

Neenah Paper Inc  
Form 10-Q  
November 07, 2013  
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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 September 30, 2013

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**

(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 October 25, 2013, there were 16,200,000 shares of the Company's common stock outstanding.



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(In millions, except share and per share data)

(Unaudited)

|   | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|---|----------------------------------|----------|---------------------------------|----------|
|   | 2013                             | 2012     | 2013                            | 2012     |
| <b>Net sales</b>  | \$ 214.1                         | \$ 206.3 | \$ 639.6                        | \$ 616.2 |
| Cost of products sold   | 177.0                            | 170.6    | 516.2                           | 494.8    |
| <b>Gross profit</b>   | 37.1                             | 35.7     | 123.4                           | 121.4    |
| Selling, general and administrative expenses                              | 19.8                             | 18.5     | 60.0                            | 57.1     |
| Integration/restructuring costs (Note 3)                                  | 0.4                              | 0.3      | 0.6                             | 4.7      |
| SERP settlement charge (Note 7)   |                                  |          | 0.2                             | 3.5      |
| Loss on early extinguishment of debt                                      |                                  |          | 0.5                             | 0.2      |
| Other expense - net   | 0.5                              | 0.6      | 0.9                             | 1.4      |
| <b>Operating income</b>   | 16.4                             | 16.3     | 61.2                            | 54.5     |
| Interest expense - net  | 2.6                              | 3.3      | 8.3                             | 10.4     |
| <b>Income from continuing operations before income taxes</b>              | 13.8                             | 13.0     | 52.9                            | 44.1     |
| Provision for income taxes  | 2.4                              | 3.8      | 16.6                            | 13.3     |
| <b>Income from continuing operations</b>                                  | 11.4                             | 9.2      | 36.3                            | 30.8     |
| Income (loss) from discontinued operations, net of income taxes (Note 12) |                                  | (0.1)    | 2.6                             | (0.1)    |
| <b>Net income</b>   | \$ 11.4                          | \$ 9.1   | \$ 38.9                         | \$ 30.7  |
| <b>Earnings Per Common Share</b>  |                                  |          |                                 |          |
| Basic   |                                  |          |                                 |          |
| Continuing operations   | \$ 0.69                          | \$ 0.56  | \$ 2.22                         | \$ 1.90  |
| Discontinued operations   |                                  |          | 0.16                            |          |
|   | \$ 0.69                          | \$ 0.56  | \$ 2.38                         | \$ 1.90  |
| Diluted   |                                  |          |                                 |          |
| Continuing operations   | \$ 0.68                          | \$ 0.55  | \$ 2.18                         | \$ 1.87  |
| Discontinued operations   |                                  |          | 0.16                            |          |
|   | \$ 0.68                          | \$ 0.55  | \$ 2.34                         | \$ 1.87  |
| <b>Weighted Average Common Shares Outstanding (in thousands)</b>          |                                  |          |                                 |          |
| Basic   | 16,089                           | 15,828   | 16,016                          | 15,655   |
| Diluted   | 16,469                           | 16,145   | 16,338                          | 15,982   |
| <b>Cash Dividends Declared Per Share of Common Stock</b>                  |                                  |          |                                 |          |
|   | \$ 0.20                          | \$ 0.12  | \$ 0.50                         | \$ 0.36  |

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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, |         |
|--|----------------------------------|---------|---------------------------------|---------|
|  | 2013                             | 2012    | 2013                            | 2012    |
| <b>Net income</b>  | \$ 11.4                          | \$ 9.1  | \$ 38.9                         | \$ 30.7 |
| Unrealized foreign currency translation gain (loss)  | 7.2                              | 6.2     | 4.8                             | (0.8)   |
| Net gain from adjustments to pension and other postretirement benefit liabilities  |                                  |         | 6.6                             | 1.1     |
| Reclassification of amortization of adjustments to pension and other postretirement benefit liabilities recognized in net periodic benefit cost (Note 4) | 1.6                              | 1.2     | 4.9                             | 3.7     |
| SERP settlement charge   |                                  |         | 0.2                             | 3.5     |
| Curtailment loss   |                                  |         |                                 | 0.3     |
| Unrealized gain (loss) on available-for-sale securities  |                                  |         | (0.1)                           | 0.1     |
| <b>Income from other comprehensive income items</b>  | 8.8                              | 7.4     | 16.4                            | 7.9     |
| Provision for income taxes   | 0.6                              | 0.4     | 4.4                             | 3.3     |
| <b>Other comprehensive income</b>  | 8.2                              | 7.0     | 12.0                            | 4.6     |
| <b>Comprehensive income</b>  | \$ 19.6                          | \$ 16.1 | \$ 50.9                         | \$ 35.3 |

See Notes to Condensed Consolidated Financial Statements

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

(In millions)

(Unaudited)

|  | September 30, 2013 | December 31, 2012 |
|--|--------------------|-------------------|
| <b>ASSETS</b>  |                    |                   |
| <b>Current Assets</b>  |                    |                   |
| Cash and cash equivalents  | \$ 48.2            | \$ 7.8            |
| Accounts receivable (less allowances of \$1.5 million and \$1.9 million) | 100.7              | 79.6              |
| Inventories  | 99.4               | 102.9             |
| Income taxes receivable  | 0.6                | 2.5               |
| Deferred income taxes  | 22.8               | 27.2              |
| Prepaid and other current assets   | 14.7               | 14.1              |
| Total Current Assets   | 286.4              | 234.1             |
| <b>Property, Plant and Equipment, at cost</b>                            | <b>625.3</b>       | <b>604.7</b>      |
| Less accumulated depreciation  | 367.6              | 349.9             |
| Property, plant and equipment net  | 257.7              | 254.8             |
| <b>Deferred Income Taxes</b>   | <b>21.4</b>        | <b>35.3</b>       |
| <b>Goodwill</b>  | <b>42.3</b>        | <b>41.4</b>       |
| <b>Intangible Assets net</b>   | <b>38.7</b>        | <b>34.0</b>       |
| <b>Other Assets</b>  | <b>13.5</b>        | <b>11.1</b>       |
| <b>TOTAL ASSETS</b>  | <b>\$ 660.0</b>    | <b>\$ 610.7</b>   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                               |                    |                   |
| <b>Current Liabilities</b>   |                    |                   |
| Debt payable within one year   | \$ 1.7             | \$ 4.7            |
| Accounts payable   | 41.7               | 35.1              |
| Accrued expenses   | 48.1               | 47.6              |
| Total Current Liabilities  | 91.5               | 87.4              |
| <b>Long-term Debt</b>  | <b>191.4</b>       | <b>177.6</b>      |
| <b>Deferred Income Taxes</b>   | <b>15.9</b>        | <b>12.5</b>       |
| <b>Noncurrent Employee Benefits</b>                                      | <b>113.6</b>       | <b>131.1</b>      |
| <b>Other Noncurrent Obligations</b>                                      | <b>1.0</b>         | <b>4.3</b>        |
| <b>TOTAL LIABILITIES</b>   | <b>413.4</b>       | <b>412.9</b>      |
| <b>Contingencies and Legal Matters (Note 11)</b>                         |                    |                   |
| <b>Stockholders Equity</b>   |                    |                   |
| <b>TOTAL STOCKHOLDERS EQUITY</b>   | <b>246.6</b>       | <b>197.8</b>      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>                         | <b>\$ 660.0</b>    | <b>\$ 610.7</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)

|   | Nine Months Ended September 30, |               |
|---|---------------------------------|---------------|
|   | 2013                            | 2012          |
| <b>OPERATING ACTIVITIES</b>   |                                 |               |
| Net income  | \$ 38.9                         | \$ 30.7       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |               |
| Depreciation and amortization   | 21.8                            | 21.8          |
| Stock-based compensation  | 4.0                             | 3.9           |
| Excess tax benefits from stock-based compensation (Note 8)                        | (0.4)                           | (5.1)         |
| Deferred income tax provision   | 13.7                            | 8.9           |
| Inventory acquired in acquisitions (Note 3)                                       | (1.8)                           | (6.6)         |
| SERP payment, net of settlement charge (Note 7)                                   | (0.2)                           | (3.4)         |
| Loss on early extinguishment of debt  | 0.5                             | 0.2           |
| Non-cash effects of changes in liabilities for uncertain income tax positions     | (0.2)                           |               |
| Loss on asset dispositions  | 0.4                             | 0.2           |
| Increase in working capital   | (5.3)                           | (26.8)        |
| Pension and other postretirement benefits   | (5.9)                           | (1.3)         |
| Other   | (1.0)                           | (0.6)         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>64.5</b>                     | <b>21.9</b>   |
| <b>INVESTING ACTIVITIES</b>   |                                 |               |
| Capital expenditures  | (20.4)                          | (15.8)        |
| Purchase of brands (Note 3)   | (5.2)                           | (14.1)        |
| Proceeds from sale of property, plant and equipment                               | 0.6                             |               |
| Decrease in restricted cash   |                                 | 7.0           |
| Purchase of marketable securities   |                                 | (0.1)         |
| Other   | 0.2                             | 0.2           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(24.8)</b>                   | <b>(22.8)</b> |
| <b>FINANCING ACTIVITIES</b>   |                                 |               |
| Proceeds from issuance of long-term debt  | 218.7                           | 45.2          |
| Debt issuance costs   | (3.4)                           |               |
| Repayments of long-term debt  | (208.3)                         | (28.3)        |
| Short-term borrowings   | 0.2                             | 1.2           |
| Repayments of short-term debt   | (0.2)                           | (21.1)        |
| Shares purchased (Note 10)  | (0.7)                           | (6.3)         |
| Proceeds from exercise of stock options   | 2.4                             | 4.9           |
| Excess tax benefits from stock-based compensation (Note 8)                        | 0.4                             | 5.1           |
| Cash dividends paid   | (8.2)                           | (5.8)         |
| Other   | (0.5)                           | (0.2)         |
| <b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>                        | <b>0.4</b>                      | <b>(5.3)</b>  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>               |                                 |               |
|   | 0.3                             |               |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>40.4</b>                     | <b>(6.2)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                               | <b>7.8</b>                      | <b>12.8</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                   | <b>\$ 48.2</b>                  | <b>\$ 6.6</b> |

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

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|   |    |     |    |     |
|---|----|-----|----|-----|
| Cash paid during period for interest, net of interest expense capitalized | \$ | 5.3 | \$ | 7.0 |
| Cash paid during period for income taxes                                  | \$ | 4.2 | \$ | 5.5 |
| Non-cash investing activities:  |    |     |    |     |
| Liability for equipment acquired  | \$ | 1.9 | \$ | 1.3 |

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 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.

