Neenah Paper Inc
Form 10-Q
August 09, 2012
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 June 30, 2012

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 July 27, 2012, there were approximately 15,795,000 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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales	$ 211.7	$ 182.9	$ 409.9	$ 355.6
Cost of products sold	167.9	149.4	324.2	288.9
Gross profit	43.8	33.5	85.7	66.7
Selling, general and administrative expenses	19.1	18.0	38.6	35.0
SERP settlement charge (Note 6)			3.5	
Acquisition integration costs	1.9		4.4	
Loss on retirement of bonds	0.2		0.2	2.4
Other (income) expense - net	0.6	(0.2)	0.8	(1.2)
Operating income	22.0	15.7	38.2	30.5
Interest expense - net	3.5	3.7	7.1	8.2
Income from continuing operations before income taxes	18.5	12.0	31.1	22.3
Provision for income taxes	5.8	4.2	9.5	7.5
Income from continuing operations	12.7	7.8	21.6	14.8
Loss from discontinued operations, net of income taxes				(0.1)
Net income	$ 12.7	$ 7.8	$ 21.6	$ 14.7
Earnings Per Common Share				
Basic				
Continuing operations	$ 0.78	$ 0.52	$ 1.34	$ 0.98
Discontinued operations				(0.01)
	$ 0.78	$ 0.52	$ 1.34	$ 0.97
Diluted				
Continuing operations	$ 0.77	$ 0.49	$ 1.32	$ 0.94
Discontinued operations				(0.01)
	$ 0.77	$ 0.49	$ 1.32	$ 0.93
Weighted Average Common Shares Outstanding (in thousands)				
Basic	15,809	14,943	15,587	14,899
Diluted	16,099	15,651	15,918	15,597
Cash Dividends Declared Per Share of Common Stock	$ 0.12	$ 0.11	$ 0.24	$ 0.22

See Notes to Condensed Consolidated Financial Statements

Table of Contents

NEENAH PAPER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions, except share and per share data)

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$ 12.7	$ 7.8	$ 21.6	$ 14.7
Unrealized foreign currency translation gain (loss)	(12.2)	4.0	(7.0)	15.7
Net gain from pension and other postretirement benefit liabilities		0.1	1.1	0.1
Reclassification of amortization of adjustments to pension and other postretirement benefit liabilities recognized in net periodic benefit cost	1.3	0.5	2.5	1.2
SERP settlement charge			3.5	
Curtailment loss			0.3	
Unreralized gain on available-for-sale securities		0.1	0.1	0.1
Income (loss) from other comprehensive income items	(10.9)	4.7	0.5	17.1
Provision for income taxes	0.5	0.2	2.9	0.5
Other comprehensive income (loss)	(11.4)	4.5	(2.4)	16.6
Comprehensive income	$ 1.3	$ 12.3	$ 19.2	$ 31.3

See Notes to Condensed Consolidated Financial Statements

Table of Contents

NEENAH PAPER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1.8	$ 12.8
Restricted cash		7.0
Accounts receivable (less allowances of $2.1 million and $1.9 million)	102.1	71.4
Inventories	105.3	68.8
Income taxes receivable	2.4	1.9
Deferred income taxes	27.4	17.6
Prepaid and other current assets	11.2	14.0
Total Current Assets	250.2	193.5
Property, Plant and Equipment, at cost	580.2	579.2
Less accumulated depreciation	336.2	326.9
Property, plant and equipment net	244.0	252.3
Deferred Income Taxes	30.9	45.5
Goodwill	39.0	40.5
Intangible Assets net	34.1	21.9
Other Assets	10.7	11.4
TOTAL ASSETS	$ 608.9	$ 565.1
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Debt payable within one year	$ 6.5	$ 21.7
Accounts payable	45.7	30.2
Accrued expenses	50.6	51.6
Total Current Liabilities	102.8	103.5
Long-term Debt	196.3	164.5
Deferred Income Taxes	14.5	16.0
Noncurrent Employee Benefits	106.2	113.0
Other Noncurrent Obligations	1.4	1.4
TOTAL LIABILITIES	421.2	398.4
Contingencies and Legal Matters (Note 10)		
TOTAL STOCKHOLDERS EQUITY	187.7	166.7
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 608.9	$ 565.1

