the change in reportable segments.

3. Concentrations

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and trade accounts receivable. The Company places its cash and cash equivalents with high quality financial institutions. The Company provides credit in the normal course of business to its customers. These customers are located throughout North America. No single customer accounted for more than 10% of sales in 2003, 2002 or 2001. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses and generally does not require collateral to support the accounts receivable balances.

4. Financial Instruments

For cash and cash equivalents, the carrying amount approximates fair value because of the short maturity of these instruments. For long-term debt, the carrying amount approximates fair value based on comparison with current rates offered to the Company for debt with similar remaining maturities.

5. Estimates

Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. *Cash Equivalents*

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

7. *Receivables*

Accounts receivable are stated net of an allowance for sales returns, cash discounts and doubtful accounts. Credit is extended based on prior experience with the customer and evaluation of the customer's current financial condition. Accounts receivable are generally due within 30 to 45 days. The Company estimates an allowance based on actual payment history of each individual customer, adverse situations that may affect the customer's ability to pay and prevailing economic conditions. Consequently, an adverse change in the financial condition of a particular customer could affect the Company's estimate of its allowance. Accounts past due more than 120 days are generally written off, with subsequent payments on previously written off accounts credited to miscellaneous income.

8. *Inventories*

Substantially all inventories are valued at the lower of cost or market with cost being determined on the last-in, first-out ("LIFO") basis.

9. *Property Held for Resale*

Property held for resale at December 31, 2001 consisted of a sewage treatment plant. On January 2, 2002, the Company sold this plant to the City of Peshtigo for cash proceeds of \$1,125,000.

10. *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Spare parts are stated at cost, subject to net realizable value. If the parts are utilized in a project that either extends the lives or increases the capacity of the equipment, they are capitalized. If the parts are utilized in ordinary repairs or maintenance, they are charged to operating expense. Depreciation of plant and equipment is provided on the straight-line basis over the estimated useful lives of the assets. Land improvements useful lives are 15 years. Buildings useful lives range from 30 to 33 years and machinery and equipment from 3 to 17 years. Leased property under the capital lease is amortized over the life of the respective asset. Accelerated depreciation is used for income tax purposes.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amounts of the assets exceed their respective fair values. Assets held for sale are recorded at the lower of their fair value less costs to sell or the carrying amount of the asset.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

11. *Environmental Expenditures*

Accruals for remediation costs are recorded when it is probable that a liability has been incurred and the amount of the costs can be reasonably estimated.

12. *Income Taxes*

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amount expected to be realized.

13. *Stock Options*

The Company uses the intrinsic value method to account for its stock options. Therefore, if the exercise price of the stock options is equal to or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recorded. The Company discloses the impact if the shares were accounted for under the fair value method (see Note K).

The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value method to stock-based employee compensation:

	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income (loss) as reported	\$(3,091)	\$1,899	\$3,846
Deduct: stock based compensation expense determined under the fair value method, net of tax effects	(62)	(127)	(89)
Add: forfeiture of prior year stock based compensation determined under the fair value method, net of tax effects	<u>205</u>	<u>-</u>	<u>-</u>
Pro forma net income (loss)	<u>\$(2,948)</u>	<u>\$1,772</u>	<u>\$3,757</u>
Earnings per share:			
Basic - as reported	\$(1.52)	\$.94	\$1.92
Basic - pro forma	(1.45)	.88	1.87
Diluted - as reported	\$(1.52)	\$.91	\$1.89
Diluted - pro forma	(1.45)	.85	1.84

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

14. Revenue Recognition

Revenue is recognized when goods are shipped. Estimated rates of return are fairly consistent and the Company has recorded a reserve to account for such anticipated returns.

15. Shipping and Handling Costs

The Company records shipping and handling costs in cost of sales on the statement of operations. Shipping and handling costs amounted to \$4,751,000, \$5,133,000 and \$4,562,000 for the years ended December 31, 2003, 2002 and 2001.

16. Research and Product Development Costs

Research and product development costs related to potential new products and applications are expensed when incurred. These costs, after consideration of customer reimbursements, amounted to \$673,000, \$769,000 and \$469,000 for 2003, 2002 and 2001. Customer reimbursements amounted to \$944,000, \$2,467,000 and \$1,921,000 for 2003, 2002 and 2001.

17. Net Earnings (Loss) Per Share

Net earnings (loss) per share are computed based on the weighted average number of shares of common stock outstanding during the year:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Basic	2,033,391	2,026,299	2,004,664
Diluted	2,033,391	2,085,841	2,037,429

Stock options to purchase 66,000 common shares in 2003 and 7,000 common shares in 2002 and 25,000 common shares in 2001 were not dilutive and, therefore, have not been included in the computations of diluted per common share amounts.

18. Prospective Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Interpretation 46, Consolidation of Variable Interest Entities (FIN 46) in January 2003. In December 2003, the FASB revised the effective date for entities other than special-purpose entities to financial statements for periods after March 15, 2004. The Company is studying the application of the new rules, and anticipates that this new accounting pronouncement will not have a significant impact on its results of operations or financial position.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE B - RECEIVABLE ALLOWANCES

The receivable allowances at December 31, 2003 and 2002 are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Sales returns and allowances	\$473	\$448
Cash discounts	11	62
Doubtful accounts	<u>431</u>	<u>300</u>
	<u>\$915</u>	<u>\$810</u>

NOTE C - INVENTORIES

The major classes of inventories, valued on the LIFO cost method, at December 31, 2003 and 2002 are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Raw Materials	\$1,914	\$2,013
Work-in-process and finished stock	<u>3,982</u>	<u>4,602</u>
	<u>\$5,896</u>	<u>\$6,615</u>

It is not practical to separate finished stock and work-in-process inventories. The first-in, first-out ("FIFO") cost of raw materials, work-in-process and finished stock inventories approximated \$10,233,000 and \$10,844,000 at December 31, 2003 and 2002.