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The condensed consolidated financial statements of Neenah and its subsidiaries included herein are unaudited, except for the December 31, 2012 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 and nine months ended September 30, 2013 approximately 10,000 and 600,000 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 nine months ended September 30, 2012 approximately 980,000 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.

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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 September 30, |         | Nine Months Ended September 30, |         |
|---|----------------------------------|---------|---------------------------------|---------|
|   | 2013                             | 2012    | 2013                            | 2012    |
| Income from continuing operations   | \$ 11.4                          | \$ 9.2  | \$ 36.3                         | \$ 30.8 |
| Distributed and undistributed amounts allocated to participating securities | (0.2)                            | (0.2)   | (0.7)                           | (1.0)   |
| Income from continuing operations available to common stockholders          | 11.2                             | 9.0     | 35.6                            | 29.8    |
| Income (loss) from discontinued operations, net of income taxes             |                                  | (0.1)   | 2.6                             | (0.1)   |
| Net income available to common stockholders                                 | \$ 11.2                          | \$ 8.9  | \$ 38.2                         | \$ 29.7 |
| Weighted-average basic shares outstanding                                   | 16,089                           | 15,828  | 16,016                          | 15,655  |
| <b>Basic</b>  |                                  |         |                                 |         |
| Continuing operations   | \$ 0.69                          | \$ 0.56 | \$ 2.22                         | \$ 1.90 |
| Discontinued operations   |                                  |         | 0.16                            |         |
|   | \$ 0.69                          | \$ 0.56 | \$ 2.38                         | \$ 1.90 |

**Earnings Per Diluted Common Share**

|   | Three Months Ended September 30, |         | Nine Months Ended September 30, |         |
|---|----------------------------------|---------|---------------------------------|---------|
|   | 2013                             | 2012    | 2013                            | 2012    |
| Income from continuing operations   | \$ 11.4                          | \$ 9.2  | \$ 36.3                         | \$ 30.8 |
| Distributed and undistributed amounts allocated to participating securities | (0.2)                            | (0.2)   | (0.6)                           | (0.9)   |
| Income from continuing operations available to common stockholders          | 11.2                             | 9.0     | 35.7                            | 29.9    |
| Income (loss) from discontinued operations, net of income taxes             |                                  | (0.1)   | 2.6                             | (0.1)   |
| Net income available to common stockholders                                 | \$ 11.2                          | \$ 8.9  | \$ 38.3                         | \$ 29.8 |
| Weighted-average basic shares outstanding                                   | 16,089                           | 15,828  | 16,016                          | 15,655  |
| Add: Assumed incremental shares under stock compensation plans              | 380                              | 317     | 322                             | 327     |
| Weighted-average diluted shares   | 16,469                           | 16,145  | 16,338                          | 15,982  |
| <b>Diluted</b>  |                                  |         |                                 |         |
| Continuing operations   | \$ 0.68                          | \$ 0.55 | \$ 2.18                         | \$ 1.87 |
| Discontinued operations   |                                  |         | 0.16                            |         |
|   | \$ 0.68                          | \$ 0.55 | \$ 2.34                         | \$ 1.87 |



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The Company measures the fair value of financial instruments 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 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 fair value of short and long-term debt is estimated using current market prices for the Company's publicly traded debt or rates currently available to the Company for debt of the same remaining maturities. The following table presents the carrying value and the fair value of the Company's debt.

|  | September 30, 2013 |            | December 31, 2012 |                |
|--|--------------------|------------|-------------------|----------------|
|  | Carrying Value     | Fair Value | Carrying Value    | Fair Value (a) |
| 2021 Senior Notes (5.25% fixed rate)               | \$ 175.0           | \$ 166.5   | \$ 90.0           | \$ 90.0        |
| 2014 Senior Notes (7.375% fixed rate)              |                    |            | 90.0              | 90.0           |
| Revolving bank credit facility (variable rates)    |                    |            | 55.7              | 55.7           |
| Term Loan (variable rates)                         |                    |            | 30.0              | 30.0           |
| Neenah Germany project financing (3.8% fixed rate) | 5.9                | 5.9        | 6.6               | 6.9            |
| Second German Loan Agreement (2.5% fixed rate)     | 12.2               | 10.7       |                   |                |
| Total Debt   | \$ 193.1           | \$ 183.1   | \$ 182.3          | \$ 182.6       |

(a) Fair value for the 2014 Senior Notes was estimated from Level 1 measurements, the fair value for all other debt instruments was estimated from Level 2 measurements.

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 ). As of September 30, 2013, the cost and fair value of the Company's marketable securities was \$2.6 million. Fair value for the Company's marketable securities was estimated from Level 1 measurements. 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 ).

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**Note 2. Accounting Standard Changes**

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ( ASU No. 2013-11 ) which amends ASC Topic 740, *Income Taxes*. In general, ASU No. 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The Company prospectively adopted ASU No. 2013-11 on September 30, 2013. The adoption of ASU No. 2013-11 resulted in a \$3.7 million reduction in the Company's deferred tax assets due to the reclassification of benefits for uncertain income tax positions.

As of September 30, 2013, 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. 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. In addition, the parties entered into a supply agreement under which Southworth 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 Southworth brands are reported in the Fine Paper segment from the date of acquisition.

The Company accounted for the acquisition of the Southworth brands as an asset purchase in accordance with ASC Topic 805 Business Combinations. The acquisition price for the Southworth brands was allocated to the fair value of assets acquired as follows: (i) \$5.0 million in non-amortizable intangible trade names and \$0.6 million in amortizable customer based intangible assets, (ii) \$1.8 million of finished goods inventory and (iii) \$0.2 million of property, plant and equipment. The Company estimated the fair value of the assets acquired in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. The Company estimated the fair value of finished goods inventory using Level II inputs. The fair value of the non-amortizable intangible trade names, the amortizable customer based intangible assets and the property, plant and equipment was estimated using Level III inputs. The Company also recognized a liability of \$0.6 million as a reserve against the resolution of certain contingencies in the purchase agreement. As of September 30, 2013, substantially all such contingencies had been resolved. The Company expects to incur approximately \$0.6 million in acquisition-related integration costs. For the three and nine months ended September 30, 2013, the Company incurred \$0.2 million and \$0.4 million, respectively, of such costs.

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 ). 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. 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. For the three and nine months ended September 30, 2012, the Company incurred \$0.3 million and \$4.7 million, respectively, in acquisition integration costs.



Table of Contents**Note 4. Supplemental Balance Sheet Data**

The following presents inventories by major class:

|                                      | <b>September 30, 2013</b> | <b>December 31, 2012</b> |
|--------------------------------------|---------------------------|--------------------------|
| Raw materials                        | \$ 22.1                   | \$ 20.8                  |
| Work in progress                     | 23.1                      | 24.9                     |
| Finished goods                       | 63.8                      | 66.3                     |
| Supplies and other                   | 4.0                       | 3.7                      |
|                                      | 113.0                     | 115.7                    |
| Adjust FIFO inventories to LIFO cost | (13.6)                    | (12.8)                   |
| <b>Total</b>                         | <b>\$ 99.4</b>            | <b>\$ 102.9</b>          |

The FIFO values of inventories valued on the LIFO method were \$87.7 million and \$91.8 million as of September 30, 2013 and December 31, 2012, respectively.

The following table presents changes in accumulated other comprehensive income ( AOCI ) for the nine months ended September 30, 2013:

|  | <b>Unrealized foreign<br/>currency translation<br/>gain</b> | <b>Net gain (loss) from<br/>pension and other<br/>postretirement<br/>liabilities</b> | <b>Unrealized gain (loss)<br/>on available-for-<br/>sale securities</b> | <b>Accumulated other<br/>comprehensive income<br/>(loss)</b> |
|--|---|--|---|--|
| AOCI December 31, 2012                                 | \$ 9.2  | \$ (59.1)  | \$ 0.1  | \$ (49.8)  |
| Other comprehensive income<br>before reclassifications | 4.8   | 6.6  | (0.1)   | 11.3   |
| Amounts reclassified from AOCI                         |   | 5.1  |   | 5.1  |
| Income (loss) from other<br>comprehensive income items | 4.8   | 11.7   | (0.1)   | 16.4   |
| Provision for income taxes                             |   | 4.4  |   | 4.4  |
| Other comprehensive income (loss)                      | 4.8   | 7.3  | (0.1)   | 12.0   |
| <b>AOCI September 30, 2013</b>                         | <b>\$ 14.0</b>  | <b>\$ (51.8)</b>   | <b>\$</b>   | <b>\$ (37.8)</b>   |

For the three and nine months ended September 30, 2013, the Company reclassified \$1.6 million and \$4.9 million, respectively, from accumulated other comprehensive income to cost of products sold and selling, general and administrative expenses on the Condensed Consolidated Statements of Operations. In addition, for the nine months ended September 30, 2013, \$0.2 million was reclassified from accumulated other comprehensive income to SERP settlement charge on the Condensed Consolidated Statements of Operations. For the three and nine months ended September 30, 2013, the Company recognized a tax benefit of \$0.7 million and \$2.0 million, respectively, related to such reclassifications classified as Provision for income taxes on the Condensed Consolidated Statements of Operations.