See Notes to Condensed Consolidated Financial Statements

Table of Contents

NEENAH PAPER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
OPERATING ACTIVITIES				
Net income	$	21.6	$	14.7
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		14.6		15.6
Stock-based compensation		3.0		2.2
Excess tax benefits from stock-based compensation (Note 7)		(4.8)		(0.6)
Deferred income tax provision		5.8		4.3
Inventory acquired in Wausau acquisition (Note 3)		(6.6)		
SERP payment, net of settlement charge		(3.4)		
Loss on retirement of bonds		0.2		2.4
Loss on asset dispositions		0.1		
Increase in working capital		(39.2)		(19.9)
Pension and other postretirement benefits		(1.1)		(3.5)
Other		(0.4)		(0.7)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		(10.2)		14.5
INVESTING ACTIVITIES				
Capital expenditures		(9.3)		(12.9)
Decrease in restricted cash		7.0		
Purchase of marketable securities		(0.1)		(3.7)
Purchase of Wausau brands		(14.1)		
Other		0.1		0.6
NET CASH USED IN INVESTING ACTIVITIES		(16.4)		(16.0)
FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt		45.2		27.8
Debt issuance costs				(0.4)
Repayments of long-term debt		(13.3)		(75.9)
Short-term borrowings		1.2		8.1
Repayments of short-term debt		(16.1)		(2.4)
Shares purchased		(6.3)		(0.5)
Proceeds from exercise of stock options		4.1		1.1
Excess tax benefits from stock-based compensation (Note 7)		4.8		0.6
Cash dividends paid		(3.9)		(3.3)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		15.7		(44.9)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(0.1)		0.1
NET DECREASE IN CASH AND CASH EQUIVALENTS		(11.0)		(46.3)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		12.8		48.3
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	1.8	$	2.0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during period for interest, net of interest expense capitalized	$	6.7	$	8.5
Cash paid during period for income taxes	$	4.3	$	1.6
Non-cash investing activities:				

Liability for equipment acquired	$	2.4	$	1.1
Liability related to acquisition of Wausau brands	$	0.5	$	

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 in North America. The Company s premium writing, text, cover 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, 2012, the Company purchased certain premium paper brands and other assets from Wausau Paper Mills, LLC, a subsidiary of Wausau Paper Corp. (Wausau) for approximately $21 million. See Note 3, Acquisitions.

Basis of Consolidation and Presentation

These condensed consolidated financial 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, 2011 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)

The Company computes basic earnings per share (EPS) in accordance with Accounting Standards Codification (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 ownership percentage, as of the end of the period.

Table of Contents

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 first calculating diluted earnings per share using a denominator that includes the weighted average share equivalents from the assumed conversion of dilutive securities. Diluted earnings per share is then calculated using net income reduced by the amount of distributed and undistributed earnings allocated to participating securities calculated using the Treasury Stock method and a denominator that includes the weighted average share equivalents from the assumed conversion of dilutive securities excluding participating securities. Companies are required to report the lowest diluted earnings per share amount under the two calculations subject to the anti-dilution provisions of ASC Topic 260.

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 certain RSUs with performance conditions 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, 2012 approximately 1,045,000 and 1,030,000 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. For the three and six months ended June 30, 2011 approximately 1,340,000 and 1,358,000 potentially dilutive options, 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):

Earnings (Loss) Per Basic Common Share

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Income from continuing operations	$ 12.7	$ 7.8	$ 21.6	$ 14.8
Distributed and undistributed amounts allocated to participating securities	(0.3)	(0.1)	(0.7)	(0.2)
Income from continuing operations available to common stockholders	12.4	7.7	20.9	14.6
Loss from discontinued operations, net of income taxes				(0.1)
Net income available to common stockholders	$ 12.4	$ 7.7	$ 20.9	$ 14.5
Weighted-average basic shares outstanding	15,809	14,943	15,587	14,899
Basic				
Continuing operations	$ 0.78	$ 0.52	$ 1.34	$ 0.98
Discontinued operations				(0.01)
	$ 0.78	$ 0.52	$ 1.34	$ 0.97