NOTE D - PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment at December 31, 2003 and 2002 are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Machinery and equipment	\$62,714	\$60,622
Buildings	9,183	9,183
Spare parts	1,321	1,272
Land	70	70
Construction-in-progress - equipment	<u>-</u>	<u>300</u>
	<u>73,288</u>	<u>71,447</u>
Accumulated depreciation	<u>47,778</u>	<u>45,342</u>
	<u>\$25,510</u>	<u>\$26,105</u>

At December 31, 2003, \$28,684,000 of fully depreciated assets were still in use.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE E - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2003 and 2002 are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Compensation, including future absences, and related taxes	\$1,817	\$1,967
Defined contribution plan	550	646
Incurred but not reported medical claims	652	643
Other	<u>863</u>	<u>773</u>
	<u>\$3,882</u>	<u>\$4,029</u>

NOTE F - LONG-TERM DEBT

Long-term debt at December 31, 2003 and 2002 consists of the following (in thousands):

	<u>2003</u>	<u>2002</u>
Revolving credit agreement	\$ 2,756	\$ 19
Term note	4,233	4,627
Capital lease obligation	1,116	-
Variable rate loan	1,932	1,675
Urban Development Action Grant ("UDAG")	<u>1,474</u>	<u>1,646</u>
	11,511	7,967
Less: current maturities	<u>874</u>	<u>590</u>
	<u>\$10,637</u>	<u>\$7,377</u>

In November 2001, the Company obtained a revolving credit agreement, as most recently amended November 2003, with a commercial bank expiring in November 2006. The revolving credit agreement provides for maximum borrowings of \$15,000,000, limited to certain percentages of receivables and inventory, and reduced by outstanding letters of credit. The revolving credit agreement bears interest at a variable rate based on alternative interest rate bases plus the applicable margin, as defined in the agreement, at the Company's option (4.50% at December 31, 2003). A facility fee of 0.25% is payable for unused amounts. At December 31, 2003, the revolving credit agreement required, among other items, the Company to maintain a minimum tangible net worth, as outlined in the agreement, undrawn availability of not less than \$3,500,000 and a limitation on capital expenditures. The Company is in compliance with these covenants at December 31, 2003.

The Company obtained a term note in November 2001 with a commercial bank. The agreement provides for monthly payments of principal and interest of \$49,102, with interest at prime plus 0.25% (effectively 4.25% at December 31, 2003). The final payment on this loan is due in November 2011. At December 31, 2003, the term note required, among other things, the Company to maintain a minimum debt service ratio and restrict indebtedness of the Company. At December 31, 2003, the Company was not in compliance with these covenants. A waiver of these violations was obtained on March 1, 2004.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE F - LONG-TERM DEBT - Continued

The Company obtained a variable rate loan in September 2003 with a commercial bank. The agreement provides for monthly payments of principal and interest of \$17,336, with interest at prime plus 0.25% (effectively 4.25% at December 31, 2003). The final payment on this loan is due in November 2015.

The UDAG debt, including additional funding obtained in November 2001 and March 2002, is due in monthly installments of \$2,972 and \$17,931, including interest at 4.0% and 5.0%, through maturity in May 2006 and November 2011.

In November 2003, the Company entered into a capital lease agreement for equipment with a financing company. The agreement provides for monthly payments of principal and interest of \$14,913, including interest at 5.9%. The final payment is due in November 2010. Gross amount of the asset recorded is \$1,257,000 with a net book value of \$1,220,000 at December 31, 2003.

Substantially all assets of the Company serve as collateral for the above debt.

Maturities of long-term debt for the years ending after December 31, 2003 are as follows:

<u>Year ending December 31,</u>	<u>Long-term debt obligations excluding capital lease</u>	<u>Minimum capital lease payments</u>	<u>Amount representing interest</u>	<u>Net present value of long-term debt</u>
2004	\$ 727	\$ 179	\$ (32)	\$ 874
2005	759	179	(27)	911
2006	3,524	179	(22)	3,681
2007	791	179	(18)	952
2008	827	179	(13)	993
Thereafter	<u>3,767</u>	<u>343</u>	<u>(10)</u>	<u>4,100</u>
	<u>\$10,395</u>	<u>\$1,238</u>	<u>\$(122)</u>	<u>\$11,511</u>

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE G - INCOME TAXES

The provision (benefit) for income taxes consists of the following (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Currently payable (refundable):			
Federal	\$ (456)	\$490	\$ 660
State	<u>17</u>	<u>20</u>	<u>25</u>
	(439)	510	685
Deferred:			
Federal	(764)	415	689
State	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(764)</u>	<u>415</u>	<u>689</u>
	<u>\$ (1,203)</u>	<u>\$ 925</u>	<u>\$ 1,374</u>

The significant differences between the effective tax rate and the statutory federal tax rates are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Statutory Federal tax rate	(34.0)%	34.0%	34.0%
Increase (decrease) in valuation allowance	8.8	(0.4)	(7.7)
Other	<u>(2.8)</u>	<u>(0.9)</u>	<u>-</u>
Effective tax rate	<u>(28.0)%</u>	<u>32.7%</u>	<u>26.3%</u>