Table of Contents**Note 5. Income Taxes**

The Company accounts for income taxes in accordance with ASC Topic 740, *Income Taxes*. The following table presents the principal reasons for the difference between the Company's effective income tax rate and the U.S. federal statutory income tax rate:

|  | Three Months Ended September 30, |        |        |        |
|--|----------------------------------|--------|--------|--------|
|  | 2013                             | 2013   | 2012   | 2012   |
| U.S. federal statutory income tax rate                     | 35.0%                            | \$ 4.8 | 35.0%  | \$ 4.5 |
| U.S. state income taxes, net of federal income tax benefit | 3.6%                             | 0.5    | 2.3%   | 0.3    |
| Foreign tax rate differences (a)                           | (1.5)%                           | (0.2)  | (1.7)% | (0.2)  |
| Foreign financing structure (b)                            | (1.5)%                           | (0.2)  | (4.7)% | (0.6)  |
| Tax on foreign dividends                                   | 4.3%                             | 0.6    | %      |        |
| Research and development tax credits                       | (13.8)%                          | (1.9)  | %      |        |
| Uncertain tax positions                                    | 0.7%                             | 0.1    | %      |        |
| Other differences net                                      | (9.4)%                           | (1.3)  | (1.7)% | (0.2)  |
| Effective income tax rate                                  | 17.4%                            | \$ 2.4 | 29.2%  | \$ 3.8 |

|  | Nine Months Ended September 30, |         |        |         |
|--|---------------------------------|---------|--------|---------|
|  | 2013                            | 2013    | 2012   | 2012    |
| U.S. federal statutory income tax rate                     | 35.0%                           | \$ 18.5 | 35.0%  | \$ 15.4 |
| U.S. state income taxes, net of federal income tax benefit | 2.3%                            | 1.2     | 1.8%   | 0.8     |
| Foreign tax rate differences (a)                           | (2.5)%                          | (1.3)   | (3.2)% | (1.4)   |
| Foreign financing structure (b)                            | (3.6)%                          | (1.9)   | (4.1)% | (1.8)   |
| Tax on foreign dividends                                   | 3.0%                            | 1.6     | %      |         |
| Research and development tax credits                       | (3.6)%                          | (1.9)   | %      |         |
| Uncertain tax positions                                    | 1.3%                            | 0.7     | (0.2)% | (0.1)   |
| Other differences net                                      | (0.5)%                          | (0.3)   | 0.9%   | 0.4     |
| Effective income tax rate                                  | 31.4%                           | \$ 16.6 | 30.2%  | \$ 13.3 |

(a) Represents the impact on the Company's effective tax rate due to changes in the mix of earnings among taxing jurisdictions with differing statutory rates.

(b) Represents the impact on the Company's effective tax rate of the Company's financing strategies.

The Company's effective income tax rate can be affected by many factors, including but not limited to, changes in the mix of earnings in taxing jurisdictions with differing statutory rates, changes in corporate structure as a result of business acquisitions and dispositions, changes in the timing and amounts of dividends repatriated from foreign subsidiaries, changes in the valuation of deferred tax assets and liabilities, the results of audit examinations of previously filed tax returns and changes in tax laws.

**Note 6. Debt**

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Long-term debt consisted of the following:

|  | September 30, 2013 | December 31, 2012 |
|--|--------------------|-------------------|
| 2021 Senior Notes (5.25% fixed rate) due May 2021  | \$ 175.0           | \$ 90.0           |
| 2014 Senior Notes (7.375% fixed rate) retired June 2013  |                    | 55.7              |
| Revolving bank credit facility (variable rates) due November 2017  |                    | 30.0              |
| Term Loan (variable rates) repaid June 2013  |                    |                   |
| Neenah Germany project financing (3.8% fixed rate) due in 16 equal semi-annual installments ending December 2016 | 5.9                | 6.6               |
| Second German Loan Agreement (2.5% fixed rate) due in 32 equal quarterly installments ending September 2022      | 12.2               |                   |
| Total debt   | 193.1              | 182.3             |
| Less: Debt payable within one year   | 1.7                | 4.7               |
| Long-term debt   | \$ 191.4           | \$ 177.6          |

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*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. Proceeds from this offering were used to redeem \$70 million in aggregate principal amount of 2014 Senior Notes (as defined below), to repay approximately \$56 million in outstanding Revolver (as defined below) borrowings and for general corporate purposes. The 2021 Senior Notes are fully and unconditionally guaranteed by substantially all of the Company's domestic subsidiaries (the Guarantors ). The 2021 Senior Notes were sold in a private placement transaction, 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 are senior unsecured obligations of the Company and will rank equally in right of payment with all its existing and future senior unsecured indebtedness. The guarantees of the 2021 Senior Notes are senior unsecured obligations of the Guarantors and will rank equally in right of payment with all existing and future senior unsecured indebtedness of the Guarantors. The 2021 Senior Notes and the guarantees of the 2021 Senior Notes will be effectively subordinated to the Company's and the Guarantors' existing and future secured indebtedness (to the extent of the value of the collateral) and will be structurally subordinated to all indebtedness and other obligations of the Company's subsidiaries that do not guarantee the 2021 Senior Notes, including the trade creditors of such non-guarantor subsidiaries.

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. Among other things, the 2021 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. As of September 30, 2013, the Company was in compliance with all terms of the indenture for the 2021 Senior Notes.

**2014 Senior Notes**

As of September 30, 2013, the Company had no ten-year 7.375% senior unsecured notes, originally issued on November 30, 2004 (the 2014 Senior Notes ) outstanding. In May 2013, the Company redeemed \$20 million of the 2014 Senior Notes at par value. The redemption was financed with Revolver borrowings and resulted in a pre-tax loss of \$0.1 million due to the write-off of related unamortized debt issuance costs.

In June 2013, the Company used a portion of the proceeds from the issuance of the 2021 Senior Notes to retire the remaining \$70 million in outstanding 2014 Senior Notes at par value (the Retirement of the 2014 Senior Notes ). The Retirement of the 2014 Senior Notes resulted in a pre-tax loss of \$0.3 million due to the write-off of related unamortized debt issuance costs.

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The Retirement of the 2014 Senior Notes eliminated the requirement for the Company to present condensed consolidating financial statements in lieu of consolidated financial statements for the guaranteeing subsidiaries.

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***Secured Bank Credit Facility***

In October 2012, the Company amended and extended its secured bank credit facility by entering into a Second Amended and Restated Credit Agreement (the *Second Amended and Restated Credit Agreement*). The *Second Amended and Restated Credit Agreement* provides for, among other things; a secured revolving credit commitment of \$105 million (the *Revolver*) and a secured \$30 million term loan commitment (the *Term Loan*). In June 2013, the Company repaid all outstanding *Term Loan* borrowings (\$29.3 million) and recognized a pre-tax loss of \$0.1 million for the early extinguishment of debt due to the write-off of unamortized debt issuance costs. As of September 30, 2013, there were no *Term Loan* borrowings outstanding and such amounts may not be redrawn.

In June 2013, the Company amended the *Second Amended and Restated 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, with no more than \$15 million of that amount to be repurchased on or before December 31, 2013, and (iv) make certain definitional and administrative changes.

As of September 30, 2013, the Company had a \$105 million *Revolver* pursuant to the *Bank Credit Agreement* of which no amounts were outstanding. As of September 30, 2013, the Company had \$104.3 million of available credit under the *Revolver*. As of December 31, 2012, the weighted-average interest rate on outstanding *Revolver* and *Term Loan* borrowings was 2.4 percent per annum and 4.0 percent per annum, respectively.

**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 September 30, 2013, 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 2011 Senior Notes. As of September 30, 2013, 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.** In December 2006, Neenah Germany entered into a 10-year agreement with HypoVereinsbank and IKB Deutsche Industriebank AG ( *IKB* ) to provide 10.0 million of project financing (the *German Loan Agreement*). As of September 30, 2013, 4.4 million (\$5.9 million, based on exchange rates at September 30, 2013) was outstanding under the *German Loan Agreement*.

Second German Loan Agreement. In January 2013, Neenah Germany entered into a project financing agreement for the construction of a melt blown machine (the Second German Loan Agreement ). The agreement provides for 9.0 million of construction financing which is secured by the melt blown machine. The loan matures in September 2022 and principal is repaid in equal quarterly installments beginning in December 2014. The interest rate on amounts outstanding is 2.45% based on actual days elapsed in a 360-day year and is payable quarterly. At September 30, 2013, 9.0 million (\$12.2 million, based on exchange rates at September 30, 2013) was outstanding under the Second 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 secured borrowings of up to 15 million for general corporate purposes. As of September 30, 2013, no borrowings were outstanding and 15.0 million (\$20.3 million, based on exchange rates at September 30, 2013) 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 September 30, 2013, no borrowings were outstanding and 5.0 million (\$6.7 million, based on exchange rates at September 30, 2013) of credit was available under the Commerzbank Line of Credit.

