

Neenah Paper Inc
Form 10-K
March 10, 2010
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**STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission file number 001-32240

NEENAH PAPER, INC.

(Exact name of registrant as specified in its charter)

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

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

30005
(Zip Code)

Registrant's telephone number, including area code: **(678) 566-6500**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock \$0.01 Par Value	New York Stock Exchange
Preferred Stock Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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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 Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2009 (based on the closing stock price on the New York Stock Exchange) on such date was \$130 million.

As of February 26, 2010, there were 14,705,596 shares of the Company's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive proxy statement for the Company's Annual Meeting of Stockholders to be held on May 19, 2010 is incorporated by reference into Part III hereof.

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PART I

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.

Item 1. Business

Overview

We are a leading producer of premium fine papers and technical products. We have two primary operations: our fine paper business and our technical products business. We also own approximately 475,000 acres of timberlands in Nova Scotia, Canada.

Our fine paper business is a leading producer of premium writing, text, cover and specialty papers used in corporate identity packages, corporate annual reports, invitations, personal stationery and high-end packaging for point of purchase advertising. Our products include some of the most recognized and preferred papers in North America, where we enjoy leading market positions in many of our product categories. We sell our products primarily to authorized paper distributors, converters and specialty businesses. Our fine paper manufacturing facilities are located in Appleton, Neenah and Whiting, Wisconsin.

Our technical products business is a leading international producer of transportation and other filter media, durable, saturated and coated substrates for a variety of end uses; and nonwoven wall coverings. Our technical products business is organized into five global strategic business units (SBUs) which sell into 17 product categories. We focus on categories where we believe we are a market leader or have a competitive advantage, which include, among others, transportation and other filter media, specialty tape, label, abrasive, medical packaging, nonwoven wall coverings and image transfer technical products markets. We are also a global supplier of materials used for customer-specific applications in furniture, book covers and original equipment manufacturers' products. Our customers are located in more than 35 countries. Our technical products manufacturing facilities are located in Munising, Michigan and near Munich and Frankfurt, Germany.

Company Structure

Our corporate structure consists of Neenah Paper, Inc., and five wholly owned subsidiaries.

Neenah Paper, Inc. is a Delaware corporation that holds our trademarks and patents related to all of our U.S. businesses (except Fox River), all of our U.S. inventory, the real estate, mills and manufacturing assets associated with our fine paper operations in Neenah and Whiting, Wisconsin, and all of the equity in our subsidiaries listed below. The

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common stock of Neenah is publicly traded on the New York Stock Exchange under the symbol NP.

Neenah Paper Michigan, Inc. is a Delaware corporation and a wholly owned subsidiary of Neenah Paper, Inc. that owns the real estate, the mill and the manufacturing assets associated with our U.S. technical products business.

NPCC Holding Company LLC. is a Delaware limited liability company and wholly owned subsidiary of Neenah Paper, Inc. It owns all of the equity of Neenah Paper Company of Canada. Neenah Paper Company of Canada is a Nova Scotia unlimited liability corporation that owns approximately 475,000 acres of timberlands in Nova Scotia, Canada.

Neenah Paper FVC, Inc. is a Delaware corporation and wholly owned subsidiary of Neenah Paper, Inc., that owns all of the equity of Neenah Paper FR, LLC. Neenah Paper FR, LLC is a Delaware limited liability company that owns the real estate, mills and manufacturing assets associated with our operation in Appleton, Wisconsin.

Neenah Paper International Holding Company, LLC. is a Delaware limited liability company and wholly owned subsidiary of Neenah Paper Inc. that owns all of the equity of Neenah Paper International, LLC. Neenah Paper International, LLC is a Delaware limited liability company that owns all of the equity of Neenah Germany GmbH and in conjunction with Neenah Germany GmbH all of the equity of Neenah Services GmbH & Co. KG.

Neenah Paper International Finance Company BV is a private company with limited liability organized under the laws of the Netherlands and a wholly owned subsidiary of Neenah Paper, Inc.

