

Neenah Paper Inc  
Form 10-Q  
August 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from            to

Commission File Number: 001-32240

**NEENAH PAPER, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-1308307**  
(I.R.S. Employer  
Identification No.)

**3460 Preston Ridge Road**  
**Alpharetta, Georgia**  
(Address of principal executive offices)

**30005**  
(Zip Code)

**(678) 566-6500**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of July 29, 2011, there were approximately 14,990,000 shares of the Company's common stock outstanding.

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(In millions, except share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Net sales</b>	\$ 182.9	\$ 168.6	\$ 355.6	\$ 335.9
Cost of products sold	149.4	136.4	288.9	271.4
<b>Gross profit</b>	33.5	32.2	66.7	64.5
Selling, general and administrative expenses	18.0	18.7	35.0	35.0
Loss on retirement of bonds			2.4	
Other income - net	(0.2)	(0.2)	(1.2)	(0.6)
<b>Operating income</b>	15.7	13.7	30.5	30.1
Interest expense - net	3.7	5.0	8.2	10.7
<b>Income from continuing operations before income taxes</b>	12.0	8.7	22.3	19.4
Provision for income taxes	4.2	2.4	7.5	5.8
<b>Income from continuing operations</b>	7.8	6.3	14.8	13.6
Income (loss) from discontinued operations, net of income taxes (Note 4)			(0.1)	134.6
<b>Net income</b>	\$ 7.8	\$ 6.3	\$ 14.7	\$ 148.2
<b>Earnings Per Common Share</b>				
Basic				
Continuing operations	\$ 0.52	\$ 0.43	\$ 0.98	\$ 0.92
Discontinued operations			(0.01)	9.11
	\$ 0.52	\$ 0.43	\$ 0.97	\$ 10.03
Diluted				
Continuing operations	\$ 0.49	\$ 0.41	\$ 0.94	\$ 0.88
Discontinued operations			(0.01)	8.73
	\$ 0.49	\$ 0.41	\$ 0.93	\$ 9.61
<b>Weighted Average Common Shares Outstanding (in thousands)</b>				
Basic	14,943	14,735	14,899	14,715
Diluted	15,651	15,527	15,597	15,367
<b>Cash Dividends Declared Per Share of Common Stock</b>	\$ 0.11	\$ 0.10	\$ 0.22	\$ 0.20

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See Notes to Condensed Consolidated Financial Statements

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**NEENAH PAPER, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions)

(Unaudited)

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2.0	\$ 48.3
Marketable securities	7.3	
Accounts receivable (less allowances of \$2.6 million and \$1.9 million)	92.3	70.7
Inventories	79.6	69.4
Deferred income taxes	24.2	19.5
Prepaid and other current assets	13.5	14.1
<b>Total Current Assets</b>	<b>218.9</b>	<b>222.0</b>
<b>Property, Plant and Equipment, at cost</b>	<b>596.1</b>	<b>568.5</b>
Less accumulated depreciation	324.3	306.6
Property, plant and equipment net	271.8	261.9
<b>Deferred Income Taxes</b>	<b>32.6</b>	<b>43.1</b>
<b>Goodwill</b>	<b>45.1</b>	<b>41.5</b>
<b>Intangible Assets net</b>	<b>24.9</b>	<b>24.0</b>
<b>Other Assets</b>	<b>9.7</b>	<b>14.2</b>
<b>TOTAL ASSETS</b>	<b>\$ 603.0</b>	<b>\$ 606.7</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Debt payable within one year	\$ 20.7	\$ 13.6
Accounts payable	36.5	30.4
Accrued expenses	55.0	48.1
<b>Total Current Liabilities</b>	<b>112.2</b>	<b>92.1</b>
<b>Long-term Debt</b>	<b>185.5</b>	<b>231.3</b>
<b>Deferred Income Taxes</b>	<b>19.4</b>	<b>19.4</b>
<b>Noncurrent Employee Benefits</b>	<b>93.4</b>	<b>102.7</b>
<b>Other Noncurrent Obligations</b>	<b>1.9</b>	<b>2.0</b>
<b>TOTAL LIABILITIES</b>	<b>412.4</b>	<b>447.5</b>
<b>Contingencies and Legal Matters (Note 10)</b>		
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>190.6</b>	<b>159.2</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 603.0</b>	<b>\$ 606.7</b>