The components of the deferred tax assets and liabilities are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
Accounts receivable	\$ 366	\$ 324
Inventories	290	107
Accrued expenses	937	936
Deferred compensation	-	5
Postretirement benefits	320	319
Federal net operating loss carryforward	358	-
Alternative minimum tax carryforwards	1,902	1,861
Tax credit carryforwards	1,099	525
State net operating loss carryforwards	207	141
State credit carryforwards	<u>1,727</u>	<u>1,647</u>
	7,206	5,865

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE G - INCOME TAXES – Continued

	<u>2003</u>	<u>2002</u>
Deferred tax liabilities:		
Fixed assets	\$(5,232)	\$(5,181)
Valuation allowance	<u>(2,314)</u>	<u>(1,788)</u>
Net liability	<u>\$ (340)</u>	<u>\$(1,104)</u>

The total deferred tax liabilities (assets) as presented in the accompanying balance sheet are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Net long-term deferred tax liabilities	\$340	\$ 2,471
Gross current deferred tax assets	<u>-</u>	<u>(1,367)</u>
	<u>\$340</u>	<u>\$ 1,104</u>

For Federal income tax purposes, the Company has net operating loss carryforwards, research and development credit carryovers and alternative minimum tax credit carryovers of \$1,053,000, \$1,099,000 and \$1,902,000 respectively. For state income tax purposes, the Company has net operating loss and tax credit carryovers of \$9,943,000 and \$2,736,000, respectively. Certain carryforwards expire at various times over the next 20 years. For financial reporting purposes, a valuation allowance has been established to the extent that state carryforwards, absent future taxable income, will expire unused. The valuation allowance increased \$526,000 in 2003.

NOTE H - EMPLOYEE BENEFITS

The Company has defined contribution plans covering substantially all employees. Contribution expenses associated with these plans were \$550,000, \$646,000 and \$717,000 in 2003, 2002 and 2001.

The Company is self-funded for health costs. The Company has stop-loss coverage for costs in excess of \$100,000 per individual per year.

NOTE I - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid (refunded) for interest and income taxes was as follows (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Interest	\$ 428	\$ 418	\$952
Income taxes, net of refund received	(494)	1,239	139

In November 2003, the Company entered into a capital lease arrangement with a financing company. Total amount financed was \$1,150,000.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE J - DIRECTOR STOCK GRANT PLANS

In 2001, 1999 and 1997, in order to attract and retain competent directors to serve as Directors of the Company, the Company established Director Stock Grant Plans. An aggregate of 110,000 shares of Common Stock was reserved for issuance. Each Director of the Company is to receive a grant of Common Stock, at fair market value, in partial payment of his or her director's fee. During 2003, 2002 and 2001, 8,970, 6,600 and 35,168 shares, were issued from treasury stock, at a value of \$48,000, \$48,000 and \$117,000.

NOTE K - STOCK OPTION PLAN

In May 1998, the Company established an incentive stock option plan ("Plan") as a mechanism to attract and retain its officers and key employees by providing additional performance incentives and the opportunity to share ownership in the Company. The Plan allows the Company to grant options for 130,000 common shares. Options awarded under the Plan vest over a three or five year period and expire in five to nine years.

In May 2002, the Company established an incentive stock option plan ("2002 Plan") to encourage and provide for acquisition of an equity interest in the Company by officers and key employees. The 2002 Plan allows the Company to grant options for 150,000 common shares. The terms of any options granted under the 2002 Plan will be determined by the Compensation Committee of the Company.

The following table summarizes the transactions of the Company's stock option plan for the three-year period ended December 31, 2003:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>
Stock options outstanding -		
January 1, 2001	115,000	\$8.42
Options granted	104,000	2.89
Options forfeited	<u>(90,000)</u>	8.24
Stock options outstanding -		
December 31, 2001	129,000	4.01
Options forfeited	<u>(20,000)</u>	7.76
Stock options outstanding -		
December 31, 2002	109,000	3.35
Option granted	57,000	5.75
Option forfeited	<u>(100,000)</u>	<u>3.00</u>
Stock options outstanding -		
December 31, 2003	<u>66,000</u>	<u>\$5.66</u>

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE K - STOCK OPTION PLAN - Continued

Price of \$7.86 - \$8.68 (weighted-average contractual life of 1 - 5 years)	12,000	\$8.09
Price of \$5.50 - \$5.55 (weighted-average contractual life of 5 years)	52,000	\$5.55
Price range \$3.70 (weighted-average contractual life of 2 years)	<u>2,000</u>	\$3.70
	<u>66,000</u>	-
Exercisable options -		
December 31, 2001	29,000	\$7.54
December 31, 2002	9,000	\$7.25
December 31, 2003	16,000	\$7.22

The Company has determined the pro-forma effect as if the Company had accounted for stock options granted under the plan under the fair value method. The Black-Scholes option-pricing model was used with the following weighted-average assumptions for options issued:

	<u>2003</u>
Risk-free interest rate	4.50%
Dividend yield	-
Volatility factor	126%
Weighted-average expected life	7.75 years

The weighted-average fair value of options granted in 2003 was \$5.75 per share and \$2.89 per share in 2001. No options were granted in 2002.