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History of the Businesses

Neenah was incorporated in April 2004 in contemplation of the spin-off by Kimberly-Clark Corporation (Kimberly-Clark) of its fine paper and technical products businesses in the United States and its Canadian pulp business (collectively, the Pulp and Paper Business). We had no material assets or activities until Kimberly-Clark's transfer to us of the Pulp and Paper business on November 30, 2004. On that date, Kimberly-Clark completed the distribution of all of the shares of our common stock to the stockholders of Kimberly-Clark (the Spin-Off). Following the Spin-Off, we are an independent public company and Kimberly-Clark has no ownership interest in us.

Fine Paper. The fine paper business was incorporated in 1885 as Neenah Paper Company, which initially operated a single paper mill in Neenah, Wisconsin. Kimberly-Clark acquired the mill in 1956. In 1981, Kimberly-Clark purchased an additional mill located in Whiting, Wisconsin to increase the production capacity of the fine paper business. In the late 1980s and early 1990s, Kimberly-Clark expanded the capacity of the fine paper business in response to increased demand by building two new paper machines at the Whiting mill, rebuilding two existing paper machines at the Whiting mill and completing a major expansion of the Neenah facility with the installation of a new paper machine, a new finishing center, a new customer service center and a distribution center expansion. As a result of decreased demand, in the 2000s the Neenah mill retired two of its older paper machines. In March 2007, we acquired Fox Valley Corporation (now named Neenah Paper FVC, Inc.), which owned Fox River Paper Company, LLC (Fox River , now named Neenah Paper FR, LLC). The Fox River assets acquired consisted of four U.S. paper mills and various related assets, producing premium fine papers with well-known brands including STARWHITE®, SUNDANCE®, ESSE® and OXFORD®.

As part of our plan to integrate the operations of Fox River with those of our existing fine paper mills, we closed the Housatonic mill, located near Great Barrington, Massachusetts in May 2007. During the second quarter of 2008, we closed the former Fox River fine paper mill located in Urbana, Ohio. In May 2009, we closed the former Fox River fine paper mill located in Ripon, California. We have disposed of the Housatonic and Urbana mills and are in the process of selling the remaining assets of the Ripon mill. The Company's other premium fine paper mills have absorbed the production previously made at these facilities. See Note 3 of Notes to Consolidated Financial Statements, Closure of the Ripon Mill.

Technical Products. In 1952, Kimberly-Clark purchased the Munising mill, located in Munising, Michigan. Subsequent to the purchase, Kimberly-Clark converted the mill to produce durable, saturated and coated papers for sale and use in a variety of industrial applications for its technical products business. In October 2006, we purchased the outstanding interests of FiberMark Services GmbH & Co. KG and the outstanding interests of FiberMark Beteiligungs GmbH (collectively Neenah Germany). The Neenah Germany assets consist of two mills located near Munich, Germany and a third mill near Frankfurt, Germany, that produce a wide range of products, including transportation and other filter media, nonwoven wall coverings, masking and other tapes, abrasive backings, and specialized printing and coating substrates.

Pulp. At the Spin-Off, our pulp operations consisted of pulp mills located in Terrace Bay, Ontario and Pictou, Nova Scotia and approximately 1,000,000 acres of owned timberlands in Nova Scotia, Canada. In August 2006, we

transferred our Terrace Bay mill and related woodlands operations to certain affiliates of Buchanan Forest Products Ltd. (Buchanan). See Note 5 of Notes to Consolidated Financial Statements, Discontinued Operations Transfer of the Terrace Bay Mill. In June 2006, we sold approximately 500,000 acres of woodlands in Nova Scotia. In June 2008, we sold the Pictou Mill, which was the last pulp mill we owned, to Northern Pulp Nova Scotia Corporation (Northern Pulp). See Note 5 of Notes to Consolidated Financial Statements, Discontinued Operations Sale of the Pictou Mill and the Woodlands.