See Notes to Condensed Consolidated Financial Statements

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## NEENAH PAPER, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 14.7	\$ 148.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15.6	15.5
Stock-based compensation	2.2	2.5
Excess tax benefit from stock-based compensation	(0.6)	
Deferred income tax provision	4.3	31.8
Loss on retirement of bonds	2.4	
Gain on sale of the Woodlands (Note 4)		(74.1)
Reclassification of cumulative translation adjustments related to investments in Canada (Note 3 and Note 4)		(87.9)
Loss on asset dispositions		0.1
Increase in working capital	(19.9)	(2.8)
Pension and other postretirement benefits	(3.5)	(4.1)
Other	(0.7)	(0.5)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>14.5</b>	<b>28.7</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(12.9)	(4.7)
Net proceeds from sale of the Woodlands		78.0
Purchase of marketable securities	(3.7)	
Other	0.6	0.5
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(16.0)</b>	<b>73.8</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	27.8	
Debt issuance costs	(0.4)	
Repayments of long-term debt	(75.9)	(68.6)
Short-term borrowings	8.1	4.7
Repayments of short-term debt	(2.4)	(9.3)
Proceeds from exercise of stock options	1.1	0.3
Excess tax benefit from stock-based compensation	0.6	
Cash dividends paid	(3.3)	(2.9)
Other	(0.5)	(0.2)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(44.9)</b>	<b>(76.0)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	0.1	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(46.3)</b>	<b>26.5</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>48.3</b>	<b>5.6</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 2.0</b>	<b>\$ 32.1</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during period for interest, net of interest expense capitalized	\$ 8.5	\$ 9.8
Cash paid (received) during period for income taxes	\$ 1.6	\$ (0.1)
Non-cash investing activities:		

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Liability for equipment acquired	\$	1.1	\$	0.8
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See Notes to Condensed Consolidated Financial Statements

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**NEENAH PAPER, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Tabular amounts in millions, except as noted)**

**Note 1. Background and Basis of Presentation**

***Background***

Neenah Paper, Inc. ( "Neenah" or the "Company" ), is a Delaware corporation incorporated in April 2004. The Company has two primary operations: its technical products business and its fine paper business.

The technical products business is an international producer of transportation and other filter media; durable, saturated and coated substrates for a variety of end uses and nonwoven wall coverings. The fine paper business is a producer of premium writing, text, cover and specialty papers used in a variety of high-end commercial print applications, including marketing materials, corporate identity packages, personal stationery, labels and high-end packaging.

In March 2010, the Company's wholly owned subsidiary, Neenah Paper Company of Canada ( "Neenah Canada" ) sold approximately 475,000 acres of woodland assets in Nova Scotia (the "Woodlands" ) to Northern Timber Nova Scotia Corporation, an affiliate of Northern Pulp Nova Scotia Corporation (collectively, "Northern Pulp" ). The sale resulted in the substantially complete liquidation of the Company's investment in Neenah Canada. In accordance with Accounting Standards Codification ( "ASC" ) Topic 830, *Foreign Currency Matters* ( "ASC Topic 830" ), cumulative currency translation adjustments attributable to the Company's Canadian subsidiaries were reclassified into earnings and recognized as part of the gain on sale. See Note 4, "Discontinued Operations."

For the three and six months ended June 30, 2011 and 2010, discontinued operations reported on the condensed consolidated statements of operations include the gain on sale of the Woodlands, the reclassification of cumulative currency translation adjustments attributable to the Company's Canadian subsidiaries into earnings and certain costs related to our former Canadian operations. See Note 4, "Discontinued Operations."

***Basis of Consolidation and Presentation***

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC" ) and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( "GAAP" ). Management believes that the disclosures made are adequate for a fair presentation of the Company's results of operations, financial position and cash flows. In the opinion of

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management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations, financial position and cash flows for the interim periods presented herein. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make extensive use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year. The Company's investments in marketable securities are accounted for as available-for-sale securities in accordance with ASC Topic 320, *Investments Debt and Equity Securities* (ASC Topic 320). Pursuant to ASC Topic 320, marketable securities are reported at fair value on the condensed consolidated balance sheet and unrealized holding gains and losses are reported in other comprehensive income until realized upon sale. As of June 30, 2011, the cost and fair value of the Company's marketable securities was \$7.2 million and \$7.3 million, respectively.