NOTE L - COMMITMENTS AND CONTINGENCIES

Rental Agreements

The Company leases warehouse space and certain equipment under various agreements, classified as operating leases, expiring through April 2007. Total rent expense amounted to approximately \$736,000, \$726,000 and \$817,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Future minimum rental payments are as follows (in thousands):

	<u>Year ended December 31,</u>
2004	\$ 571
2005	315
2006	253
2007	<u>82</u>
	\$1,221

Environmental Matters

In May 1999, the Company entered into an agreement with the Wisconsin Department of Natural Resources (WDNR) related to the closure of a solid waste landfill. If the WDNR subsequently determines that the closure was ineffective, then the WDNR may require the Company to undertake further remedial actions. In April 1999, a consultant was engaged by the Company to determine the costs associated with potential future remediation actions. These potential future remediation actions were estimated to approximate \$300,000. The Company has not subsequently updated this consultant's report. Management believes any future remediation actions, if any, will not have a material adverse impact on the financial statements.

NOTE M - CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

The following table summarizes the Company's significant contractual obligations at December 31, 2003:

(in thousands)	<u>Total</u> <u>Amounts</u>	<u>Less Than</u> <u>1 Year</u>	<u>1-3</u> <u>Years</u>	<u>4-5</u> <u>Years</u>	<u>Over</u> <u>5 Years</u>
Long-term debt	\$ 8,755	\$ 874	\$ 2,788	\$ 2,709	\$ 2,384
Operating leases (non-cancellable)	1,221	571	568	82	-
Bank revolving line of credit	2,756	-	2,756	-	-
Pulp contracts	14,924	11,894	3,030	-	-
Energy contracts	<u>2,158</u>	<u>2,158</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contractual	<u>\$29,814</u>	<u>\$ 15,497</u>	<u>\$ 9,142</u>	<u>\$ 2,791</u>	<u>\$ 2,384</u>

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

**NOTE M - CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING -
Continued**

Management believes that the combination of internally generated funds, available cash reserves, and the credit facility are sufficient to fund the Company's operations over the next year.

The Company has no off balance sheet financing arrangements with related or unrelated parties and no unconsolidated subsidiaries.

NOTE N - LIQUIDITY

At December 31, 2003 the Company had cash resources of \$656,000 and an unused credit availability of \$4,555,000 under the Company's revolving credit facility to fund on-going operations. The Company's revolving credit facility contains certain covenants that require the Company to maintain certain financial ratios. These covenants include, among other items, maintenance of certain levels of tangible net worth, maintenance of fixed charge coverage ratios, and maintenance of debt service coverage ratios. Failure to maintain these covenants will result in a request for waiver or modification of these covenants. The Company has been successful in obtaining waivers related to these covenant violations in the past, and existing covenants effective at January 1, 2004 have been adjusted to levels wherein Company's management believe that they can comply with the covenants. The Company is attempting to reduce its costs and improve its gross profit in order to improve profitability and insure compliance with these covenants. There can be no assurance that the Company will be in compliance with the covenants contained in its revolving credit facility in the future. If the Company fails to comply with any of such covenants and is unable to obtain a waiver of such covenants in the future, there could be a material adverse effect on the Company's liquidity.

NOTE O - SUBSEQUENT EVENT

In early 2004, the Company began implementation of a program to reduce its cost structure and improve operating efficiency. The program includes, among other items, a reduction in the employee workforce and changes in the scheduling of manufacturing operations. The severance and benefit costs related to the workforce reduction, the majority of whom are engaged in direct manufacturing activities, is not determinable as of February 2, 2004.

Badger Paper Mills, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2003, 2002 and 2001

NOTE P - SUMMARIZED QUARTERLY DATA (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended December 31 (in thousands):

	Fiscal Quarter				Total
	First	Second	Third	Fourth	
<u>2003</u>					
Net sales	\$19,669	\$18,636	\$18,499	\$14,887	\$71,691
Gross profit (loss)	6	643	1,068	(498)	1,219
Net income (loss)	(1,021)	(557)	(201)	(1,312)	(3,091)
Basic earnings (loss) per share	(0.50)	(0.27)	(0.10)	(0.65)	(1.52)
Diluted earnings (loss) per share	(0.50)	(0.27)	(0.10)	(0.65)	(1.52)
<u>2002</u>					
Net sales	\$18,250	\$19,570	\$19,402	\$16,550	\$73,772
Gross profit	2,074	2,348	2,266	1,141	7,829
Net income (loss)	1,171	482	447	(201)	1,899
Basic earnings (loss) per share	0.58	0.24	0.22	(0.10)	0.94
Diluted earnings (loss) per share	0.57	0.23	0.21	(0.10)	0.91

Item 9. Changes in and Disagreements with Accountants and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this Annual Report on Form 10-K, the Company's management carried out an evaluation, with the participation of the Company's President and Chief Executive Officer along with its Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the Company's President and Chief Executive Officer along with the Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the date of such evaluation in timely alerting them to material information relating to the Company, including its consolidated subsidiary, required to be included in the Company's periodic filings with the Securities and Exchange Commission, particularly during the period in which this Annual Report on Form 10-K was being prepared.

Changes in Internal Controls Over Financial Reporting

There have been no significant changes in the Company's internal controls over financial reporting or other factors that occurred during the quarter ended December 31, 2003 that have materially affected or are reasonably likely to materially affect such internal controls over financial reporting.

The Company has adopted a Code of Ethics and Business Conduct that applies to all employees and directors of the Company. The Company has posted a copy of the Code of Ethics and Business Conduct on its website at www.badgerpaper.com. The Company intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding amendments to or waivers from the Code of Ethics and Business Conduct by posting such information on its website referred to above.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item with respect to directors and Section 16 compliance is hereby incorporated by reference from the information included under the captions, "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance", respectively set forth in the Company's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Information with respect to the executive officers of the Company appears in Part I of this Annual Report on Form 10-K under the caption "Executive Officers of the Registrant."