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**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 September 30, 2013.

**Note 7. 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 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.

In February 2013, the Company reached agreement with the United Steelworkers Union (the "USW") on new collective bargaining agreements for all of our U.S. paper mills. The new 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.

For the nine months ended September 30, 2013, benefit payments under the SERP exceeded the sum of expected service cost and interest costs for the plan for calendar 2013. In accordance with ASC Topic 715, the Company measured the liabilities of the SERP as of January 1, 2013 and recognized a settlement charge of \$0.2 million. For the nine months ended September 30, 2012, benefit payments under the SERP exceeded the sum of expected service cost and interest costs for the plan for calendar 2012. As a result, the Company measured the liabilities of the SERP as of January 1, 2012 and recognized a settlement charge of \$3.5 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**

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|  | Three Months Ended September 30, |       |      |       |
|--|----------------------------------|-------|------|-------|
|  | 2013                             |       | 2012 |       |
| Service cost                                 | \$                               | 1.4   | \$   | 1.1   |
| Interest cost                                |                                  | 3.4   |      | 3.5   |
| Expected return on plan assets (a)           |                                  | (4.3) |      | (3.8) |
| Recognized net actuarial loss                |                                  | 1.4   |      | 1.0   |
| Amortization of prior service cost (benefit) |                                  | 0.1   |      | 0.1   |
| Net periodic benefit cost                    | \$                               | 2.0   | \$   | 1.9   |
|  |                                  |       | \$   | 0.4   |
|  |                                  |       |      | 0.5   |
|  |                                  |       |      | 0.5   |

|  | Pension Benefits                |        | Postretirement Benefits Other than Pensions |        |
|--|---------------------------------|--------|---|--------|
|  | Nine Months Ended September 30, |        |   |        |
|  | 2013                            |        | 2012  |        |
| Service cost                                 | \$                              | 4.0    | \$  | 3.4    |
| Interest cost                                |                                 | 10.2   |   | 10.6   |
| Expected return on plan assets (a)           |                                 | (12.8) |   | (11.4) |
| Recognized net actuarial loss                |                                 | 4.3    |   | 3.1    |
| Amortization of prior service cost (benefit) |                                 | 0.2    |   | 0.2    |
| SERP settlement charge                       |                                 | 0.2    |   | 3.5    |
| Curtailment loss                             |                                 |        |   |        |
| Net periodic benefit cost                    | \$                              | 6.1    | \$  | 9.4    |
|  |                                 |        | \$  | 2.9    |
|  |                                 |        |   | 1.3    |
|  |                                 |        |   | 1.5    |
|  |                                 |        |   | 0.2    |
|  |                                 |        |   | 0.1    |
|  |                                 |        |   | 0.3    |
|  |                                 |        |   | 3.5    |

(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.

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The Company expects to make aggregate contributions to qualified defined benefit pension trusts and pay pension benefits for unfunded pension plans of approximately \$18 million (based on exchange rates at September 30, 2013) in calendar 2013. For the nine months ended September 30, 2013, the Company made \$13.0 million of such payments.

**Note 8. 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 September 30, 2013, the Company had 1,870,000 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 September 30, |        | Nine Months Ended September 30, |        |
|---|----------------------------------|--------|---------------------------------|--------|
|   | 2013                             | 2012   | 2013                            | 2012   |
| Stock-based compensation expense                    | \$ 0.8                           | \$ 0.9 | \$ 4.0                          | \$ 3.9 |
| Income tax benefit                                  | (0.3)                            | (0.3)  | (1.5)                           | (1.5)  |
| Stock-based compensation, net of Income tax benefit | \$ 0.5                           | \$ 0.6 | \$ 2.5                          | \$ 2.4 |

The following table summarizes total compensation costs related to the Company's equity awards and amounts recognized in the nine months ended September 30, 2013.

|  |                    | Stock Options and SARs | Performance Units and RSUs |
|--|--------------------|------------------------|----------------------------|
| Unrecognized compensation cost               | December 31, 2012  | \$ 1.6                 | \$ 2.5                     |
| Grant date fair value of current year grants |                    | 1.0                    | 3.5                        |
| Compensation expense recognized              |                    | (1.1)                  | (2.9)                      |
| Unrecognized compensation cost               | September 30, 2013 | \$ 1.5                 | \$ 3.1                     |
| Expected amortization period (in years)      |                    | 2.6                    | 1.7                        |

**Stock Options and SARs**

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The following tables present information regarding stock options awarded during the nine months ended September 30, 2013:

|  |    |         |
|--|----|---------|
| Nonqualified stock options granted (a)           |    | 111,200 |
| Per share weighted average exercise price        | \$ | 31.23   |
| Per share weighted average grant date fair value | \$ | 9.61    |

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(a) No stock options were awarded during the three months ended September 30, 2013.

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The weighted-average grant date fair value for stock options granted during the nine months ended September 30, 2013 was estimated using the Black-Scholes option valuation model with the following assumptions:

|                         |       |
|-------------------------|-------|
| Expected term in years  | 5.3   |
| Risk free interest rate | 0.9%  |
| Volatility              | 40.4% |
| Dividend yield          | 1.9%  |

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 vested stock options and SARs.

|  | <b>Nine Months Ended<br/>September 30, 2013</b> |
|--|---|
| Nonqualified stock options and SARs vested                       | 123,400   |
| Aggregate grant date fair value of stock options and SARs vested | \$ 0.9  |

For the three and nine months ended September 30, 2013, the aggregate pre-tax intrinsic value of stock options and SARs exercised was \$4.4 million and \$5.8 million, respectively. For the three and nine months ended September 30, 2012, the aggregate pre-tax intrinsic value of stock options and SARs exercised was \$1.0 million and \$4.5 million, respectively.

As of September 30, 2013, certain participants met age and service requirements that allowed their stock options and SARs to qualify for accelerated vesting upon retirement. As of September 30, 2013, such participants held options to purchase 42,000 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 \$0.4 million. Stock options subject to accelerated vesting for expense recognition become exercisable according to the contract terms of the stock-based awards.

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

|   | <b>September 30, 2013</b> | <b>December 31, 2012</b> |
|---|---------------------------|--------------------------|
| Stock options and SARs vested or expected to vest | 1,143,000                 | 2,035,000                |
| Aggregate intrinsic value                         | \$ 17.8                   | \$ 8.1                   |
| Per share weighted average grant date fair value  | \$ 8.69                   | \$ 9.03                  |
| Exercisable stock options and SARs                | 818,000                   | 1,660,000                |
| Aggregate intrinsic value                         | \$ 13.4                   | \$ 4.7                   |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Unvested stock options and SARs                  |    | 329,000 |    | 395,000 |
| Per share weighted average grant date fair value | \$ | 9.11    | \$ | 5.25    |

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Table of Contents**Performance Units**

For the nine months ended September 30, 2013, the Company granted target awards of 78,900 Performance Units. The measurement period for the Performance Units is January 1, 2013 through December 31, 2013. The Performance Units vest on December 31, 2015. 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 September 30, 2013, the Company expects that Common Stock equal to approximately 125 percent of the Performance Unit targets will be earned. The market price on the date of grant for the Performance Units was \$31.23 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. Excess tax benefits are a non-cash item 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 nine months ended September 30, 2013 and 2012, the Company recognized excess tax benefits related to the exercise or vesting of stock-based awards of \$0.3 million and \$5.0 million, respectively.

**Note 9. Goodwill and Other Intangible Assets**

The following table presents changes in the carrying amount of goodwill for the nine months ended September 30, 2013. All such goodwill is reported in the Technical Products segment.

|                               | <b>Gross<br/>Amount</b> |    | <b>Cumulative<br/>Impairment Loss</b> |    | <b>Net</b> |
|-------------------------------|-------------------------|----|---------------------------------------|----|------------|
| Balance at December 31, 2012  | \$ 96.1                 | \$ | (54.7)                                | \$ | 41.4       |
| Foreign currency translation  | 2.2                     |    | (1.3)                                 |    | 0.9        |
| Balance at September 30, 2013 | \$ 98.3                 | \$ | (56.0)                                | \$ | 42.3       |

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

September 30, 2013

December 31, 2012

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|                                     | Gross<br>Amount | Accumulated<br>Amortization | Gross<br>Amount | Accumulated<br>Amortization |
|-------------------------------------|-----------------|-----------------------------|-----------------|-----------------------------|
| Amortizable intangible assets       |                 |                             |                 |                             |
| Customer based intangibles          | \$ 17.2         | \$ (7.2)                    | \$ 16.3         | \$ (6.2)                    |
| Trade names and trademarks          | 5.7             | (4.0)                       | 5.5             | (3.4)                       |
| Acquired technology                 | 1.1             | (0.7)                       | 1.1             | (0.7)                       |
| Total amortizable intangible assets | 24.0            | (11.9)                      | 22.9            | (10.3)                      |
| Non-amortizable trade names         | 26.6            |                             | 21.4            |                             |
| Total                               | \$ 50.6         | \$ (11.9)                   | \$ 44.3         | \$ (10.3)                   |

In conjunction with the acquisition of the Southworth brands, the Company recorded \$5.0 million in non-amortizable intangible trade names and \$0.6 million in amortizable customer based intangible assets. All other changes in the carrying value of the Company's intangible assets not specifically identified are due to foreign currency translation effects. The weighted average useful lives assigned to amortizable intangible trade names and trademarks and customer based intangible assets was 8 years and 15 years, respectively.

