Neenah Paper Inc
Form 10-Q
May 08, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

o 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)

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 x No o

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 x No o

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

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

As of April 25, 2014, there were approximately 16,560,000 shares of the Company s common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Part I FINANCIAL INFORMATION

Item 1. Financial Statements

NEENAH PAPER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except share and per share data)

(Unaudited)

	Three Months Ended March 31, 2014		2013	
Net sales	$	225.1	$	213.2
Cost of products sold		181.7		169.7
Gross profit		43.4		43.5
Selling, general and administrative expenses		19.9		21.0
Integration/restructuring costs		0.3		0.1
Other expense - net		0.2		0.2
Operating income		23.0		22.2
Interest expense - net		2.8		2.6
Income from continuing operations before income taxes		20.2		19.6
Provision for income taxes		7.0		7.5
Income from continuing operations		13.2		12.1
Income from discontinued operations, net of income taxes (Note 11)				2.6
Net income	$	13.2	$	14.7
Earnings Per Common Share				
Basic				
Continuing operations	$	0.79	$	0.74
Discontinued operations				0.16
	$	0.79	$	0.90
Diluted				
Continuing operations	$	0.78	$	0.73
Discontinued operations				0.16
	$	0.78	$	0.89
Weighted Average Common Shares Outstanding (in thousands)				
Basic		16,459		15,944
Diluted		16,769		16,253
Cash Dividends Declared Per Share of Common Stock	$	0.24	$	0.15

See Notes to Condensed Consolidated Financial Statements

F-1

Table of Contents

NEENAH PAPER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended March 31, 2014	2013
Net income	$ 13.2	$ 14.7
Unrealized foreign currency translation loss		(5.8)
Net gain from adjustments to pension and other postretirement benefit liabilities		6.6
Reclassification of amortization of adjustments to pension and other postretirement benefit liabilities recognized in net periodic benefit cost (Note 6)	1.1	1.8
Income from other comprehensive income items	1.1	2.6
Provision for income taxes	0.4	3.2
Other comprehensive income (loss)	0.7	(0.6)
Comprehensive income	$ 13.9	$ 14.1

See Notes to Condensed Consolidated Financial Statements

Table of Contents

NEENAH PAPER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 77.2	$ 73.4
Accounts receivable (less allowances of $1.6 million and $1.5 million)	111.5	90.5
Inventories	104.7	101.1
Income taxes receivable	0.6	0.6
Deferred income taxes	21.2	22.8
Prepaid and other current assets	14.7	17.0
Total Current Assets	329.9	305.4
Property, Plant and Equipment, at cost	639.3	637.1
Less accumulated depreciation	380.9	375.4
Property, plant and equipment net	258.4	261.7
Deferred Income Taxes	11.4	13.3
Goodwill	43.1	43.1
Intangible Assets net	38.0	38.5
Other Assets	13.9	13.9
TOTAL ASSETS	$ 694.7	$ 675.9
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Debt payable within one year	$ 14.9	$ 21.4
Accounts payable	48.6	36.4
Accrued expenses	48.4	45.8
Total Current Liabilities	111.9	103.6
Long-term Debt	190.1	190.5
Deferred Income Taxes	15.4	15.6
Noncurrent Employee Benefits	93.2	97.7
Other Noncurrent Obligations	0.9	1.0
TOTAL LIABILITIES	411.5	408.4
Contingencies and Legal Matters (Note 10)		
Stockholders Equity		
TOTAL STOCKHOLDERS EQUITY	283.2	267.5
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 694.7	$ 675.9