The condensed consolidated financial statements of Neenah and its subsidiaries included herein are unaudited, except for the December 31, 2010 condensed consolidated balance sheet, which was derived from audited financial statements. The condensed consolidated financial statements include the financial statements of the Company and its wholly owned and majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

Table of Contents**Earnings (Loss) per Share ( EPS )**

The Company computes basic earnings per share ( EPS ) in accordance with ASC Topic 260, *Earnings Per Share* ( ASC Topic 260 ). In accordance with ASC Topic 260, share-based awards with non-forfeitable dividends are classified as participating securities. In calculating basic earnings per share, this method requires net income to be reduced by the amount of dividends declared in the current period for each participating security and by the contractual amount of dividends or other participation payments that are paid or accumulated for the current period. Undistributed earnings for the period are allocated to participating securities based on the contractual participation rights of the security to share in those current earnings assuming all earnings for the period are distributed. Holders of restricted stock and restricted stock units ( RSUs ) have contractual participation rights that are equivalent to those of common stockholders. Therefore, the Company allocates undistributed earnings to restricted stock, RSUs and common stockholders based on their respective average ownership percentages for the period.

ASC Topic 260 also requires companies with participating securities to calculate diluted earnings per share using the Two-Class method. The Two-Class method requires the denominator to include the weighted average basic shares outstanding along with the additional share equivalents from the assumed conversion of stock options calculated using the Treasury Stock method, subject to the anti-dilution provisions of ASC Topic 260.

Diluted EPS was calculated to give effect to all potentially dilutive common shares using the Treasury Stock method. Outstanding stock options, stock appreciation rights ( SARS ) and target performance unit awards ( Performance Units ) represent the only potentially dilutive non-participating security effects on the Company's weighted-average shares. For the three and six months ended June 30, 2011 approximately 1,340,000 and 1,358,000 potentially dilutive stock-based compensation awards, respectively, were excluded from the computation of dilutive common shares because the exercise price of such options exceeded the average market price of the Company's common stock for the period the options were outstanding. For the three and six months ended June 30, 2010 approximately 1,510,000 and 1,565,000 potentially dilutive stock-based compensation awards, respectively, were excluded from the computation of dilutive common shares.

The following table presents the computation of basic and diluted EPS (dollars in millions except per share amounts, shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Income from continuing operations	\$ 7.8	\$ 6.3	\$ 14.8	\$ 13.6
Distributed and undistributed amounts allocated to participating securities	(0.1)		(0.2)	(0.1)
Income from continuing operations available to common stockholders	7.7	6.3	14.6	13.5
Income (loss) from discontinued operations, net of income taxes			(0.1)	134.6
Undistributed amounts allocated to participating securities				(0.5)
Net income available to common stockholders	\$ 7.7	\$ 6.3	\$ 14.5	\$ 147.6
Weighted-average basic shares outstanding	14,943	14,735	14,899	14,715
Add: Assumed incremental shares under stock compensation plans	708	792	698	652
Weighted-average diluted shares	15,651	15,527	15,597	15,367

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**Earnings (Loss) Per Common Share**

Basic							
Continuing operations	\$	0.52	\$	0.43	\$	0.98	\$ 0.92
Discontinued operations						(0.01)	9.11
	\$	0.52	\$	0.43	\$	0.97	\$ 10.03
Diluted							
Continuing operations	\$	0.49	\$	0.41	\$	0.94	\$ 0.88
Discontinued operations						(0.01)	8.73
	\$	0.49	\$	0.41	\$	0.93	\$ 9.61

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Table of Contents**Note 2. Accounting Standard Changes**

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05 ( ASU No. 2011-05 ) which amends ASC Topic 220, *Comprehensive Income*. ASU Topic No. 2011-05 gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In each instance, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU No. 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company will adopt ASU No. 2011-05 in its annual financial statements for the year ended December 31, 2011. The adoption of ASU No. 2011-05 will not affect the Company's financial position, results of operations or cash flows.