Assets Held for Sale Discontinued Operations. In the first quarter of 2007, we engaged a nationally known investment banking firm to identify buyers interested in acquiring the Pictou Mill and/or approximately 475,000 acres of timberlands in Nova Scotia, Canada (the Woodlands). In February 2008, we committed to a plan to sell the Pictou Mill (which was sold in June 2008) and to separately pursue purchasers of the Woodlands. On March 1, 2010, we announced that Neenah Canada had signed a definitive agreement to sell the Woodlands for C\$82.5 million (\$78.6 million). See Note 17 of Notes to Consolidated Financial Statements, Subsequent Event.

Business Strategy

Increase the Size of our Paper Businesses. Following the Spin-Off, we sought to increase the size of our successful specialty and premium paper businesses. Growth in our paper businesses was pursued organically and through acquisitions, such as Neenah Germany and Fox River. Ultimately, we decided to exit the pulp business, where our scale and cost position was determined to be sub-optimal for this global commodity and our pulp mills were eventually divested.

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Deliver Consistent Profitable Growth. We believe that our fine paper and technical products production assets provide us with a flexible and effective platform for growth. Our experienced team of employees and management are pursuing business strategies designed to take advantage of existing strengths in these businesses including our strong market positions, well recognized brands, high-quality products and efficient manufacturing operations while responding to the challenges faced by each unit. We expect our fine paper business to continue to deliver significant cash flows as we gain share in a declining market and seek additional growth opportunities, and grow in Technical Products markets, both organically and through acquisitions.

Provide Investors with Attractive Returns. We believe that the successful execution of our strategies and our continued use of return on capital as an important metric to evaluate decisions and allocate capital to our core business will result in positive returns for investors. We also expect to provide returns to investors by paying dividends in line with peer companies.

Products

Fine Paper. The fine paper business manufactures and sells world-class branded premium writing, text, cover and specialty papers used in corporate identity packages, corporate annual reports, invitations, personal stationery and high-end packaging for point of purchase advertising. Our fine paper business had net sales of approximately \$256 million, \$336 million and \$367 million in 2009, 2008 and 2007, respectively.

Premium writing papers are used for business and personal stationery, corporate identity packages, envelopes and similar end-use applications. Market leading writing papers are sold by the fine paper business under the CLASSIC®, ENVIRONMENT®, NEENAH®, CAPITOL BOND® and NEUTECH® trademarks, which are denoted by a brand watermark in each sheet of writing paper. The fine paper business also sells private watermarked paper and other specialty writing papers.

Text and cover papers are used in applications such as corporate brochures, pocket folders, corporate annual reports, advertising inserts, direct mail, business cards, hang tags, scrapbooks, and a variety of other uses where colors, textured finishes or heavier weight papers are desired. Our brands in this category include CLASSIC®, CLASSIC CREST®, STARWHITE®, SUNDANCE®, ESSE® and ENVIRONMENT®. We also sell a variety of custom colors, paper finishes, and duplex/laminated papers.

The fine paper business produces and sells other specialty papers, including translucent papers, art papers, papers for optical scanning and other specialized applications, under the UV/ULTRA® II translucent paper trademark and other brands.

In 2009, we signed an exclusive licensing agreement with Crane & Co. Inc. (Crane) for Neenah to manufacture, market and distribute Crane s business paper brands.

Technical Products. The technical products business is a leading producer of filtration media and durable, saturated and coated substrates for a variety of end uses, including tapes, premask, abrasives, labels, medical packaging, decorative components, wall covering, and image transfer papers. Our technical products business had net sales of approximately \$318 million, \$397 million and \$401 million in 2009, 2008 and 2007, respectively. JET-PRO®, SofStretch , KIMDURA®, MUNISING LP®, PREVAIL , NEENAH®, Gessner® and varitess® are brands of our technical products business.