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**Note 10. 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 September 30, 2013 and December 31, 2012, the Company had 16,160,000 shares and 15,915,000 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 year ended December 31, 2012, the Company made aggregate purchases of \$4.1 million of Common Stock under the 2012 Stock Purchase Plan of which \$1.2 million occurred in the nine months ended September 30, 2012. For the nine months ended September 30, 2013, there were no purchases under either stock purchase plan.

Purchases under the 2013 Stock Purchase Plan will be made from time to time in the open market or in privately negotiated transactions in accordance with the requirements of applicable law. The timing and amount of any purchases will depend on share price, market conditions and other factors. The program does not require the Company to purchase any specific number of shares and may be suspended or discontinued at any time. The 2013 Stock Purchase Plan is expected to be funded using cash on hand or borrowings under the Company's existing revolving credit facility.

For the nine months ended September 30, 2013 and 2012, the Company acquired 21,000 shares and 214,000 shares of Common Stock, respectively, at a cost of \$0.7 million and \$5.1 million, respectively, for shares surrendered by employees to pay taxes due on vested restricted stock awards and SARs exercised.

**Note 11. 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*

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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 tax authority.

### German Tax Audit Tax Years 2006 to 2007

In November 2010, the Company received a tax examination report from the German tax authorities challenging the validity of certain interest expense deductions claimed on the Company's tax returns for the years 2006 and 2007. In August 2011, the Company received tax assessments totaling 3.7 million from the German tax authorities and submitted an appeal challenging these assessments. The Company paid a total of 1.9 million against the August 2011 tax assessments and reflected these payments as assets (in Income taxes receivable) in recognition that such amounts would be treated as prepayments against any assessments ultimately owed. During the first quarter of 2013, the Company reached a settlement with the German tax authorities for all issues related to the tax examination. The settlement resulted in a revised tax assessment of 0.5 million, which was approximately equal to the Company's liability for uncertain tax positions related to this issue at December 31, 2012. For the nine months ended September 30, 2013, the Company received refunds of the above tax prepayments of 1.4 million.

As of September 30, 2013, the Company reflected a liability for unrecognized tax benefits based on an assessment of the likelihood of alternative outcomes related to certain ongoing interest expense deductions through September 30, 2013. Management believes it is remote that the Company's liability for unrecognized tax benefits related to these matters will significantly increase within the next 12 months.

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***Employees and Labor Relations***

In February 2013, the Company reached agreement with the USW on new collective bargaining agreements for all of our U.S. paper mills. The new agreements between the Whiting, Neenah, Munising and Appleton paper mills and the USW expire on January 31, 2018, June 30, 2018, July 14, 2018 and May 31, 2019, respectively.

Approximately 50 percent of salaried employees and 80 percent of hourly employees of Neenah Germany are eligible to be represented by the Mining, Chemicals and Energy Trade Union, Industriegewerkschaft Bergbau, Chemie und Energie (the IG BCE). In June 2013, the IG BCE and a national trade association representing all employers in the industry signed a collective bargaining agreement covering union employees of Neenah Germany that expires in June 2015. The Company believes it has satisfactory relations with its employees covered by collective bargaining agreements.

**Note 12. 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 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.

**Note 13. 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 brands acquired as part of the purchase of the Wausau brands. 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 September 30, |      | Nine Months Ended September 30, |      |
|------------------|----------------------------------|------|---------------------------------|------|
|                  | 2013                             | 2012 | 2013                            | 2012 |
| <b>Net sales</b> |                                  |      |                                 |      |

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|                    |    |       |    |       |    |       |    |       |
|--------------------|----|-------|----|-------|----|-------|----|-------|
| Technical Products | \$ | 104.4 | \$ | 98.7  | \$ | 317.2 | \$ | 311.6 |
| Fine Paper         |    | 102.6 |    | 99.1  |    | 302.0 |    | 281.8 |
| Other              |    | 7.1   |    | 8.5   |    | 20.4  |    | 22.8  |
| Consolidated       | \$ | 214.1 | \$ | 206.3 | \$ | 639.6 | \$ | 616.2 |

|                                |    | Three Months Ended September 30, |      | Nine Months Ended September 30, |      |        |    |        |
|--------------------------------|----|----------------------------------|------|---------------------------------|------|--------|----|--------|
|                                |    | 2013                             | 2012 | 2013                            | 2012 |        |    |        |
| <b>Operating income (loss)</b> |    |                                  |      |                                 |      |        |    |        |
| Technical Products             | \$ | 6.7                              | \$   | 6.4                             | \$   | 28.3   | \$ | 31.2   |
| Fine Paper                     |    | 13.3                             |      | 12.8                            |      | 45.1   |    | 36.9   |
| Other                          |    | 0.3                              |      | 0.5                             |      |        |    | 1.8    |
| Unallocated corporate costs    |    | (3.9)                            |      | (3.4)                           |      | (12.2) |    | (15.4) |
| Consolidated                   | \$ | 16.4                             | \$   | 16.3                            | \$   | 61.2   | \$ | 54.5   |

|                     |    | September 30, 2013 |    | December 31, 2012 |    |       |
|---------------------|----|--------------------|----|-------------------|----|-------|
| <b>Total Assets</b> |    |                    |    |                   |    |       |
| Technical Products  | \$ |                    | \$ | 365.9             | \$ | 348.5 |
| Fine Paper          |    |                    |    | 217.4             |    | 214.0 |
| Corporate and Other |    |                    |    | 76.7              |    | 48.2  |
| Total               | \$ |                    | \$ | 660.0             | \$ | 610.7 |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis presents the factors that had a material effect on our financial position as of September 30, 2013 and our results of operations for the three and nine months ended September 30, 2013 and 2012. You should read this discussion in conjunction with our consolidated financial statements and the notes to those consolidated financial statements included in our most recent Annual Report on Form 10-K. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See Forward-Looking Statements for a discussion of the uncertainties, risks and assumptions associated with these statements.*

*In this report, unless the context requires otherwise, references to we, us, our, Neenah or the Company are intended to mean Neenah Paper, Inc. and its consolidated subsidiaries. (Tabular amounts in millions, except as noted)*

**Executive Summary**

On January 31, 2013, we purchased certain premium paper brands and other assets from Southworth. We 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. On January 31, 2012, we purchased certain premium paper brands and other assets from Wausau for approximately \$21 million. For the three months ended September 30, 2013, our results of operations benefitted from sales and earnings from the Southworth compared to the prior year period.

For the three months ended September 30, 2013, consolidated net sales increased \$7.8 million from the prior year period to \$214.1 million due to a more favorable product mix for our technical products and fine paper businesses, favorable currency effects and increased volume in our technical products business, partially offset by lower volume for the Index, Tag and Vellum Bristol brands acquired from Wausau and lower average selling prices for certain technical products grades.

Consolidated operating income of \$16.4 million for the three months ended September 30, 2013 increased \$0.1 million from the prior year period. The favorable comparison to the prior year is primarily due to increased volume in our technical products business and higher average selling prices and improved manufacturing efficiencies in our fine paper business. These favorable variances were partially offset by lower average selling prices in our technical products business, higher fine paper input costs; and higher distribution costs and marketing spending in our fine paper business to support the acquired brands.

**Results of Operations and Related Information**

In this section, we discuss and analyze our net sales, earnings before interest and taxes (which we refer to as operating income) and other information relevant to an understanding of our results of operations for the three and nine months ended September 30, 2013 and 2012.

*Analysis of Net Sales Three and nine months ended September 30, 2013 and 2012*

The following table presents net sales by segment, expressed as a percentage of total net sales:

|                    | Three Months Ended September 30, |      | Nine months Ended September 30, |      |
|--------------------|----------------------------------|------|---------------------------------|------|
|                    | 2013                             | 2012 | 2013                            | 2012 |
| Technical Products | 49%                              | 48%  | 50%                             | 50%  |
| Fine Paper         | 48%                              | 48%  | 47%                             | 46%  |
| Other              | 3%                               | 4%   | 3%                              | 4%   |
| Total              | 100%                             | 100% | 100%                            | 100% |

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#### *Commentary:*

The following table presents our net sales by segment for the three months ended September 30, 2013 and 2012:

|                    | Three Months<br>Ended September 30, |          | Change in Net Sales Compared to Prior Period<br>Change Due To |        |                      |          |  |  |  |
|--------------------|-------------------------------------|----------|---|--------|----------------------|----------|--|--|--|
|                    | 2013                                | 2012     | Total Change  | Volume | Average<br>Net Price | Currency |  |  |  |
| Technical Products | \$ 104.4                            | \$ 98.7  | \$ 5.7  | \$ 2.7 | \$ (0.8)             | \$ 3.8   |  |  |  |
| Fine Paper         | 102.6                               | 99.1     | 3.5   | (0.1)  | 3.6                  |          |  |  |  |
| Other              | 7.1                                 | 8.5      | (1.4)   | (1.3)  | (0.1)                |          |  |  |  |
| Consolidated       | \$ 214.1                            | \$ 206.3 | \$ 7.8  | \$ 1.3 | \$ 2.7               | \$ 3.8   |  |  |  |

Consolidated net sales for the three months ended September 30, 2013 were \$7.8 million higher than the prior year period primarily due to a more favorable product mix, favorable currency effects and increased volume in our technical products business, partially offset by lower volume for the Other brands acquired from Wausau and lower average selling prices for certain technical products grades.