See Notes to Condensed Consolidated Financial Statements

Table of Contents

NEENAH PAPER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended March 31, 2014	2013
OPERATING ACTIVITIES		
Net income	$ 13.2	$ 14.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7.2	7.2
Stock-based compensation	1.4	1.7
Excess tax benefits from stock-based compensation (Note 7)	(1.9)	(0.3)
Deferred income tax provision	4.7	6.9
Inventory acquired in acquisitions (Note 3)		(1.8)
Increase in working capital	(6.8)	(22.9)
Pension and other postretirement benefits	(2.8)	(3.1)
Other	(0.2)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	14.8	2.4
INVESTING ACTIVITIES		
Capital expenditures	(4.3)	(4.7)
Purchase of brands (Note 3)		(5.2)
Purchase of marketable securities	(0.1)	
Other	(0.1)	0.1
NET CASH USED IN INVESTING ACTIVITIES	(4.5)	(9.8)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt		23.7
Repayments of long-term debt		(18.9)
Repayments of short-term debt	(6.8)	
Shares purchased (Note 9)	(0.1)	
Proceeds from exercise of stock options	2.6	0.7
Excess tax benefits from stock-based compensation (Note 7)	1.9	0.3
Cash dividends paid	(4.0)	(2.4)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(6.4)	3.4
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(0.1)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3.8	(4.0)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	73.4	7.8
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 77.2	$ 3.8
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during period for interest, net of interest expense capitalized	$ 0.3	$ 0.7
Cash paid during period for income taxes	$ 1.2	$ 2.4
Non-cash investing activities:		
Liability for equipment acquired	$ 0.9	$ 1.1
Liability related to acquisition of brands	$	$ 0.6

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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 and durable, saturated and coated substrates for industrial products backings and a variety of other end markets. The fine paper business is a supplier of premium writing, text and cover papers, bright papers and specialty papers primarily in North America. The Company s premium writing, text and cover papers, and specialty papers are used in commercial printing and imaging applications for corporate identity packages, invitations, personal stationery and high-end advertising, as well as premium labels and luxury packaging.

On January 31, 2013, the Company purchased certain premium business paper brands from the Southworth Company (Southworth) for a payment of $7.0 million. See Note 3, Acquisitions.

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 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 condensed consolidated financial statements of Neenah and its subsidiaries included herein are unaudited, except for the December 31, 2013 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 condensed consolidated financial statements.

Earnings per Share (EPS)

Diluted EPS was calculated to give effect to all potentially dilutive non-participating common share equivalents using the Treasury Stock method. Outstanding stock options, stock appreciation rights (SARs) and target awards of Restricted Stock Units (RSUs) with performance conditions (Performance Units) represent the only potentially dilutive non-participating security effects on the Company s weighted-average shares. For the three months ended March 31, 2014 and 2013, approximately 45,000 and 870,000 potentially dilutive options, 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.

Table of Contents

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

Earnings Per Basic Common Share

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Income from continuing operations	$	13.2	$	12.1
Distributed and undistributed amounts allocated to participating securities		(0.2)		(0.3)
Income from continuing operations available to common stockholders		13.0		11.8
Income from discontinued operations, net of income taxes				2.6
Net income available to common stockholders	$	13.0	$	14.4
Weighted-average basic shares outstanding		16,459		15,944
Basic				
Continuing operations	$	0.79	$	0.74
Discontinued operations				0.16
	$	0.79	$	0.90

Earnings Per Diluted Common Share

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Income from continuing operations	$	13.2	$	12.1
Distributed and undistributed amounts allocated to participating securities		(0.2)		(0.2)
Income from continuing operations available to common stockholders		13.0		11.9
Income from discontinued operations, net of income taxes				2.6
Net income available to common stockholders	$	13.0	$	14.5
Weighted-average basic shares outstanding		16,459		15,944
Add: Assumed incremental shares under stock compensation plans		310		309
Weighted-average diluted shares		16,769		16,253
Diluted				
Continuing operations	$	0.78	$	0.73
Discontinued operations				0.16
	$	0.78	$	0.89

Fair Value of Financial Instruments

The Company measures the fair value of financial instruments in accordance with Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820) which establishes a framework for measuring fair value. ASC Topic 820 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs.

Table of Contents

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). As of March 31, 2014, the cost and fair value of the Company s marketable securities was $2.8 million and $2.7 million, respectively. Fair value for the Company s marketable securities was estimated from Level 1 inputs. These marketable securities are classified as Other Assets on the condensed consolidated balance sheet and are restricted to the payment of benefits under the Company s Supplemental Executive Retirement Plan (SERP).