In general, the products of our technical products business are sold to other manufacturers as key components for their finished products. The technical products business is organized into five SBUs: Filtration; Tape; Component Materials, which includes our abrasives business; Graphics and Identification; and Wall Covering to sell its products into major market segments. Several of the key market segments served, including tape and abrasives, are global in scope.

The Filtration SBU produces filtration media for induction air, fuel, oil, and cabin air applications in automotive transportation and for vacuum cleaner bags and filters. Transportation filtration media are sold to suppliers of automotive companies as original equipment on new cars and trucks as well as to the automotive aftermarket. This business is primarily in Europe.

The Tape SBU produces both saturated and unsaturated crepe and flat papers and sells them to manufacturers to produce finished pressure sensitive products for sale in automotive, automotive aftermarket, transportation, manufacturing and building construction, and industrial general purpose applications.

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The Component Materials SBU is a leading producer of latex saturated and coated papers for use by a wide variety of manufacturers. Finished lightweight sandpaper is sold in the automotive, automotive aftermarket, construction, metal and woodworking industries for both waterproof and dry sanding applications. Premask paper is used as a protective over wrap for products during the manufacturing process and for applying signs, labeling and other finished products. Medical packaging paper is a polymer impregnated base sheet that provides a breathable sterilization barrier. When sealed together with film, this paper becomes a medical packaging material that allows sterilization from steam, ethylene oxide, or gamma radiation and at the same time provides unique barrier properties. The Component Materials SBU also produces a line of release papers and furniture backers.

The Graphics and Identification SBU produces label and tag products from saturated (latex impregnated) base label stock and purchased synthetic base label stock. Top coatings are applied to the base label stock to allow for high quality variable and digital printing. The synthetic label stock is recognized as a high quality, UV (ultra-violet) stable product used for outdoor applications. The business sells its label and tag stock to pressure sensitive coaters, who in turn sell the coated label and tag stock to the label printing community. Image transfer papers are used to transfer an image from paper to tee shirts, hats, coffee mugs, and other surfaces. The Graphics and Identification SBU produces and applies a proprietary imaging coating to its image transfer papers for use in digital printing applications. Image transfer papers are primarily sold through large retail outlets and through master distributors. Decorative components papers are made from light and medium weight latex saturated papers which can then be coated for printability. Decorative components papers are primarily sold to coater converters, distributors, publishers and printers for use in book covers, stationery and fancy packaging. The Graphics and Identification SBU also produces and sells clean room papers and durable printing papers into their respective markets.

The Wall Covering SBU produces a line of substrates made from saturated and coated wet-laid nonwovens and markets to converters serving primarily European commercial and do-it-yourself markets.

Markets and Customers

Fine Paper. Premium writing, text and cover papers represent approximately three percent of the North American uncoated free sheet market. The uncoated free sheet market has been declining two to four percent annually due to the increasing use of electronic media for communication. For 2009, the American Forestry and Paper Associations (the AF&PA) reported a 27 percent year-over-year industry decline in the premium writing, text and cover uncoated free sheet paper category. Lower industry volume reflected a sharp decline in consumption for a number of key end use market segments, including advertising, financial institutions and transportation. The stationery segment of the uncoated free sheet market is divided into cotton and sulfite grades. The text and cover paper segment of the market, used in corporate identification applications, is split between smooth papers and textured papers. Text papers have traditionally been utilized for special, high end collateral material such as corporate brochures, annual reports and special edition books. Cover papers are primarily used for business cards, pocket folders, brochures and report covers including corporate annual reports.

The fine paper business sells its products through our sales and marketing organizations primarily in three channels: authorized paper distributors, converters and direct sales. Sales to distributors, including distributor owned paper stores, account for approximately 70 percent of revenue in the fine paper business. Less than five percent of the sales of our fine paper business are exported to international distributors.