- Net sales in our technical products business increased \$5.7 million or six percent from the prior year due to favorable currency effects, increased volume and a more favorable product mix that were only partially offset by lower average selling prices. Sales volumes increased approximately three percent from the prior year period as growth in transportation filtration and tape shipments more than offset a decline in shipments of wall covering and industrial products. Favorable currency exchange effects resulted from the Euro strengthening by approximately six percent relative to the U.S. dollar during the third quarter of 2013. Lower selling prices for certain grades were partially due to price adjustments for certain customers related to lower input costs.

- Net sales in our fine paper business increased \$3.5 million or four percent from the prior year period due higher average net prices. Average net price improved from the prior year due to a significantly more favorable product mix. Volume decreased approximately two percent from the prior year period as incremental volume from the acquisition of the Southworth brands and double-digit volume growth in luxury packaging shipments was more than offset by lower volume for lower value non-branded products.

- Other net sales decreased \$1.4 million from the prior year period due to lower sales volume for the Index, Tag and Vellum Bristol brands acquired from Wausau.

The following table presents our net sales by segment for the nine months ended September 30, 2013 and 2012:

|  | Nine Months<br>Ended September 30, |      | Change in Net Sales Compared to Prior Period<br>Change Due To |        |                      |          |
|--|------------------------------------|------|---|--------|----------------------|----------|
|  | 2013                               | 2012 | Total Change  | Volume | Average<br>Net Price | Currency |

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|                    |    |       |    |       |    |       |    |       |    |       |    |     |
|--------------------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-----|
| Technical Products | \$ | 317.2 | \$ | 311.6 | \$ | 5.6   | \$ | 1.7   | \$ | (1.6) | \$ | 5.5 |
| Fine Paper         |    | 302.0 |    | 281.8 |    | 20.2  |    | 11.1  |    | 9.1   |    |     |
| Other              |    | 20.4  |    | 22.8  |    | (2.4) |    | (2.3) |    | (0.1) |    |     |
| Consolidated       | \$ | 639.6 | \$ | 616.2 | \$ | 23.4  | \$ | 10.5  | \$ | 7.4   | \$ | 5.5 |

Consolidated net sales for the nine months ended September 30, 2013 were \$23.4 million higher than the prior year period primarily due to incremental fine paper volume related to the acquisition of the Wausau and Southworth brands, higher average net price for the fine paper business and favorable currency exchange rate effects.

- Net sales in our technical products business increased \$5.6 million or two percent from the prior year as favorable currency effects, increased volume and a more favorable product mix more than offset lower average selling prices. Sales volumes increased approximately one percent from the prior year period as growth in transportation filtration and tape shipments more than offset a decline in abrasive and wall covering volume. Favorable currency exchange effects reflected a three percent strengthening of the Euro relative to the U.S. dollar during the first nine months of 2013. Average selling prices were approximately one percent unfavorable to the prior year period and included the effect of price adjustments for certain grades due to lower input costs.

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- Net sales in our fine paper business increased \$20.2 million or seven percent from the prior year period due to a two percent increase in volume primarily due to incremental volume from the acquisition of the Wausau and Southworth brands and double-digit volume growth in luxury packaging and label shipments, partially offset by lower shipments of certain non-branded products. Average net price was higher than the prior year due to a more favorable product mix, partially offset by lower average selling prices for some non-branded grades.
  
- Other net sales decreased \$2.4 million from the prior year period primarily due to lower sales volume for the Other brands acquired from Wausau.

The following table sets forth line items from our condensed consolidated statements of operations as a percentage of net sales for the periods indicated and is intended to provide a perspective of trends in our historical results:

|   | Three Months Ended September 30, |        | Nine Months Ended September 30, |        |
|---|----------------------------------|--------|---------------------------------|--------|
|   | 2013                             | 2012   | 2013                            | 2012   |
| Net sales   | 100.0%                           | 100.0% | 100.0%                          | 100.0% |
| Cost of products sold                                 | 82.7                             | 82.7   | 80.7                            | 80.3   |
| Gross profit  | 17.3                             | 17.3   | 19.3                            | 19.7   |
| Selling, general and administrative expenses          | 9.2                              | 9.0    | 9.4                             | 9.3    |
| Integration/restructuring costs                       | 0.2                              | 0.1    | 0.1                             | 0.8    |
| SERP settlement charge                                |                                  |        |                                 | 0.5    |
| Loss on retirement of bonds                           |                                  |        | 0.1                             |        |
| Other expense - net                                   | 0.2                              | 0.3    | 0.1                             | 0.2    |
| Operating income                                      | 7.7                              | 7.9    | 9.6                             | 8.9    |
| Interest expense-net                                  | 1.2                              | 1.6    | 1.3                             | 1.7    |
| Income from continuing operations before income taxes | 6.5                              | 6.3    | 8.3                             | 7.2    |
| Provision for income taxes                            | 1.2                              | 1.8    | 2.6                             | 2.2    |
| Income from continuing operations                     | 5.3%                             | 4.5%   | 5.7%                            | 5.0%   |

### *Analysis of Operating Income Three and nine months ended September 30, 2013 and 2012*

#### **Commentary:**

The following table presents our operating income by segment for the three months ended September 30, 2013 and 2012:

|                    | Three Months        |        | Total<br>Change | Change in Operating Income Compared to Prior Period |                  |                       |          |           |  |     |  |
|--------------------|---------------------|--------|-----------------|---|------------------|-----------------------|----------|-----------|--|-----|--|
|                    | Ended September 30, |        |                 | Change Due To                                       |                  |                       |          |           |  |     |  |
|                    | 2013                | 2012   |                 | Volume (a)  | Net<br>Price (b) | Material<br>Costs (c) | Currency | Other (d) |  |     |  |
| Technical Products | \$ 6.7              | \$ 6.4 | \$ 0.3          | \$ 1.3  | \$ (1.4)         | \$ 0.4                | \$ 0.2   | \$ (0.2)  |  |     |  |
| Fine Paper         | 13.3                | 12.8   | 0.5             | 1.5   | 1.0              | (1.1)                 | (0.9)    |           |  |     |  |
| Other              | 0.3                 | 0.5    | (0.2)           | (0.3)   |                  |                       |          |           |  | 0.1 |  |

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|                             |    |       |    |       |    |       |    |     |    |       |    |       |    |     |    |       |
|-----------------------------|----|-------|----|-------|----|-------|----|-----|----|-------|----|-------|----|-----|----|-------|
| Unallocated corporate costs |    | (3.9) |    | (3.4) |    | (0.5) |    |     |    |       |    | (0.5) |    |     |    |       |
| Consolidated                | \$ | 16.4  | \$ | 16.3  | \$ | 0.1   | \$ | 2.5 | \$ | (0.4) | \$ | (0.7) | \$ | 0.2 | \$ | (1.5) |

- 
- (a) Includes changes in unit volume and over (under) absorption of fixed costs.
  - (b) Includes changes in selling price and product mix.
  - (c) Includes price changes for raw materials and energy.
  - (d) Includes other manufacturing costs, distribution and selling, general and administrative expenses.

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Consolidated operating income of \$16.4 million for the three months ended September 30, 2013 increased \$0.1 million from the prior year period. The favorable comparison to the prior year period is primarily due to incremental volume related to the Southworth acquisition and increased volume in our technical products business, improved manufacturing costs for both segments, and higher average net selling prices in our fine paper business. These favorable variances were partially offset by lower average selling prices in our technical products business, higher manufacturing input costs, primarily for fiber and energy costs, and higher distribution costs and marketing spending in support of the acquired Wausau and Southworth brands.

- Operating income for our technical products business increased \$0.3 million or five percent from the prior year period primarily due to higher volume and lower manufacturing input costs. Lower manufacturing costs, including the benefit of lower input costs, were largely offset by lower average selling prices.
- Operating income for our fine paper business increased \$0.5 million or four percent from the prior year period primarily due to lower manufacturing costs, higher average selling prices and a more favorable product mix. These favorable variances were partially offset by higher manufacturing inputs costs for fiber and energy and higher distribution costs and marketing spending in support of the acquired Wausau and Southworth brands.
- Operating income of \$0.3 million for the Other segment was \$0.2 million unfavorable to the prior year period primarily due to lower volume and higher costs for the Index, Tag and Vellum Bristol brands acquired from Wausau.
- Unallocated corporate expenses for the three months ended September 30, 2013 of \$3.9 million were \$0.5 million unfavorable to the prior year period primarily due to the timing of certain corporate spending in the prior year period.