Note 2. Accounting Standard Changes

As of March 31, 2014, no 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. Acquisitions

On January 31, 2013, the Company purchased certain premium paper brands and other assets from Southworth. The Company made a payment of $7.0 million for (i) certain premium fine paper brands including Southworth®, which is the leading writing, text and cover brand sold in the retail channel, (ii) approximately one month of finished goods inventory valued at $1.8 million and (iii) certain converting equipment used for retail grades. The results of the Southworth brands are reported in the Fine Paper segment from the date of acquisition. For the three months ended March 31, 2013, the Company incurred $0.1 million of acquisition-related integration costs.

Note 4. Supplemental Balance Sheet Data

The following table presents inventories by major class:

	March 31, 2014	December 31, 2013
Raw materials	$ 22.7	$ 20.3
Work in progress	22.9	22.9
Finished goods	68.2	67.3
Supplies and other	4.5	4.5
	118.3	115.0
Adjust FIFO inventories to LIFO cost	(13.6)	(13.9)
Total	$ 104.7	$ 101.1

The FIFO values of inventories valued on the LIFO method were $90.6 million and $86.6 million as of March 31, 2014 and December 31, 2013, respectively.

Table of Contents

The following table presents changes in accumulated other comprehensive income (AOCI) for the three months ended March 31, 2014:

	Unrealized foreign currency translation gain	Net gain (loss) from pension and other postretirement liabilities	Accumulated other comprehensive income (loss)
AOCI December 31, 2013	$ 17.9	$ (45.2)	$ (27.3)
Other comprehensive income before reclassifications			
Amounts reclassified from AOCI		1.1	1.1
Income from other comprehensive income items		1.1	1.1
Provision for income taxes		0.4	0.4
Other comprehensive income		0.7	0.7
AOCI March 31, 2014	$ 17.9	$ (44.5)	$ (26.6)

For the three months ended March 31, 2014, the Company reclassified $1.1 million of costs from accumulated other comprehensive income to cost of products sold and selling, general and administrative expenses on the Condensed Consolidated Statements of Operations. For the three months ended March 31, 2014, the Company recognized an income tax benefit of $0.4 million related to such reclassifications classified as Provision for income taxes on the Condensed Consolidated Statements of Operations.

Note 5. Debt

Long-term debt consisted of the following:

	March 31, 2014	December 31, 2013
2021 Senior Notes (5.25% fixed rate) due May 2021	$ 175.0	$ 175.0
Neenah Germany revolving lines of credit (variable rates)	12.4	19.3
German Loan Agreement (3.8% fixed rate) due in 16 equal semi-annual installments ending December 2016	5.2	5.2
Second German Loan Agreement (2.5% fixed rate) due in 32 equal quarterly installments ending September 2022	12.4	12.4
Total debt	205.0	211.9
Less: Debt payable within one year	14.9	21.4
Long-term debt	$ 190.1	$ 190.5

Unsecured Senior Notes

2021 Senior Notes

In May 2013, the Company completed an underwritten offering of eight-year senior unsecured notes (the 2021 Senior Notes) at a face amount of $175 million. The 2021 Senior Notes bear interest at a rate of 5.25%, payable in arrears on May 15 and November 15 of each year, commencing on November 15, 2013, and mature on May 15, 2021. The 2021 Senior Notes are fully and unconditionally guaranteed by substantially all of the Company s domestic subsidiaries (the Guarantors). The 2021 Senior Notes have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold absent registration or an applicable exemption from registration requirements.

The 2021 Senior Notes contain terms, covenants and events of default with which the Company must comply, which the Company believes are ordinary and standard for notes of this nature. As of March 31, 2014, the Company was in compliance with all terms of the indenture for the 2021 Senior Notes.

Table of Contents

Secured Bank Credit Facility

In June 2013, the Company amended its bank credit agreement (as amended, the Bank Credit Agreement) to, among other things; (i) modify the Bank Credit Agreement s accordion feature to permit the Company, subject to certain conditions, to increase the aggregate revolving credit facility commitments by up to $30 million, to a maximum amount of $180 million (ii) increase the Company s allowable dividends paid to shareholders in any period of 12 consecutive months to $25 million, (iii) allow the Company to repurchase up to $30 million of its own common stock on or before December 31, 2014, and (iv) make certain definitional and administrative changes.