Item 11. Executive Compensation

The information required by this Item is hereby incorporated by reference from the information included under the caption "Executive Compensation" set forth in the Company's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2003:

<u>Plan category</u>	<u>Number of securities to be issued upon the exercise of outstanding options, warrants and rights(1)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)(2)</u>
Equity compensation plans approved by security holders	66,000	\$5.66	229,355
Equity compensation plans not approved by security holders	-	-	-
Total	<u>66,000</u>	<u>\$5.66</u>	<u>229,355</u>

(1) Represents options to purchase the Company's Common Stock granted under the 1998 Stock Option Plan.

(2) Includes 150,000 shares of the Company's Common Stock available for issuance under the Company's 2002 Stock Option Plan, 64,000 shares of the Company's Common Stock available for issuance under the Company's 1998 Stock Option Plan and 15,355 shares of the Company's Common Stock available for issuance under the Company's 2001 Director Stock Grant Plan.

Security Ownership of Certain Beneficial Owners

The information required by this Item is hereby incorporated by reference from the information included under the caption "Stock Ownership of Certain Beneficial Owners and Management," set forth in the Company's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Security Ownership of Management

The information required by this Item is hereby incorporated by reference from the information included under the captions, "Stock Ownership of Certain Beneficial Owners and Management" and "Election of Directors," set forth in the Company's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is hereby incorporated by reference from the information included under the caption, "Certain Relationships and Transactions," set forth in the Company's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Item 14. Principal Accountant Fees and Services

The information required by this Item is hereby incorporated by reference from the information included under the caption, "Independent Auditor Fees," set forth in the Company's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) List of Financial Statements:

The following is a list of the financial statements of Badger Paper Mills, Inc., together with the report of independent accountants, included in this report:

	<u>Pages</u>
Report of Independent Certified Accountants.....	16
Consolidated balance sheets, December 31, 2003 and 2002	17
Consolidated statements of operations for the years ended December 31, 2003, 2002 and 2001	18
Consolidated statements of shareholders' equity for the years ended December 31, 2003, 2002 and 2001	19
Consolidated statements of cash flows for the years ended December 31, 2003, 2002 and 2001	20
Notes to consolidated financial statements	21

(a) (2) List of Financial Schedules:

The following is a listing of data submitted herewith:

Report of independent certified accountants on financial statement schedule	42
Schedule II Valuation and qualifying accounts and reserves	43

Financial statement schedules other than that listed above are omitted because they are either not applicable, not required, or equivalent information has been included in the financial statements, the notes thereto or elsewhere herein.

(a) (3) Exhibits:

<u>Number</u>	<u>Description</u>
(3.1)	Restated Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3(i) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
(3.2)	By-laws as amended through August 12, 1999 (Incorporated by reference to Exhibit 3(ii) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
(4.1)	Revolving Credit and Security Agreement dated November 30, 2001, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto (Incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
(4.2)	Business Loan Agreement dated November 30, 2001, by and between the Company and Wisconsin Community Bank, Wisconsin Business Bank – Branch (Incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

<u>Number</u>	<u>Description</u>
(4.3)	City of Peshtigo UDAG Revolving Loan Fund Loan Agreement dated November 30 2001, by and between the Company and the City of Peshtigo, Wisconsin (Incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
(4.4)	First Amendment to the Revolving Credit and Security Agreement dated November 30, 2001 by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
(4.5)	First Amendment to the Business Loan Agreement dated November 30, 2001, by and between the Company and Wisconsin Community Bank, Wisconsin Business Bank-Branch (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
(4.6)	Second Amendment to Revolving Credit and Security Agreement, dated September 19, 2002, by and between the Company and PNC Bank, National Association (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
(4.7)	Promissory Note in favor of Wisconsin Community Bank, Wisconsin Business Bank-Branch, dated September 19, 2002 (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
(4.8)	Second Amendment to Business Loan Agreement and Related Documents, dated September 19, 2002, by and between the Company and Wisconsin Community Bank, Wisconsin Business Bank-Branch (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
(4.9)	Mortgage, dated September 19, 2002, made and executed between the Company and Wisconsin Community Bank, Wisconsin Business Bank-Branch (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
(4.10)	Promissory Note in favor of Wisconsin Community Bank, Wisconsin Business Bank-Branch dated May 15, 2003.
(4.11)	Third Amendment to Revolving Credit Facility and Security Agreement, dated August 13, 2003, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
(4.12)	Fourth Amendment to Revolving Credit Facility and Security Agreement, dated November 14, 2003, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2003).
(4.13)	Waiver of Debt Service Coverage Covenant, dated March 1, 2004, provided by Wisconsin Community Bank – Wisconsin Business Bank Branch.
(4.14)	Fifth Amendment to Revolving Credit Facility and Security Agreement, dated March 23, 2004, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto.