Table of Contents

Earnings (Loss) Per Diluted Common Share

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Income from continuing operations	$ 12.7	$ 7.8	$ 21.6	$ 14.8
Distributed and undistributed amounts allocated to participating securities	(0.3)	(0.1)	(0.6)	(0.2)
Income from continuing operations available to common stockholders	12.4	7.7	21.0	14.6
Loss from discontinued operations, net of income taxes				(0.1)
Net income available to common stockholders	$ 12.4	$ 7.7	$ 21.0	$ 14.5
Weighted-average basic shares outstanding	15,809	14,943	15,587	14,899
Add: Assumed incremental shares under stock compensation plans	290	708	331	698
Weighted-average diluted shares	16,099	15,651	15,918	15,597
Diluted				
Continuing operations	$ 0.77	$ 0.49	$ 1.32	$ 0.94
Discontinued operations				(0.01)
	$ 0.77	$ 0.49	$ 1.32	$ 0.93

Fair Value of Financial Instruments

The Company s investments in marketable securities are accounted for as available-for-sale securities in accordance with Accounting Standards Codification (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, 2012, the cost and fair value of the Company s marketable securities was $2.4 million and $2.5 million, respectively. These marketable securities are classified as Other Assets on the condensed consolidated balance sheet and will be used for the payment of employee benefits.

Note 2. Accounting Standard Changes

As of June 30, 2012, 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, 2012, the Company purchased certain premium paper brands and other assets from Wausau. The Company paid approximately $21 million for (i) the premium fine paper brands ASTROBRIGHTS®, ASTROPARCHE® and ROYAL, (ii) exclusive, royalty free and perpetual license rights for a portion of the EXACT® brand specialty business, including Index, Tag and Vellum Bristol, (iii) approximately one month of finished goods inventory and (iv) certain converting equipment used for retail grades. In addition, the parties entered into a supply agreement under which Wausau will manufacture and supply certain products to the Company during a transition period. The acquisition was financed through the Company s existing credit facility and cash on hand. The results of the Index, Tag and Vellum Bristol brands are reported in the Other segment from the date of acquisition. The results of all other brands acquired from Wausau are reported in the Fine Paper segment from the date of acquisition.

The Company accounted for the acquisition of the Wausau brands as an asset purchase. The Company measured the fair value of the acquired assets in accordance with 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 three levels of the fair value hierarchy under ASC Topic 820 are described below:

Table of Contents

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

The following table sets forth by level, within the fair value hierarchy, the fair value of the assets acquired from Wausau:

	Acquired Assets at Fair Value			
	Level 1	**Level 2**	**Level 3**	**Total**
Amortizable intangible assets				
Customer based intangibles	$	$	$ 2.0	$ 2.0
Trade names and trademarks			0.2	0.2
Non-amortizable intangible assets				
Trade names			11.5	11.5
Finished goods inventory		6.6		6.6
Property, plant and equipment			0.9	0.9
Total assets at fair value	$	$ 6.6	$ 14.6	$ 21.2

The Company expects to incur approximately $7.0 million in acquisition integration costs. For the three and six months ended June 30, 2012, the Company incurred $1.9 million and $4.4 million of such costs.

Table of Contents

Note 4. Supplemental Balance Sheet Data

The following presents inventories by major class:

	June 30, 2012	December 31, 2011
Inventories by major class:		
Raw materials	$ 20.6	$ 17.1
Work in progress	25.8	11.8
Finished goods	71.0	51.6
Supplies and other	2.6	1.7
	120.0	82.2
Adjust FIFO inventories to LIFO cost	(14.7)	(13.4)
Total	$ 105.3	$ 68.8

The FIFO values of inventories valued on the LIFO method were $96.6 million and $59.1 million as of June 30, 2012 and December 31, 2011, respectively.

Note 5. Debt

Long-term debt consisted of the following:

	June 30, 2012	December 31, 2011
Senior Notes (7.375% fixed rate) due November 2014	$ 148.0	$ 158.0
Revolving bank credit facility (variable rates) due November 2015	42.8	
Neenah Germany project financing (3.8% fixed rate) due in 16 equal semi-annual installments ending December 2016	7.0	8.1
Neenah Germany revolving lines of credit (variable rates)	5.0	20.1
Total debt	202.8	186.2
Less: Debt payable within one year	6.5	21.7
Long-term debt	$ 196.3	$ 164.5

Unsecured Notes

On June 30, 2012, the Company had $148 million of ten-year 7.375% senior unsecured notes, originally issued on November 30, 2004 (the Senior Notes) outstanding. A description and history of the Senior Notes is as follows:

- Original Issuance. On November 30, 2004, the Company issued $225 million aggregate principal amount of Senior Notes. Interest on the Senior Notes is payable May 15 and November 15 of each year. The Senior Notes are fully and unconditionally guaranteed by substantially all of the Company s subsidiaries, with the exception of our non-Canadian international subsidiaries.