As of March 31, 2014, the Company had a $105 million revolving credit facility (the Revolver) pursuant to the Bank Credit Agreement of which no amounts were outstanding. As of March 31, 2014, the Company had $104.0 million of available credit under the Revolver.

Terms, Covenants and Events of Default. If borrowing availability under the Revolver is less than $20 million, the Company is required to achieve a fixed charge coverage ratio (as defined in the Bank Credit Agreement) of not less than 1.1 to 1.0 for the preceding four-quarter period, tested as of the end of each quarter. As of March 31, 2014, the Company was in compliance with all terms of the Bank Credit Agreement.

The Company s ability to pay cash dividends on its common stock is limited under the terms of both the Bank Credit Agreement and the 2021 Senior Notes. As of March 31, 2014, the Company s ability to pay cash dividends on its common stock was limited to a total of $25 million in a 12-month period.

Other Debt

German Project Financing

German Loan Agreement. As of March 31, 2014, Neenah Germany had 3.7 million ($5.2 million, based on exchange rates at March 31, 2014) outstanding under a 10-year agreement with HypoVereinsbank and IKB Deutsche Industriebank AG (the German Loan Agreement).

Second German Loan Agreement. As of March 31, 2014, Neenah Germany had 9.0 million ($12.4 million, based on exchange rates at March 31, 2014) outstanding under a project financing agreement (the Second German Loan Agreement). The Second German Loan Agreement matures in September 2022 and principal is repaid in equal quarterly installments beginning in December 2014.

German Lines of Credit

HypoVereinsbank Line of Credit. Neenah Germany has a revolving line of credit with HypoVereinsbank (the HypoVereinsbank Line of Credit) that provides for secured borrowings of up to 15 million for general corporate purposes. As of March 31, 2014, 5.0 million ($6.9 million, based on exchange rates at March 31, 2014) was outstanding and 10.0 million ($13.7 million, based on exchange rates at March 31, 2014) of credit was available under the HypoVereinsbank Line of Credit.

Commerzbank Line of Credit. Neenah Germany has a revolving line of credit with Commerzbank AG (Commerzbank) that provides for borrowings of up to 5 million for general corporate purposes (the Commerzbank Line of Credit. As of March 31, 2014, 4.0 million ($5.5 million, based on exchange rates at March 31, 2014) was outstanding and 1.0 million ($1.4 million, based on exchange rates at March 31, 2014) of credit was available under the Commerzbank Line of Credit.

Restrictions under German Credit Facilities

The terms of the HypoVereinsbank and Commerzbank lines of credit require Neenah Germany to maintain a ratio of stockholders equity to total assets equal to or greater than 45 percent. The Company was in compliance with all provisions of the HypoVereinsbank and Commerzbank lines of credit as of March 31, 2014.

Note 6. Pension and Other Postretirement Benefits

Pension Plans

Substantially all active employees of the Company s U.S. operations participate in defined benefit pension plans and/or defined contribution retirement plans. In addition, the Company maintains a SERP which is a non-qualified defined benefit plan. The Company provides benefits under the SERP to the extent necessary to fulfill the intent of its defined benefit retirement plans without regard to the limitations set by the Internal Revenue Code on qualified defined benefit plans. Neenah Germany has defined benefit plans designed to provide a monthly pension upon retirement for substantially all its employees in Germany. There is no legal or governmental obligation to fund Neenah Germany s benefit plans and as such the Neenah Germany defined benefit plans are currently unfunded. As of March 31, 2014, Neenah Germany had investments of $2.1 million that were restricted to the payment of certain post-retirement employee benefits. As of March 31, 2014, $0.7 million and $1.4 million of such investments are classified as prepaid and other current assets and other assets, respectively, on the consolidated balance sheet.