<u>Number</u>	<u>Description</u>
(10)	Material Contracts: **
(10.1)	Supplemental Executive Retirement Plan dated December 18, 1992 (Incorporated by reference to Exhibit 10 (ii) to the Company's Annual Report on Form 10-K for the year ended December 31, 1992).
(10.2)	Health Insurance Retirement Benefit Agreement dated January 1, 1996 between the Company and Claude L. Van Hefty (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
(10.3)	Director Stock Grant Plan dated July 23, 1997 (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
(10.4)	Employee Resignation and Release Agreement dated as of March 12, 1998 between Badger Paper Mills, Inc. and Claude L. Van Hefty (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
(10.5)	Employee Resignation and Release Agreement dated as of March 12, 1998 between Badger Paper Mills, Inc. and Miles L. Kresl, Jr. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
(10.6)	Badger Paper Mills, Inc. 1998 Stock Option Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(10.7)	Form of Badger Paper Mills, Inc. 1998 Stock Option Agreement (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(10.8)	Badger Paper Mills, Inc. 1999 Directors Stock Grant Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).
(10.9)	Badger Paper Mills, Inc. 2001 Directors Stock Grant Plan (Incorporated by reference to Appendix B to the Company's definitive Proxy Statement on Schedule 14A filed on April 6, 2001).
(10.10)	Executive Employment Agreement effective July 9, 2001 between the Company and Robert A. Olah (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
(10.11)	Amendment of 1998 Directors Stock Grant Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
(10.12)	2002 Stock Option Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
(10.13)	Employment Agreement effective April 1, 2002 between the Company and J. Glenn Davis. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).

<u>Number</u>	<u>Description</u>
(10.14)	Executive Employment Agreement effective May 1, 2003, between the Company and Ronald E. Swanson (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
(10.15)	Employment Agreement effective June 11, 2003 between the Company and Robert Spannuth (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
(10.16)	Lease Agreement, dated November 17, 2003, between General Electric Capital Corporation and the Company.
(23)	Consent of Independent Certified Public Accountants.
(31.1)	Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
(31.2)	Certification of the Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
(32.1)	Certification of the President and Chief Executive Officer pursuant to 18 U. S. C. §1350.
(32.2)	Certification of the Vice President and Chief Financial Officer pursuant to 18 U. S. C. §1350.
(99.1)	Definitive Proxy Statement for 2004 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission under Regulation 14A and incorporated by reference herein to the extent indicated in this Form 10-K).

**Each of the "material contracts" represents a management compensatory agreement or arrangement.

(b) Reports on Form 8-K:

The following reports on Form 8-K were filed during the quarter ended December 31, 2003:

<u>Date Filed</u>	<u>Date of Report</u>	<u>Item(s) Reported</u>
November 5, 2003	October 22, 2003	The Company filed a news release under Items 7 and 12 of Form 8-K reporting third quarter performance.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 26, 2004

BADGER PAPER MILLS, INC.

By: */s/ Ronald E. Swanson*
Ronald E. Swanson
President, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ Ronald E. Swanson Date: March 26, 2004
Ronald E. Swanson, President,
Chief Executive Officer
(Principal Executive Officer)

/s/ William H. Peters Date: March 26, 2004
William H. Peters, Vice President and
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

/s/ Harold J. Bergman Date: March 26, 2004
Harold J. Bergman, Chairman of the Board, Director

/s/ L. Harvey Buek Date: March 26, 2004
L. Harvey Buek, Director

/s/ Mark D. Burish Date: March 26, 2004
Mark D. Burish, Director

/s/ James L. Kemerling Date: March 26, 2004
James L. Kemerling, Director

/s/ John T. Paprocki Date: March 26, 2004
John T. Paprocki, Director

/s/ William A. Raaths Date: March 26, 2004
William A. Raaths, Director

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Shareholders and Board of Directors
Badger Paper Mills, Inc. and Subsidiary
Peshtigo, Wisconsin

Our report on the 2003, 2002 and 2001 financial statements of Badger Paper Mills, Inc. and Subsidiary is included on page 16 of this Form 10-K. In connection with our audit of such financial statements, we have also audited the related financial statement schedule on page 45 of this Form 10-K.

In our opinion, the 2003, 2002 and 2001 financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/s/ Grant Thornton LLP
Appleton, Wisconsin
February 2, 2004 (except for Note F, as to which the date is March 1, 2004)

Schedule II - Valuation and Qualifying Accounts and Reserves
For the Years Ended December 31, 2001, 2002 and 2003 (in thousands)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
Description	Balance at beginning <u>of year</u>	Additions charged to costs and <u>expenses</u>	<u>Deductions</u>	Balance at <u>end of year</u>
Deducted in the balance sheet from the assets to which they apply:				
Allowance for discounts, doubtful accounts and claims/allowances:				
Year ended December 31, 2003				
Doubtful accounts and claims/allowances	\$ 748	\$ 1,121	\$ 965 (A)	\$ 904
Discounts	<u>62</u>	<u>627</u>	<u>678</u> (B)	<u>11</u>
	<u>\$ 810</u>	<u>\$ 1,748</u>	<u>\$ 1,643</u>	<u>\$ 915</u>
Year ended December 31, 2002				
Doubtful accounts and claims/allowances	\$ 542	\$ 929	\$ 723 (A)	\$ 748
Discounts	<u>59</u>	<u>848</u>	<u>845</u> (B)	<u>62</u>
	<u>\$ 601</u>	<u>\$ 1,777</u>	<u>\$ 1,568</u>	<u>\$ 810</u>
Year ended December 31, 2001				
Doubtful accounts and claims/allowances	\$ 117	\$ 1,349	\$ 924 (A)	\$ 542
Discounts	<u>33</u>	<u>830</u>	<u>804</u> (B)	<u>59</u>
	<u>\$ 150</u>	<u>\$ 2,179</u>	<u>\$ 1,728</u>	<u>\$ 601</u>

(A) Write-off of uncollectible accounts and claims for products

(B) Discounts taken and allowed

Shareholders' Information

Market makers:

Knight Equity Markets L. P. (NITE)
National Stock Exchange (CINN)
Schwab Capital Markets (SCHB)
Goldman, Sachs & Co. (GSCO)
The Archipelago Exchange (ARCX)
Alternate Display Facility (ADFN)
THE BRUT ECN, LLC (BRUT)
Archipelago, L.L.C. (ARCA)
Boston Stock Exchange (BOSX)
B-Trade Services LLC (BTRD)

Stock transfer agent:

Computershare Investor Services
2 North LaSalle Street
Chicago, Illinois 60602

Stock Price and Dividend Information:

The following table presents high and low sales prices of the Company's Common Stock in the indicated calendar quarters, as reported by the Nasdaq SmallCap Market.

