

Neenah Paper Inc
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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)
Delaware 20-1308307
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
3460 Preston Ridge Road 30005
Alpharetta, Georgia
(Address of principal executive offices) (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

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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 November 2, 2016, there were approximately 16,749,000 shares of the Company's common stock outstanding.

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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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$232.9	\$231.6	\$721.0	\$657.3
Cost of products sold	183.7	183.2	553.0	511.4
Gross profit	49.2	48.4	168.0	145.9
Selling, general and administrative expenses	21.0	21.2	71.8	61.6
Integration/restructuring costs	1.2	2.9	3.7	2.9
Other expense (income) - net	0.1	(0.1)	0.3	0.9
Operating income	26.9	24.4	92.2	80.5
Interest expense - net	2.7	2.9	8.3	8.7
Income from continuing operations before income taxes	24.2	21.5	83.9	71.8
Provision for income taxes	7.8	8.0	26.9	25.8
Income from continuing operations	16.4	13.5	57.0	46.0
Loss from discontinued operations, net of income taxes (Note 10)	—	(7.4)	(0.4)	(6.9)
Net income	\$16.4	\$6.1	\$56.6	\$39.1
Earnings (Loss) Per Common Share				
Basic				
Continuing operations	\$0.97	\$0.79	\$3.36	\$2.72
Discontinued operations	—	(0.43)	(0.02)	(0.41)
Basic	\$0.97	\$0.36	\$3.34	\$2.31
Diluted				
Continuing operations	\$0.95	\$0.78	\$3.30	\$2.68
Discontinued operations	—	(0.43)	(0.02)	(0.40)
Diluted	\$0.95	\$0.35	\$3.28	\$2.28
Weighted Average Common Shares Outstanding (in thousands)				
Basic	16,771	16,738	16,774	16,737
Diluted	17,088	16,949	17,068	16,991
Cash Dividends Declared Per Share of Common Stock	\$0.33	\$0.30	\$0.99	\$0.90

See Notes to Condensed Consolidated Financial Statements

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NEENAH PAPER, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In millions)
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$16.4	\$6.1	\$56.6	\$39.1
Unrealized foreign currency translation gain (loss)	0.7	1.8	0.9	(9.1)
Reclassification of amortization of adjustments to pension and other postretirement benefit liabilities recognized in net periodic benefit cost (Note 6)	1.9	1.8	5.5	5.4
Unrealized gain on "available-for-sale" securities	—	—	0.1	—
Income (loss) from other comprehensive income items	2.6	3.6	6.5	(3.7)
Provision for income taxes	0.7	0.7	2.1	2.0
Other comprehensive income (loss)	1.9	2.9	4.4	(5.7)
Comprehensive income	\$18.3	\$9.0	\$61.0	\$33.4

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7.3	\$ 4.2
Accounts receivable (less allowances of \$1.6 million and \$1.7 million)	104.3	97.3
Inventories	117.8	120.6
Prepaid and other current assets	14.4	24.5
Total Current Assets	243.8	246.6
Property, Plant and Equipment		
Property, Plant and Equipment, at cost	748.1	694.5
Less accumulated depreciation	390.5	371.5
Property, plant and equipment—net	357.6	323.0
Deferred Income Taxes	8.6	20.0
Goodwill	72.5	72.2
Intangible Assets—net	75.7	79.1
Other Assets	14.2	10.5
TOTAL ASSETS	\$ 772.4	\$ 751.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt payable within one year	\$ 1.3	\$ 1.2
Accounts payable	60.1	53.7
Accrued expenses	49.6	51.2
Total Current Liabilities	111.0	106.1
Long-term Debt	209.9	228.2
Deferred Income Taxes	12.3	11.8
Noncurrent Employee Benefits	82.5	89.7
Other Noncurrent Obligations	4.2	4.0
TOTAL LIABILITIES	419.9	439.8
Contingencies and Legal Matters (Note 9)	—	—
TOTAL STOCKHOLDERS' EQUITY	352.5	311.6
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 772.4	\$ 751.4

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)

	Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$56.6	\$39.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24.0	23.1
Stock-based compensation	4.4	4.5
Excess tax benefits from stock-based compensation (Note 2)	—	(1.1)
Deferred income tax provision	10.4	12.3
Asset impairment related to discontinued operations	—	5.5
Non-cash effects of changes in liabilities for uncertain income tax positions	—	(0.1)
Loss (gain) on asset dispositions	0.1	(0.1)
Decrease (increase) in working capital	4.7	(8.1)
Pension and other postretirement benefits	(2.3)	3.9
Other	(0.2)	0.5
NET CASH PROVIDED BY OPERATING ACTIVITIES	97.7	79.5
INVESTING ACTIVITIES		
Capital expenditures	(49.4)	(25.7)
Acquisitions (Note 3)	—	(118.2)
Purchase of marketable securities	(0.1)	(0.1)
Other	—	0.5
NET CASH USED IN INVESTING ACTIVITIES	(49.5)	(143.5)
FINANCING ACTIVITIES		
Long-term borrowings (Note 5)	185.9	44.0
Repayments of long-term debt (Note 5)	(206.3)	(27.2)
Shares purchased (Note 8)	(8.0)	(6.0)
Proceeds from exercise of stock options	0.3	0.9
Excess tax benefits from stock-based compensation (Note 2)	—	1.1
Cash dividends paid	(16.8)	(15.2)
NET CASH USED IN FINANCING ACTIVITIES	(44.9)	(2.4)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(0.2)	(0.7)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3.1	(67.1)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4.2	72.6
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$7.3	\$5.5
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during period for interest, net of interest expense capitalized	\$5.2	\$5.8
Cash paid during period for income taxes	\$14.1	\$12.2
Non-cash investing activities:		
Liability for equipment acquired	\$10.0	\$6.0
Liability related to acquisition	\$—	0.3

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 2 primary operations: its technical products business and its fine paper and packaging business. See Note 11, “Business Segment Information.”