Table of Contents

In February 2013, the Company reached agreement with the United Steelworkers Union (the USW) on new collective bargaining agreements for all of its U.S. paper mills. The agreements resulted in a net reduction in the Company s liability for post-retirement benefits. In accordance with ASC Topic 715, Compensation Retirement Benefits (ASC Topic 715), the Company measured the assets and liabilities of its U.S. post-retirement benefit plans as of February 28, 2013 and recorded a curtailment gain in OCI of $6.6 million less a provision for income taxes of $2.5 million.

The following table presents the components of net periodic benefit cost:

Components of Net Periodic Benefit Cost

	Pension Benefits		Postretirement Benefits Other than Pensions	
	Three Months Ended March 31,			
	2014	2013	2014	2013
Service cost	$ 1.3	$ 1.3	$ 0.4	$ 0.5
Interest cost	3.8	3.3	0.5	0.5
Expected return on plan assets (a)	(4.2)	(4.2)		
Recognized net actuarial loss	1.1	1.5		0.1
Amortization of prior service cost	0.1	0.1		
Net periodic benefit cost	$ 2.1	$ 2.0	$ 0.9	$ 1.1

(a) The expected return on plan assets is determined by multiplying the fair value of plan assets at the prior year-end (adjusted for estimated current year cash benefit payments and contributions) by the expected long-term rate of return.

The Company expects to make aggregate contributions to qualified and nonqualified defined benefit pension trusts and pay pension benefits for unfunded pension plans of approximately $21 million (based on exchange rates at March 31, 2014) in calendar 2014. For the three months ended March 31, 2014, the Company made $5.2 million of such payments.

Note 7. Stock Compensation Plan

At the 2013 Annual Meeting of Stockholders, the Company s stockholders approved an amendment and restatement of the Neenah Paper, Inc. 2004 Omnibus Stock and Incentive Compensation Plan (as amended and restated the Omnibus Plan). The amendment and restatement authorized the Company to reserve an additional 1,577,000 shares of $0.01 par value common stock (Common Stock) for future issuance. As of March 31, 2014, the Company had 1,865,000 shares of Common Stock reserved for future issuance under the Omnibus Plan. The Company accounts for stock-based compensation pursuant to the fair value recognition provisions of ASC Topic 718, *Compensation Stock Compensation* (ASC Topic 718).

Valuation and Expense Information

Substantially all stock-based compensation expense is recorded in selling, general and administrative expenses on the condensed consolidated statements of operations. The following table summarizes stock-based compensation expense and related income tax benefits.

	Three Months Ended March 31,			
	2014		**2013**	
Stock-based compensation expense	$	1.4	$	1.7
Income tax benefit		(0.5)		(0.6)
Stock-based compensation, net of Income tax benefit	$	0.9	$	1.1

F-10

Table of Contents

The following table summarizes total compensation costs related to the Company s equity awards and amounts recognized in the three months ended March 31, 2014.

		Stock Options and SARs		Performance Shares and RSUs
Unrecognized compensation cost December 31, 2013	$	1.3	$	2.0
Grant date fair value of current year grants		1.2		2.4
Compensation expense recognized		(0.6)		(0.8)
Unrecognized compensation cost March 31, 2014	$	1.9	$	3.6
Expected amortization period (in years)		2.7		2.3

Stock Options and SARs

The following tables present information regarding stock options awarded during the three months ended March 31, 2014:

Nonqualified stock options granted		91,300
Per share weighted average exercise price	$	42.91
Per share weighted average grant date fair value	$	12.63

The weighted-average grant date fair value for stock options granted during the three months ended March 31, 2014 was estimated using the Black-Scholes option valuation model with the following assumptions:

Expected term in years	5.9
Risk free interest rate	1.9%
Volatility	36.5%
Dividend yield	2.2%

Volatility and the expected term were estimated by reference to the historical stock price performance of the Company and historical data for the Company s stock option awards, respectively. The risk-free interest rate was based on the yield on U.S. Treasury bonds with a remaining term approximately equivalent to the expected term of the stock option awards. Forfeitures were estimated at the date of grant.