Price Ranges of Stock:

<u>Quarter</u>	<u>2003</u>		<u>2002</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First	\$8.30	\$6.83	\$9.71	\$4.28
Second	6.98	5.40	\$9.00	\$7.58
Third	5.74	4.40	\$9.00	\$5.25
Fourth	5.25	4.44	\$7.45	\$6.00

Quarterly Dividends Per Share:

The Company's revolving credit and term debt maintain certain covenants which limit the Company's ability to pay dividends. See "Management's Discussion and Analysis -- Liquidity and Capital Resources -- Capital Resources."

Annual Meeting of Shareholders:

The Annual Meeting of Shareholders of Badger Paper Mills, Inc. will be held at the Best Western Riverfront Inn, 1812 Riverside Avenue, Marinette, Wisconsin, on Tuesday, May 11, 2004, at 10:00 a.m.

DIRECTORS AND OFFICERS

Board of Directors:

Harold J. Bergman
Retired President and
Chief Executive Officer
Riverside Paper Corporation

L. Harvey Buek
LHB - O & M Consulting

Mark D. Burish
President
Hurley, Burish & Milliken, SC

James L. Kemerling
Chairman and
Chief Executive Officer
Award Hardwood Floors LLC
President and
Chief Executive Officer
Riiser Oil Company, Inc.

Ronald E. Swanson
President and
Chief Executive Officer
Badger Paper Mills, Inc.

John T. Paprocki
Principal Consultant
Paprocki & Associates

William A. Raaths
Chief Executive Officer
Great Northern Corporation

Corporate Officers:

Ronald E. Swanson
President and
Chief Executive Officer

William H. Peters
Vice President and
Chief Financial Officer
Secretary and Treasurer

J. Glenn Davis
Vice President,
Sales and Marketing

Robert J. Spannuth
Vice President, Operations

EXHIBIT INDEX

BADGER PAPER MILLS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

<u>Number</u>	<u>Description</u>
(3.1)	Restated Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3(i) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
(3.2)	By-laws as amended through August 12, 1999 (Incorporated by reference to Exhibit 3(ii) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
(4.1)	Revolving Credit and Security Agreement dated November 30, 2001, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto (Incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
(4.2)	Business Loan Agreement dated November 30, 2001, by and between the Company and Wisconsin Community Bank, Wisconsin Business Bank – Branch (Incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
(4.3)	City of Peshtigo UDAG Revolving Loan Fund Loan Agreement dated November 30 2001, by and between the Company and the City of Peshtigo, Wisconsin (Incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
(4.4)	First Amendment to the Revolving Credit and Security Agreement dated November 30, 2001 by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
(4.5)	First Amendment to the Business Loan Agreement dated November 30, 2001, by and between the Company and Wisconsin Community Bank, Wisconsin Business Bank-Branch (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
(4.6)	Second Amendment to Revolving Credit and Security Agreement, dated September 19, 2002, by and between the Company and PNC Bank, National Association (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
(4.7)	Promissory Note in favor of Wisconsin Community Bank, Wisconsin Business Bank-Branch, dated September 19, 2002 (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
(4.8)	Second Amendment to Business Loan Agreement and Related Documents, dated September 19, 2002, by and between the Company and Wisconsin Community Bank, Wisconsin Business Bank-Branch (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).

<u>Number</u>	<u>Description</u>
(4.9)	Mortgage, dated September 19, 2002, made and executed between the Company and Wisconsin Community Bank, Wisconsin Business Bank-Branch (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
(4.10)	Promissory Note in favor of Wisconsin Community Bank, Wisconsin Business Bank-Branch dated May 15, 2003.
(4.11)	Third Amendment to Revolving Credit Facility and Security Agreement, dated August 13, 2003, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
(4.12)	Fourth Amendment to Revolving Credit Facility and Security Agreement, dated November 14, 2003, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2003).
(4.13)	Waiver of Debt Service Coverage Covenant, dated March 1, 2004, provided by Wisconsin Community Bank - Wisconsin Business Bank Branch.
(4.14)	Fifth Amendment to Revolving Credit Facility and Security Agreement, dated March 23, 2004, by and among the Company, PNC Bank, National Association, individually and as agent, and other lenders from time to time party thereto,
(10)	Material Contracts: **
(10.1)	Supplemental Executive Retirement Plan dated December 18, 1992 (Incorporated by reference to Exhibit 10 (ii) to the Company's Annual Report on Form 10-K for the year ended December 31, 1992).
(10.2)	Health Insurance Retirement Benefit Agreement dated January 1, 1996 between the Company and Claude L. Van Hefty (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
(10.3)	Director Stock Grant Plan dated July 23, 1997 (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
(10.4)	Employee Resignation and Release Agreement dated as of March 12, 1998 between Badger Paper Mills, Inc. and Claude L. Van Hefty (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
(10.5)	Employee Resignation and Release Agreement dated as of March 12, 1998 between Badger Paper Mills, Inc. and Miles L. Kresl, Jr. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).