The following table presents our operating income by segment for the nine months ended September 30, 2013 and 2012:

|                             | Nine Months              |         | Total Change | Change in Operating Income Compared to Prior Period |               |                    |          |           |         |
|-----------------------------|--------------------------|---------|--------------|---|---------------|--------------------|----------|-----------|---------|
|                             | Ended September 30, 2013 | 2012    |              | Volume (a)  | Net Price (b) | Material Costs (c) | Currency | Other (d) | (e) (f) |
| Technical Products          | \$ 28.3                  | \$ 31.2 | \$ (2.9)     | \$ 0.7  | \$ (0.9)      | \$ (0.3)           | \$ 0.4   | \$ (2.8)  |         |
| Fine Paper                  | 45.1                     | 36.9    | 8.2          | 7.0   | 3.9           | (2.3)              |          | (0.4)     |         |
| Other                       |                          | 1.8     | (1.8)        | (1.4)   | (0.1)         |                    |          | (0.3)     |         |
| Unallocated corporate costs | (12.2)                   | (15.4)  | 3.2          |   |               |                    |          | 3.2       |         |
| Consolidated                | \$ 61.2                  | \$ 54.5 | \$ 6.7       | \$ 6.3  | \$ 2.9        | \$ (2.6)           | \$ 0.4   | \$ (0.3)  |         |

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- (a) Includes changes in unit volume and over (under) absorption of fixed costs.
  - (b) Includes changes in selling price and product mix.
  - (c) Includes price changes for raw materials and energy.

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- (d) Includes other manufacturing costs, distribution and selling, general and administrative expenses.
- (e) For the nine months ended September 30, 2013 and 2012, Fine Paper results include \$0.4 million and \$4.7 million, respectively, of acquisition related integration costs.
- (f) For the nine months ended September 30, 2013 and 2012, unallocated corporate costs include \$0.5 million and \$0.2 million, respectively of costs related to the early extinguishment of debt. For the nine months ended September 30, 2013 and 2012, unallocated corporate costs include SERP settlement charges of \$0.2 million and \$3.5 million, respectively.

Consolidated operating income of \$61.2 million for the nine months ended September 30, 2013 increased \$6.7 million from the prior year period. Excluding integration and restructuring costs, costs related to the early extinguishment of debt and the SERP settlement charge of \$1.3 million in 2013 and acquisition-related integration costs, costs related to the early extinguishment of debt and a SERP settlement charge of \$8.4 million in 2012, operating income for the nine months ended September 30, 2013 decreased \$0.4 million from the prior year period. The unfavorable comparison to the prior year period is primarily due to higher manufacturing input costs and lower average selling prices, partially offset by incremental volume related to the Southworth and Wausau acquisitions and a more favorable product mix for both businesses.

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- Operating income for our technical products business decreased \$2.9 million or nine percent from the prior year period primarily due to higher manufacturing costs and lower average selling prices. The increase in manufacturing costs included less efficient manufacturing operations and higher input costs for pulp and energy.
- Operating income for our fine paper business increased \$8.2 million or 22 percent from the prior year period. Excluding acquisition related integration costs of \$0.4 million in 2013 and \$4.7 million in 2012, operating income increased \$3.9 million or nine percent primarily due to incremental volume related to the Southworth and Wausau acquisitions and a more favorable product mix, partially offset by and higher manufacturing inputs costs and increased distribution costs, selling and administrative spending in support of the acquired brands.
- The break-even operating performance for the Other segment was \$1.8 million unfavorable to the prior year period primarily due to lower volume and higher costs for the Index, Tag and Vellum Bristol brands acquired from Wausau.
- Unallocated corporate expenses for the nine months ended September 30, 2013 were \$12.2 million, or \$3.2 million favorable to the prior year period. Excluding costs related to the early extinguishment of debt and the SERP settlement charge of \$0.7 million in 2013 and the loss on the early extinguishment of debt and the SERP settlement charge of \$3.7 million in 2012, unallocated corporate expenses were \$0.2 million favorable to the prior year.

*Additional Statement of Operations Commentary:*

- Selling, general and administrative ( SG&A ) expense of \$19.8 million for the three months ended September 30, 2013 was \$1.3 million higher than SG&A expense of \$18.5 million in the prior year period. For the three months ended September 30, 2013, SG&A expense as a percent of sales of 9.2 percent was consistent with our expectation for a normal level of spending. SG&A expense as a percent of sales was 9.0 percent for the prior year prior and reflected lower than normal employee benefit-related costs.
- For the three months ended September 30, 2013, we incurred net interest expense of \$2.7 million which was \$0.6 million lower than the prior year period. The favorable comparison was primarily due to lower average borrowing costs as a result of refinancing the 2014 Senior Notes at lower interest rates.
- For the three months ended September 30, 2013 and 2012, we recorded an income tax provision related to continuing operations of \$2.4 million and \$3.8 million, respectively. The effective income tax rate for the three months ended September 30, 2013 and 2012 was 17 percent and 29 percent, respectively. The decrease in our consolidated effective tax rate was primarily due to the recognition of research and development credits, partially offset by the U.S. taxation of cash repatriated from Germany. For a reconciliation of our effective tax rate to the U.S. federal statutory tax rate, see Note 5 of Notes to Condensed Consolidated Financial Statements, Income Taxes.

**Liquidity and Capital Resources**

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|  | Nine Months Ended September 30, |         |
|--|---------------------------------|---------|
|  | 2013                            | 2012    |
| Net cash flow provided by (used in):                     |                                 |         |
| Operating activities                                     | \$ 64.5                         | \$ 21.9 |
| Investing activities:                                    |                                 |         |
| Capital expenditures                                     | (20.4)                          | (15.8)  |
| Purchase of brands                                       | (5.2)                           | (14.1)  |
| Other investing activities                               | 0.8                             | 7.1     |
| Total  | (24.8)                          | (22.8)  |
| Financing activities                                     | 0.4                             | (5.3)   |
| Net increase (decrease) in cash and cash equivalents (a) | 40.4                            | (6.2)   |

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(a) Includes the effect of exchange rate changes on cash and cash equivalents.

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***Operating Cash Flow Commentary***

- Cash provided by operating activities of \$64.5 million for the nine months ended September 30, 2013 was \$42.6 million favorable to cash provided by operating activities of \$21.9 million in the prior year period. The favorable comparison was primarily due to a \$21.5 million year-over-year decrease in our investment in working capital and lower spending for acquisition related activities in 2013 (\$8.9 million). In addition, cash provided by operating activities for the nine months ended September 30, 2012 included a SERP payment of \$6.9 million and excess tax benefits of \$5.1 million related to the vesting or exercise of stock-based awards.

***Investing Commentary:***

- For the nine months ended September 30, 2013 and 2012, cash used by investing activities was \$24.8 million and \$22.8 million, respectively. Cash used by investing activities for the nine months ended September 30, 2013 includes a payment of \$5.2 million to acquire the Southworth brands. Cash used by investing activities for the nine months ended September 30, 2012 includes a payment of \$14.1 million to acquire the Wausau brands offset by a \$7.0 million reduction in restricted cash used to pay SERP benefits.

Capital expenditures for the nine months ended September 30, 2013 were \$20.4 million compared to spending of \$15.8 million in the prior year period. In general, we have aggregate planned capital expenditures of approximately \$25 to \$30 million annually. We believe that the level of our capital spending allows us to maintain the efficiency and cost effectiveness of these assets and invest in expanded capabilities for our manufacturing assets to successfully pursue strategic initiatives and deliver attractive returns.

***Financing Commentary:***

Our liquidity requirements are provided by cash generated from operations and short and long-term borrowings.

- For the nine months ended September 30, 2013, cash provided by financing activities was \$0.4 million compared to cash used in financing activities of \$5.3 million for the nine months ended September 30, 2012.

**Unsecured Senior Notes**

In May 2013, we completed an underwritten offering of the 2021 Senior Notes at a face amount of \$175 million. Proceeds from this offering were used to redeem \$70 million in aggregate principal amount of 2014 Senior Notes, to repay approximately \$56 million in outstanding Revolver borrowings and for general corporate purposes.

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In May 2013, we completed the Fourth Early Redemption of \$20 million of our 2014 Senior Notes. The 2014 Senior Notes were redeemed at par value plus accrued but unpaid interest. The Fourth Early Redemption was financed with Revolver borrowings and resulted in a pre-tax loss of \$0.1 million due to the write-off of related unamortized debt issuance costs.

In June 2013, we used a portion of the proceeds from the issuance of the 2021 Senior Notes to retire the remaining \$70 million in outstanding 2014 Senior Notes. The 2014 Senior Notes were redeemed at par value plus accrued but unpaid interest. The Retirement of the 2014 Senior Notes resulted in a pre-tax loss of \$0.3 million due to the write-off of related unamortized debt issuance costs. As of September 30, 2013 there were no 2014 Senior Notes outstanding. See Note 6 of Notes to Condensed Consolidated Financial Statements, Debt.

### **Secured Bank Credit Facility**

In June 2013, we amended our Bank Credit Agreement to, among other things; (i) modify the Bank Credit Agreement's accordion feature to permit us, 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 our allowable dividends paid to shareholders in any period of 12 consecutive months to \$25 million, (iii) allow us to repurchase up to \$30 million of our common stock on or before December 31, 2014, with no more than \$15 million of that amount to be repurchased on or before December 31, 2013, and (iv) make certain definitional and administrative changes.

In June 2013, we repaid all outstanding Term Loan borrowings (\$29.3 million) and recognized a pre-tax loss of \$0.1 million on the early extinguishment of debt due to the write-off of unamortized debt issuance costs. As of September 30, 2013, there were no Term Loan borrowings outstanding and such amounts may not be redrawn. See Note 6 of Notes to Condensed Consolidated Financial Statements, Debt.

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**Other Debt**

In January 2013, our Neenah Germany subsidiary entered into the Second German Loan Agreement to finance the construction of a melt blown machine. The agreement provides for 9.0 million of construction financing which is secured by the melt blown machine. The loan matures in September 2022 and principal is repaid in equal quarterly installments beginning in December 2014. At September 30, 2013, 9.0 million (\$12.2 million, based on exchange rates at September 30, 2013) was outstanding under the Second German Loan Agreement.