The following table presents information regarding stock options and SARs that vested during the three months ended March 31, 2014:

Nonqualified stock options and SARs vested		103,500
Aggregate grant date fair value of stock options and SARs vested	$	0.9

For the three months ended March 31, 2014 and 2013, the aggregate pre-tax intrinsic value of stock options and SARs exercised was $6.9 million and $1.9 million, respectively.

As of March 31, 2014, certain participants met age and service requirements that allowed their stock options and SARs to qualify for accelerated vesting upon retirement. As of March 31, 2014, such participants held options to purchase approximately 51,000 shares of common stock that would have been exercisable if they had retired as of such date. The aggregate grant date fair value of options subject to accelerated vesting was $0.5 million. Stock options subject to accelerated vesting for expense recognition become exercisable according to the contract terms of the stock-based awards.

Table of Contents

The following table presents information regarding outstanding stock options and SARs:

		March 31, 2014		December 31, 2013
Stock options and SARs vested or expected to vest		782,000		946,000
Aggregate intrinsic value	$	20.2	$	18.4
Per share weighted average grant date fair value	$	8.98	$	8.40
Exercisable stock options and SARs		472,000		622,000
Aggregate intrinsic value	$	13.8	$	12.9
Unvested stock options and SARs		333,000		328,000
Per share weighted average grant date fair value	$	9.31	$	9.11

Performance Units

For the three months ended March 31, 2014, the Company granted target awards of 60,900 Performance Units. The measurement period for the Performance Units is January 1, 2014 through December 31, 2014. The Performance Units vest on December 31, 2016. Common Stock equal to not less than 40 percent and not more 200 percent of the Performance Unit target will be awarded based on the Company s return on invested capital, consolidated revenue growth, the percentage of consolidated free cash flow to revenue and total return to shareholders relative to the companies in the Russell 2000® Value small cap index. As of March 31, 2014, the Company expects that Common Stock equal to approximately 95 percent of the Performance Unit targets will be earned. The market price on the date of grant for the Performance Units was $42.82 per share. Based on the expected achievement of performance targets, the Company is recognizing stock-based compensation expense pro-rata over the vesting term of the Performance Units.

Excess Tax Benefits

ASC Topic 718 requires the reporting of excess tax benefits related to the exercise or vesting of stock-based awards as cash provided by financing activities within the statement of cash flows. Excess tax benefits represent the difference between the tax deduction the Company will receive on its tax return for compensation recognized by employees upon the vesting or exercise of stock-based awards and the tax benefit recognized for the grant date fair value of such awards. As of March 31, 2014 and December 31, 2013, because the Company had unused net operating losses (NOLs) its excess tax benefits did not result in a reduction in taxes paid and therefore a reduction in cash flow from operations is recorded to offset the amount of excess tax benefits reported in cash flows from financing activities. For the three months ended March 31, 2014 and 2013, the Company recognized excess tax benefits related to the exercise or vesting of stock-based awards of $1.9 million and $0.3 million, respectively.

Note 8. Goodwill and Other Intangible Assets

The following table presents changes in the carrying amount of goodwill for the three months ended March 31, 2014. All such goodwill is reported in the Technical Products segment.

	Gross Amount	Cumulative Impairment Losses	Net
Balance at December 31, 2013	$ 100.1	$ (57.0)	$ 43.1
Foreign currency translation	(0.1)	0.1	
Balance at March 31, 2014	$ 100.0	$ (56.9)	$ 43.1

Table of Contents

The following table presents the gross carrying amount of intangible assets and the related accumulated amortization for intangible assets subject to amortization.

	Weighted-Average Amortization Period (Years)	March 31, 2014		December 31, 2013	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortizable intangible assets					
Customer based intangibles	15	$ 17.4	$ (7.9)	$ 17.5	$ (7.6)
Trade names and trademarks	10	5.8	(4.3)	5.8	(4.2)
Acquired technology	10	1.1	(0.8)	1.1	(0.8)
Total amortizable intangible assets		24.3	(13.0)	24.4	(12.6)
Non-amortizable trade names	Not amortized	26.7		26.7	
Total		$ 51.0	$ (13.0)	$ 51.1	$ (12.6)

Note 9. Stockholders Equity

Common Stock

The Company has authorized 100 million shares of Common Stock. Holders of the Company s Common Stock are entitled to one vote per share. As of March 31, 2014 and December 31, 2013, the Company had 16,555,000 shares and 16,361,000 shares of Common Stock outstanding, respectively.