<u>Number</u>	<u>Description</u>
(10.6)	Badger Paper Mills, Inc. 1998 Stock Option Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(10.7)	Form of Badger Paper Mills, Inc. 1998 Stock Option Agreement (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
(10.8)	Badger Paper Mills, Inc. 1999 Directors Stock Grant Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).
(10.9)	Badger Paper Mills, Inc. 2001 Directors Stock Grant Plan (Incorporated by reference to Appendix B to the Company's definitive Proxy Statement on Schedule 14A filed on April 6, 2001).
(10.10)	Executive Employment Agreement effective July 9, 2001 between the Company and Robert A. Olah (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
(10.11)	Amendment of 1998 Directors Stock Grant Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
(10.12)	2002 Stock Option Plan (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
(10.13)	Employment Agreement effective April 1, 2002 between the Company and J. Glenn Davis. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
(10.14)	Executive Employment Agreement effective May 1, 2003, between the Company and Ronald E. Swanson (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
(10.15)	Employment Agreement effective June 11, 2003 between the Company and Robert Spanuth (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
(10.16)	Lease Agreement, dated November 17, 2003, between General Electric Capital Corporation and the Company.
(23)	Consent of Independent Certified Public Accountants.
(31.1)	Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
(31.2)	Certification of the Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
(32.1)	Certification of the President and Chief Executive Officer pursuant to 18 U. S. C. §1350.
(32.2)	Certification of the Vice President and Chief Financial Officer pursuant to 18 U. S. C. §1350.

<u>Number</u>	<u>Description</u>
(99.1)	Definitive Proxy Statement for 2004 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission under Regulation 14A and incorporated by reference herein to the extent indicated in this Form 10-K).

**Each of the "material contracts" represents a management compensatory agreement or arrangement.

Board of Directors:

Harold J. Bergman
Retired President and
Chief Executive Officer
Riverside Paper Corporation

L. Harvey Buck
LHB - O & M Consulting

Mark D. Burish
President
Hurley, Burish & Milliken, SC

James L. Kemerling
President and
Chief Executive Officer
Riiser Oil Company, Inc.

Chairman, Chief Executive Officer
and President, Award Hardwood
Floors, LLP

John T. Paprocki
Principal Consultant
Paprocki & Associates

William A. Raaths
Chief Executive Officer
Great Northern Corporation

Ronald E. Swanson
President and
Chief Executive Officer
Badger Paper Mills, Inc.

Corporate Officers:

Ronald E. Swanson
President and
Chief Executive Officer

William H. Peters
Vice President and
Chief Financial Officer
Secretary and Treasurer

J. Glenn Davis
Vice President, Sales and Marketing

Robert J. Spannuth
Vice President, Operations

Shareholders Information

Market Makers:

Knight Equity Markets L.P. (NIFE)
National Stock Exchange (CINN)
Schwab Capital Markets (SCHB)
Goldman, Sachs & Co. (GSCO)
The Archipelago Exchange (ARCA)
Alternate Display Facility (ADF)
THE BRUT EGN, LLC (BRUT)
Archipelago, L.L.C. (ARCA)
Boston Stock Exchange (BOSX)
B-Trade Services LLC (BTRD)

Stock Transfer Agent:

Computershare Investor Services LLC
2 North LaSalle Street
Chicago, Illinois 60602

Annual Meeting of Shareholders:

The Annual Meeting of Shareholders of
Badger Paper Mills, Inc. will be held at
the Best Western Riverfront Inn, 1812
Riverside Avenue, Marinette, Wisconsin
on Tuesday, May 11, 2004, at 10:00 a.m.

Stock Price and Dividend Information:

The following table presents high and low
sales prices of the Company's Common
Stock in the indicated calendar quarters,
as reported by the NASDAQ® SmallCap
Market®.

Quarterly Price Range of Stock:

Quarter	2003		2002	
	High	Low	High	Low
First	\$8.30	\$6.83	\$9.71	\$4.28
Second	\$6.98	\$5.40	\$9.00	\$7.58
Third	\$5.74	\$4.40	\$9.00	\$5.25
Fourth	\$5.25	\$4.46	\$7.45	\$2.85

Quarterly Dividends Per Share:

The Company's revolving credit and
term debt agreements include certain
covenants which limit the Company's
ability to pay dividends. See
"Management's Discussion and
Analysis - Liquidity and Capital
Resources - Capital Resources"

Direct Inquiries to:

Badger Paper
Attention: Investor Relations
200 West Front Street
Peshtigo, WI 54157-0149

Telephone: 715-582-4561

Facsimile: 715-582-4853

E-mail: bpm@badgerpaper.com

Safe Harbor Statement

The annual report contains forward-looking information that is subject to certain risk and uncertainties that could cause actual results to differ materially from those projected, expressed, or implied by such forward-looking information. In some cases, you can identify forward-looking statements by our use of words such as "may, will, should, anticipates, believes, plans, future, intends, could, estimate, predict, potential or contingent," the negative of these terms, or similar expressions. The Company's actual results could differ materially from those discussed or implied herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the Company's Form 10-K for the fiscal year ended December 31, 2003, and other filings with the Securities and Exchange Commission.



BADGER PAPER

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Peshtigo, WI 54157-0149

www.badgerpaper.com