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. The condensed consolidated financial statements include the financial statements of the Company and its wholly owned and majority owned subsidiaries. Intercompany balances and transactions have been eliminated.

Earnings per Share (“EPS”)

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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Income from continuing operations	\$16.4	\$13.5	\$57.0	\$46.0
Amounts attributable to participating securities	(0.2)	(0.2)	(0.6)	(0.5)
Income from continuing operations available to common stockholders	16.2	13.3	56.4	45.5
Loss from discontinued operations, net of income taxes	—	(7.4)	(0.4)	(6.9)

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Amounts attributable to participating securities	—	0.1	—	0.1
Net income available to common stockholders	\$16.2	\$6.0	\$56.0	\$38.7
Weighted-average basic shares outstanding	16,771	16,738	16,774	16,737
Basic earnings (loss) per share				
Continuing operations	\$0.97	\$0.79	\$3.36	\$2.72
Discontinued operations	—	(0.43)	(0.02)	(0.41)
	\$0.97	\$0.36	\$3.34	\$2.31

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Earnings (Loss) Per Diluted Common Share

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Income from continuing operations	\$16.4	\$13.5	\$57.0	\$46.0
Amounts attributable to participating securities	(0.2)	(0.2)	(0.6)	(0.5)
Income from continuing operations available to common stockholders	16.2	13.3	56.4	45.5
Loss from discontinued operations, net of income taxes	—	(7.4)	(0.4)	(6.9)
Amounts attributable to participating securities	—	0.1	—	0.1
Net income available to common stockholders	\$16.2	\$6.0	\$56.0	\$38.7
Weighted-average basic shares outstanding	16,771	16,738	16,774	16,737
Add: Assumed incremental shares under stock compensation plans (a)	317	211	294	254
Weighted-average diluted shares	17,088	16,949	17,068	16,991
Diluted earnings (loss) per share				
Continuing operations	\$0.95	\$0.78	\$3.30	\$2.68
Discontinued operations	—	(0.43)	(0.02)	(0.40)
	\$0.95	\$0.35	\$3.28	\$2.28

(a) For the three months ended September 30, 2016, there were no antidilutive options. For the three months ended September 30, 2015, approximately 90,000 potentially dilutive options 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 nine months ended September 30, 2016 and 2015, approximately 47,000 and 45,000 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 respective nine month periods during which the options were outstanding.

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 following table presents the carrying value and the fair value of the Company's debt.

	September 30, 2016		December 31, 2015	
	Carrying Value	Fair Value (a)(b)	Carrying Value	Fair Value (a)(b)
2021 Senior Notes (5.25% fixed rate)	\$175.0	\$ 175.1	\$175.0	\$ 169.9
Global Revolving Credit Facilities (variable rates)	32.7	32.7	51.1	51.1
German loan agreement (2.45% fixed rate)	7.6	7.5	8.3	8.3
Total debt	\$215.3	\$ 215.3	\$234.4	\$ 229.3

(a) The fair value for all debt instruments was estimated from Level 2 measurements.

(b) The fair value of short and long-term debt is estimated using rates currently available to the Company for debt of the same remaining maturities.

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As of September 30, 2016, the Company had \$3.5 million in marketable securities classified as “Other Assets” on the condensed consolidated balance sheet. The cost of such marketable securities was \$3.4 million. Fair value for the Company’s marketable securities was estimated from Level 1 inputs. The Company’s marketable securities are designated for the payment of benefits under its supplemental employee retirement plan (“SERP”). As of September 30, 2016, Neenah Germany had investments of \$1.7 million that were restricted to the payment of certain post-retirement employee benefits of which \$0.6 million and \$1.1 million are classified as “Prepaid and other current assets” and “Other Assets”, respectively, on the condensed consolidated balance sheet.

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Note 2. Accounting Standard Changes

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606). This guidance specifies how and when an entity will recognize revenue arising from contracts with customers and requires entities to disclose information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has subsequently issued additional, clarifying standards to address issues arising from implementation of the new revenue recognition standard. The new revenue recognition standard and clarifying standards are effective for interim and annual periods beginning on January 1, 2018, and may be adopted earlier, but not before January 1, 2017. The Company is currently assessing the new standards and does not believe there will be a material impact from adoption on its consolidated financial statements. The Company believes it will adopt the new standards using the modified retrospective method as of January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to current lease accounting. The guidance also eliminates current real estate-specific provisions for all entities. ASU 2016-09 is effective for fiscal years beginning after December 15, 2018, although early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU 2016-09 on its consolidated financial statements.