- Covenants. The 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. Among other things, the Senior Notes contain covenants restricting our ability to incur certain additional debt, make specified restricted payments, pay dividends, authorize or issue capital stock, enter into transactions with our affiliates, consolidate or merge with or acquire another business, sell certain of our assets or liquidate, dissolve or wind-up the Company.

- First Open Market Purchases. During the three months ended September 30, 2010, the Company completed open market purchases of $2 million aggregate principal amount of the Senior Notes for slightly less than par value.

- First Early Redemption. On March 10, 2011, the Company completed an early redemption of $65 million in aggregate principal amount of the Senior Notes (the First Early Redemption). For the six months ended June 30, 2011, the Company recognized a pre-tax loss, including the write-off of related unamortized debt issuance costs, of approximately $2.4 million in connection with the First Early Redemption.

Table of Contents

- Second Early Redemption. On April 23, 2012, the Company redeemed $10 million in aggregate principal amount of the Senior Notes (the Second Early Redemption). The Second Early Redemption was financed with available secured revolving credit facility borrowings. For the three and six months ended June 30, 2012, the Company recognized a pre-tax loss, including the write-off of related unamortized debt issuance costs, of approximately $0.2 million in connection with the Second Early Redemption.

- Redemption Rights/Open Market Purchases. During the 12-month period commencing on November 15, 2011 and ending on November 14, 2012, the Company may redeem all or any portion of the Senior Notes at 101.229 percent of the principal amount plus accrued and unpaid interest. Commencing on or after November 15, 2012, the Company may redeem all or any portion of the Senior Notes at 100 percent of the principal amount plus accrued and unpaid interest. From time-to-time, the Company may either redeem or repurchase on the open market its Senior Notes. The Company s ability to either redeem or repurchase its Senior Notes is limited under the terms of its amended credit agreement.

Secured Revolving Credit Facility

As of June 30, 2012, the Company had a $95 million secured revolving credit facility (the Revolver) pursuant to its amended credit agreement dated as amended on November 16, 2011 (the Amended Credit Agreement). As of June 30, 2012, the weighted-average interest rate on outstanding Revolver borrowings was 2.9 percent per annum. Borrowing availability under the Revolver is reduced by outstanding letters of credit and reserves for certain other items as defined in the Amended Credit Agreement. As of June 30, 2012, the Company had $42.8 million of Revolver borrowings outstanding, approximately $0.8 million of outstanding letters of credit and other items, and $51.4 million of available credit under the Revolver.

The Amended Credit Agreement has the following general terms and conditions:

- Borrowing Limit. The Company s ability to borrow under the Revolver is limited to the lowest of (a) $95 million; (b) the Company s borrowing base (as determined in accordance with the Amended Credit Agreement) and (c) the applicable cap on the amount of credit facilities under the indenture for the Senior Notes. Under certain conditions, the Company has the ability to increase the size of the Revolver to $150 million. The total commitment under the Amended Credit Agreement cannot exceed $150 million.

- Term and Security. The Amended Credit Agreement will terminate on November 30, 2015 (or on August 31, 2014 if the Senior Notes have not been repurchased, defeased, refinanced or extended as of such date). The Amended Credit Agreement is secured by substantially all of the assets of the Company and the subsidiary borrowers. Neenah Germany is not obligated with respect to the Amended Credit Agreement, either as a borrower or a guarantor.

- Interest Rate. The Revolver bears interest at either (1) a prime rate-based index plus a percentage ranging from 0.75 percent to 1.00 percent, or (2) LIBOR plus a percentage ranging from 2.25 percent to 2.50 percent, depending upon the amount of borrowing availability under the Revolver. The Company is also required to pay a monthly facility fee on the unused amount of the Revolver commitment at a per annum rate ranging between 0.375 percent and 0.50 percent, depending upon usage under the Revolver.