- Availability under our revolving credit facility varies over time depending on the value of our inventory, receivables and various capital assets. As of September 30, 2013, we had no outstanding borrowings under our Revolver and \$104.3 million of available credit. In addition, we had no outstanding borrowings under the German Lines of Credit and 20.0 million (\$27.0 million, based on exchange rates at September 30, 2013) of available credit.
- We have required debt payments through September 30, 2014 of \$1.7 million for required amortization payments on our German Loan Agreements.
- For the nine months ended September 30, 2013, cash and cash equivalents increased \$40.4 million to \$48.2 million at September 30, 2013 from \$7.8 million at December 31, 2012 and debt increased \$10.8 million to \$193.1 million at September 30, 2013 from \$182.3 million at December 31, 2012. Net debt (total debt minus cash and cash equivalents) decreased by \$29.6 million.
- As of September 30, 2013, our cash balance of \$48.2 million consists of \$41.5 million in the U.S. and \$6.7 million held at entities outside of the U.S. As of September 30, 2013 there were no restrictions regarding the repatriation of our non-U.S. cash; however, if we repatriated these cash balances to the U.S., we would incur additional income tax expense.

***Transactions with shareholders***

- For the nine months ended September 30, 2013 and 2012, we paid cash dividends of \$0.50 per common share or \$8.2 million and \$0.36 per common share or \$5.8 million, respectively. On May 30, 2013, our Board of Directors approved a 33 percent increase in the regular dividend on our common stock. The annual dividend increased from \$0.60 to \$0.80 per share and will be paid in four equal quarterly installments. The first installment at the rate of \$0.20 per share was paid on September 3, 2013.
- In May 2013, our Board of Directors authorized the 2013 Stock Purchase Plan. The 2013 Stock Purchase Plan will allow us to repurchase up to \$10 million of our outstanding Common Stock over the next twelve months. The similarly-sized 2012 Stock Purchase Plan expired in May 2013. We made aggregate purchases of \$4.1 million of Common Stock under the 2012 Stock Purchase Plan of which \$1.2 million occurred in the nine months ended September 30, 2012. For the nine months ended September 30, 2013, there were no purchases under either stock purchase plan.

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- For the nine months ended September 30, 2013 and 2012, we acquired 21,000 shares and 214,000 shares of Common Stock, respectively, at a cost of \$0.7 million and \$5.1 million, respectively, for shares surrendered by employees to pay taxes due on vested restricted stock awards and SARs exercised.

### *Other Items:*

- As of December 31, 2012, we had \$34.7 million of U.S. federal and \$59.6 million of state net operating losses ( NOLs ), respectively. If not used, substantially all of the NOLs will expire in various amounts between 2028 and 2030. In addition, we had \$1.7 million of state research and developments credits which, if not used, will expire in 2017.
- In November 2010, we received a tax examination report from the German tax authorities challenging the validity of certain interest expense deductions claimed on our tax returns for the years 2006 and 2007. In August 2011, we received tax assessments totaling 3.7 million from the German tax authorities and submitted an appeal challenging these assessments. We paid a total of 1.9 million against the August 2011 tax assessments and reflected these payments as assets (in Income taxes receivable ) in recognition that such amounts would be treated as prepayments against any assessments ultimately owed. During the first quarter of 2013, we reached a settlement with the German tax authorities for all issues related to the tax examination. The settlement resulted in a revised tax assessment of 0.5 million. For the nine months ended September 30, 2013, we received refunds of the above tax prepayments of 1.4 million.
- As of September 30, 2013, we reflected a liability for unrecognized tax benefits based on an assessment of the likelihood of alternative outcomes related to certain ongoing interest expense deductions through September 30, 2013. See Note 11 of Notes to Condensed Consolidated Financial Statements, Contingencies and Legal Matters.

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Management believes that our ability to generate cash from operations and our borrowing capacity are adequate to fund working capital, capital spending and other cash needs for the next 12 months. Our ability to generate adequate cash from operations beyond 2013 will depend on, among other things, our ability to successfully implement our business strategies, control costs in line with market conditions and manage the impact of changes in input prices and currencies. We can give no assurance we will be able to successfully implement these items.

**Critical Accounting Policies and Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. We believe that the estimates, assumptions and judgments described in Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies of our most recent Annual Report on Form 10-K have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. The critical accounting policies used in the preparation of the consolidated financial statements are those that are important both to the presentation of financial condition and results of operations and require significant judgments with regard to estimates used. These critical judgments relate to the timing of recognizing sales revenue, the recoverability of deferred income tax assets, pension benefits and future cash flows associated with impairment testing of long-lived assets. Actual results could differ from these estimates and changes in these estimates are recorded when known. We believe that the consistent application of these policies enables us to provide readers of our financial statements with useful and reliable information about our operating results and financial condition. There have been no significant changes in these policies, or the estimates used in the application of the policies, since December 31, 2012.

**Cautionary Note Regarding Forward-Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA), or in releases made by the SEC, all as may be amended from time to time. Statements contained in this quarterly report that are not historical facts may be forward-looking statements within the meaning of the PSLRA and we caution investors that any forward-looking statements we make are not guarantees or indicative of future performance. These forward-looking statements rely on a number of assumptions concerning future events and are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to materially differ from such statements. Such risks, uncertainties and other factors include, but are not necessarily limited to, those set forth under the captions Cautionary Note Regarding Forward-Looking Statements and/or Risk Factors of our latest Form 10-K filed with the SEC as periodically updated by subsequently filed Form 10-Qs (these securities filings can be located on our website at [www.neenah.com](http://www.neenah.com)). Unless specifically required by law, we assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws.

You can identify forward-looking statements as those that are not historical in nature, particularly those that use terminology such as may, will, should, expect, anticipate, contemplate, estimate, believe, plan, project, predict, potential or continue, or the negative of the above. In evaluating these forward-looking statements, you should consider the following factors, as well as others contained in our public filings from time to time, which may cause our actual results to differ materially from any forward-looking statement:

- changes in market demand for our products due to global economic conditions;

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- fluctuations in (i) exchange rates (in particular changes in the U.S. dollar/Euro currency exchange rates) and (ii) interest rates;
- increases in commodity prices, (particularly for pulp, energy and latex) due to constrained global supplies or unexpected supply disruptions;
- the availability of raw materials and energy;
- the competitive environment;
- capital and credit market volatility and fluctuations in global equity and fixed-income markets;
- unanticipated expenditures related to the cost of compliance with environmental and other governmental regulations;
- our ability to control costs and implement measures designed to enhance operating efficiencies;
- the loss of current customers or the inability to obtain new customers;
- increases in the funding requirements for our pension and postretirement liabilities;
- changes in asset valuations including write-downs of assets including property, plant and equipment; inventory, accounts receivable, deferred tax assets or other assets for impairment or other reasons;
- our existing and future indebtedness;

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- our net operating losses may not be available to offset our tax liability and other tax planning strategies may not be effective;
- strikes, labor stoppages and changes in our collective bargaining agreements and relations with our employees and unions; and
- other risks that are detailed from time to time in reports we file with the SEC.

Any subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth or referred to above, as well as the risk factors contained in our most recent Annual Report on Form 10-K. Except as required by law, we disclaim any obligation to update such statements or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to the disclosure on this matter made in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management in a timely manner.

As of September 30, 2013, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2013.

*Internal Controls over Financial Reporting*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in our internal control over financial reporting occurred during the three months ended September 30, 2013. Based on that evaluation, we have

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concluded that there has been no change in our internal control over financial reporting during the three months ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **PART II OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

See Note 11, Contingencies and Legal Matters of Notes to Condensed Consolidated Financial Statements of Item 1 Financial Statements.

#### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our most recent Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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The following table contains information about our purchases of our equity securities for the three months ended September 30, 2013.

| <b>Period</b>                          | <b>Total Number of Shares Purchased (a)</b> | <b>Average Price Paid Per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Approximate Maximum Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs (b)</b> |
|--|---|-------------------------------------|---|---|
| July 1, 2013 – July 31, 2013           | 9,552                                       | \$ 36.50                            |   | \$ 10,000,000   |
| August 1, 2013 – August 31, 2013       | 3,363                                       | \$ 38.32                            |   | \$ 10,000,000   |
| September 1, 2013 – September 30, 2013 |   | \$                                  |   | \$ 10,000,000   |

(a) Transactions represent the purchase of common shares from employees to satisfy tax withholding requirements upon the vesting of stock-based awards. None of these transactions were made in the open market. The average price paid is based upon the closing sales price on the New York Stock Exchange on the date of the transaction.

(b) In May 2013, our Board of Directors authorized the 2013 Stock Purchase Plan. The 2013 Stock Purchase Plan will allow us to repurchase up to \$10 million of our outstanding Common Stock over the next twelve months.

**Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Exhibit</b>  |
|-----------------------|---|
| 31.1                  | Certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2                  | Certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32                    | Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS               | XBRL Instance Document (furnished herewith).  |
| 101.SCH               | XBRL Taxonomy Extension Schema Document (furnished herewith).   |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith).   |

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- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith).
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (furnished herewith).
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith).

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEENAH PAPER, INC

By: /s/ John P. O Donnell  
John P. O Donnell  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Bonnie C. Lind  
Bonnie C. Lind  
Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

/s/ Larry N. Brownlee  
Larry N. Brownlee  
Vice President Controller (Principal  
Accounting Officer)

November 7, 2013

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