As of June 30, 2011, no other amendments to the ASC had been issued that will have or are reasonably likely to have a material effect on the Company's financial position, results of operations or cash flows.

**Note 3. Comprehensive Income (Loss)**

Comprehensive income (loss) includes, in addition to net income (loss), gains and losses recorded directly into stockholders' equity on the condensed consolidated balance sheet. These gains and losses are referred to as other comprehensive income items. Accumulated other comprehensive income (loss) consists of foreign currency translation gains and (losses), unrealized deferred gains and (losses) on available-for-sale securities and adjustments related to pensions and other post-retirement benefits. The Company does not provide income taxes for foreign currency translation adjustments related to indefinite investments in foreign subsidiaries. The sale of the Woodlands resulted in the substantially complete liquidation of the Company's investment in Neenah Canada. In accordance with ASC Topic 830, for the three months ended March 31, 2010, \$87.9 million of cumulative currency translation adjustments attributable to the Company's Canadian subsidiaries were reclassified into earnings and recognized as part of the gain on sale of the Woodlands. As of June 30, 2011 and December 31, 2010, accumulated other comprehensive losses were \$0.9 million and \$17.5 million, respectively.

The following table presents the components of comprehensive income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 7.8	\$ 6.3	\$ 14.7	\$ 148.2
Other comprehensive income (loss):				
Unrealized foreign currency translation gain (loss)	4.0	(17.3)	15.7	(29.9)
Reclassification of cumulative translation adjustments related to investments in Canada				(87.9)
Unrealized deferred gain on available-for-sale securities	0.1		0.1	
Adjustments to pension and other post-employment benefit liabilities, net of income taxes	0.4	(1.3)	0.8	(1.0)
Total other comprehensive income (loss)	4.5	(18.6)	16.6	(118.8)

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Comprehensive income (loss)	\$	12.3	\$	(12.3)	\$	31.3	\$	29.4
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### Note 4. Discontinued Operations

In March 2010, Neenah Canada sold the Woodlands to Northern Pulp, for C\$82.5 million (\$78.6 million). The sale resulted in a pre-tax gain, net of fees and other transaction costs, of \$74.1 million. The sale resulted in the substantially complete liquidation of the Company's investment in Neenah Canada. In accordance with ASC Topic 830, \$87.9 million of cumulative currency translation adjustments attributable to the Company's Canadian subsidiaries were reclassified into earnings and recognized as part of the gain on sale of the Woodlands. The sale of the Woodlands represented the cessation of the Company's operating activities in Canada; however, the Company will have certain continuing post-employment benefit obligations related to its Canadian operations.

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In June 2008, Neenah Canada sold the Pictou Mill to Northern Pulp. In conjunction with the sale of the Pictou Mill, the Company entered into a stumpage agreement (the Stumpage Agreement ) which allowed Northern Pulp to harvest an average of approximately 400,000 metric tons of softwood timber annually from the Woodlands. The Stumpage Agreement was terminated in March 2010 in conjunction with the sale of the Woodlands. For the three months ended March 31, 2010, the Company recognized revenue of approximately \$1.4 million related to timber sales pursuant to the Stumpage Agreement.

The following table summarizes the results of discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,		
	2011	2010	2011	2010	
Net sales (a)	\$	\$	\$	\$	1.4
Income (loss) from operations before income taxes	\$	(0.1)	\$	(0.3)	\$ 1.1
Gain on disposal of the Woodlands					74.1
Reclassification of cumulative translation adjustments related to investments in Canada					87.9
Gain on disposal					162.0
Income (loss) before income taxes		(0.1)		(0.3)	163.1
(Provision) benefit for income taxes		0.1		0.3	(28.5)
Income (loss) from discontinued operations, net of income taxes	\$	\$	\$	(0.1)	\$ 134.6

(a) Represent timber sales pursuant to the Stumpage Agreement.

**Note 5. Supplemental Balance Sheet Data**

The following presents inventories by major class:

	June 30, 2011	December 31, 2010
Inventories by major class:		