- Terms, Covenants and Events of Default. The Amended Credit Agreement contains terms, covenants and events of default with which the Company must comply, which the Company believes are ordinary and standard for agreements of this nature. Among other things, such covenants restrict the Company s ability to incur certain additional debt, make specified restricted payments, authorize or issue capital stock, enter into transactions with affiliates, consolidate or merge with or acquire another business, sell certain of its assets, or dissolve or wind up. In addition, if borrowing availability under the Amended Credit Agreement is less than $20 million, the Company would be required to achieve a fixed charge coverage ratio (as defined in the Amended Credit Agreement) of not less than 1.1 to 1.0 for the preceding 12-month period, tested as of the end of such quarter. As of June 30, 2012, borrowing availability under the Amended Credit Agreement was $51.4 million and the Company was not required to comply with the fixed charge coverage ratio. The Company s ability to pay cash dividends on its common stock is limited under the terms of both the Amended Credit Agreement and the Senior Notes. At June 30, 2012, under the most restrictive terms of these agreements, the Company s ability to pay cash dividends on its common stock is limited to a total of $8 million in a 12-month period.

- Stock Repurchases. The Amended Credit Agreement allows the Company to repurchase (1) up to $15 million of its own stock on or before December 31, 2012, and (2) up to an additional $10 million of its stock annually thereafter during the term of the Amended Credit Agreement, subject to the terms and conditions contained in the Amended Credit Agreement.

Table of Contents

Other Debt

German Project Financing

German Loan Agreement. In December 2006, Neenah Germany entered into a 10-year agreement with HypoVereinsbank and IKB Deutsche Industriebank AG to provide   10.0 million of project financing (the   German Loan Agreement). As of June 30, 2012,   5.6 million ($7.0 million, based on exchange rates at June 30, 2012) was outstanding under the German Loan Agreement.

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 borrowings of up to   15 million for general corporate purposes. As of December 31, 2011, the weighted-average interest rate on outstanding HypoVereinsbank Line of Credit borrowings was 3.8 percent per annum. As of June 30, 2012, no amounts were outstanding under the HypoVereinsbank Line of Credit and   15.0 million ($18.7 million, based on exchange rates at June 30, 2012) of credit was available.

Commerzbank Line of Credit. In January 2011, Neenah Germany entered into an agreement with Commerzbank AG (Commerzbank) to provide up to   3.0 million of unsecured revolving credit borrowings for general corporate purposes (the   Commerzbank Line of Credit). In February 2012, the Company and Commerzbank amended the Commerzbank Line of Credit to provide up to   5.0 million of unsecured revolving credit borrowings. As of June 30, 2012 and December 31, 2011, the weighted average interest rate on Commerzbank Line of Credit borrowings was 3.5 percent and 3.6 percent per annum, respectively. As of June 30, 2012,   4.0 million ($5.0 million, based on exchange rates at June 30, 2012) was outstanding under the Commerzbank Line of Credit and   1.0 million ($1.3 million, based on exchanges rates at June 30, 2012) of credit was available.

Restrictions under German Credit Facilities

Neenah Germany s ability to pay dividends or transfer funds to the Company is limited under the terms of both the HypoVereinsbank and Commerzbank lines of credit, to not exceed certain limits defined in the agreements without approval from the lenders or repayment of the amount outstanding under the lines of credit. In addition, the terms of the HypoVereinsbank and Commerzbank lines of credit require Neenah Germany to maintain a ratio of stockholder s 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 June 30, 2012.

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. Neenah Germany has defined benefit plans designed to provide a monthly pension upon retirement for substantially all its employees in Germany. In addition, the Company maintains a Supplemental Executive Retirement Plan (the 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.

For the six months ended June 30, 2012, SERP benefit payments of $7.0 million exceeded the sum of expected service cost and interest costs for the plan for calendar 2012. In accordance with ASC Topic 715, *Compensation Retirement Benefits* (ASC Topic 715), the Company remeasured the liabilities of the SERP as of January 1, 2012 and recognized a settlement charge of $3.5 million.

Table of Contents

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 June 30,			
	2012	2011	2012	2011
Service cost	$ 1.1	$ 1.0	$ 0.4	$ 0.5
Interest cost	3.6	3.7	0.5	0.6
Expected return on plan assets (a)	(3.8)	(3.7)		
Recognized net actuarial loss	1.1	0.4	0.1	
Amortization of prior service cost			0.1	0.1
Net periodic benefit cost	$ 2.0	$ 1.4	$ 1.1	$ 1.2

	Pension Benefits		Postretirement Benefits Other than Pensions	
	Six Months Ended June 30,			
	2012	2011	2012	2011
Service cost				