In May 2013, the Company s Board of Directors authorized a program that would allow the Company to repurchase up to $10 million of its outstanding Common Stock over the next 12 months (the 2013 Stock Purchase Plan). The Company had a similarly-sized program in place during the preceding 12 months that expired in May 2013 (the 2012 Stock Purchase Plan). For the three months ended March 31, 2014 and 2013, there were no purchases under either stock purchase plan.

For the three months ended March 31, 2014 and 2013, the Company acquired approximately 3,000 shares and 600 shares of Common Stock, respectively, at a cost of $0.1 million and less than $0.1 million, respectively, for shares surrendered by employees to pay taxes due on vested restricted stock awards and SARs exercised.

Note 10. Contingencies and Legal Matters

Litigation

The Company is involved in certain legal actions and claims arising in the ordinary course of business. While the outcome of these legal actions and claims cannot be predicted with certainty, it is the opinion of management that the outcome of any such claim which is pending or threatened, either individually or on a combined basis, will not have a material effect on the consolidated financial condition, results of operations or cash flows of the Company.

Income Taxes

The Company is continuously undergoing examination by the Internal Revenue Service (the IRS) as well as various state and foreign jurisdictions. These tax authorities routinely challenge certain deductions and credits reported by the Company on its income tax returns. No significant tax audit findings are being contested at this time with either the IRS or any state or foreign tax authority.

Employees and Labor Relations

As of March 31, 2014, the Company had no employees covered by collective bargaining agreements that will expire in the next 12-months. The Company believes it has satisfactory relations with its employees covered by collective bargaining agreements.

Note 11. Discontinued Operations

In March 2010, the Company concluded its operating activities in Canada; however, the Company has certain continuing post-employment benefit obligations related to its former Canadian pulp operations. In the first quarter of 2013, the Company received a refund of excess pension contributions, less withholding taxes, from the terminated Terrace Bay pension plan. As a result, the Company recorded income from discontinued operations of $2.6 million, net of income taxes of $1.6 million, on the Condensed Consolidated Statement of Operations.

Table of Contents

Note 12. Business Segment Information

The Company reports its operations in two primary segments: Technical Products and Fine Paper. The technical products business is an international producer of transportation and other filter media and durable, saturated and coated substrates for industrial products backings and a variety of other end markets. The fine paper business is a supplier of premium writing, text and cover papers, bright papers, and luxury packaging and premium label specialty papers in North America. Each segment employs different technologies and marketing strategies. In addition, the Company reports in the Other segment results for the non-premium Index, Tag and Vellum Bristol product lines. Disclosure of segment information is on the same basis that management uses internally for evaluating segment performance and allocating resources. Transactions between segments are eliminated in consolidation. The costs of shared services, and other administrative functions managed on a common basis, are allocated to the segments based on usage, where possible, or other factors based on the nature of the activity. General corporate expenses that do not directly support the operations of the business segments are shown as Unallocated corporate costs.

The following table summarizes the net sales, operating income and total assets for each of the Company s business segments.

	Three Months Ended March 31,	
	2014	2013
Net sales		
Technical Products	$ 117.5	$ 107.0
Fine Paper	101.5	99.4
Other	6.1	6.8
Consolidated	$ 225.1	$ 213.2

	Three Months Ended March 31,	
	2014	2013
Operating income (loss)		
Technical Products	$ 13.7	$ 9.7
Fine Paper	13.3	16.3
Other	(0.2)	0.3
Unallocated corporate costs	(3.8)	(4.1)
Consolidated	$ 23.0	$ 22.2

	March 31, 2014	December 31, 2013
Total Assets		
Technical Products	$ 376.1	$ 365.9
Fine Paper	209.3	206.9