Sales to the fine paper business's two largest customers (both of which are distributors) represented approximately 30 percent of its total sales in 2009. We practice limited distribution to improve our ability to control the marketing of our products. Although a complete loss of either of these customers would cause a temporary decline in the business's sales volume, the decline could be partially offset by expanding sales to

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existing distributors, and further offset over a several month period with the addition of new distributors.

Technical Products. The technical products business relies on five SBUs to sell its products globally into 17 product categories. Such categories, broadly defined as polymer impregnated and synthetic paper, include papers used as raw materials in the following applications: filtration, tape, component materials for manufactured products, graphics and identification, and wall covering.

Several products (filtration media, wall coverings, abrasives, tapes, labels) are used in markets that are directly affected by economic business cycles. Other market segments such as image transfer papers used in small/home office and consumer applications are relatively stable. Price competition is common in most of the segments served by the technical products business and has increased due to a trend of using film and other lower cost substrates instead of paper in some applications.

The technical products business relies on a team of direct sales representatives and customer service representatives to market and sell approximately 95 percent of its sales volume directly to customers and converters. Less than five percent of the sales of the technical products business are sold through industrial distributors.

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The technical products business has over 500 customers worldwide. The distribution of sales in 2009 was approximately 55 percent in Europe, 25 percent in North America and 20 percent in Latin America and Asia. Customers typically convert and transform base papers and film into finished rolls and sheets by adding adhesives, coatings, and finishes. These transformed products are then sold to end-users.

Concentration. For the years ended December 31, 2009, 2008 and 2007, no customer accounted for more than 10 percent of our consolidated net sales.

The following tables present further information about our businesses by geographic area (dollars in millions):

	Year Ended December 31,		
	2009	2008	2007
Net sales			
United States	\$ 360.9	\$ 467.3	\$ 502.9
Europe	213.0	265.0	264.4
Intergeographic items			(0.3)
Consolidated	\$ 573.9	\$ 732.3	\$ 767.0

	December 31,		
	2009	2008	2007
Total Assets			
United States	\$ 330.9	\$ 371.8	\$ 337.5
Canada	5.4	3.3	201.6
Europe	301.2	314.9	398.7
Total	\$ 637.5	\$ 690.0	\$ 937.8

Net sales and total assets are attributed to geographic areas based on the physical location of the selling entities and the physical location of the assets. See Note 14 of Notes to Consolidated Financial Statements – Business Segment and Geographic Information for information with respect to net sales, profits (losses) and total assets by business segment.

Raw Materials

Fine Paper. Hardwood pulp is the primary fiber used to produce products of the fine paper business. Our fine paper business consumed approximately 55,000 metric tons, 65,000 metric tons and 80,000 metric tons of hardwood pulp in 2009, 2008 and 2007, respectively. Other significant raw material inputs in the production of fine paper products include softwood pulp, cotton fiber, recycled fiber, dyes and fillers. An interruption in our supply of pulp or cotton could adversely affect our fine paper sales. The fine paper business purchases all of its raw materials externally.

Technical Products. The technical products business purchases latex, a primary raw material used to produce its products, from various suppliers. Softwood pulp, including certain specialty pulp, is the other main raw material consumed. The technical products business purchases

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substantially all of its raw material requirements externally. We believe that all of the raw materials for our technical products operations, except for certain specialty latex grades and specialty softwood pulp, are readily available from several sources and that the loss of a single supplier would not cause a shutdown of our manufacturing operations. An interruption in the supply of certain latex specialty grades or specialty softwood pulp, however, could disrupt and eventually cause a shutdown of production of certain technical products.

Concentration. Except for certain specialty latex grades and specialty softwood pulp used by our technical products business, we are not aware of any significant concentration of business transacted with a particular supplier that could, if suddenly eliminated, have a material adverse affect on our operations. While we believe that alternative sources of critical supplies would be available, disruption of our primary sources could create a temporary, adverse effect on product shipments. An interruption in the supply of a latex specialty grade or of specialty softwood pulp to our technical products business, each of which is currently obtained from a single source, could disrupt and eventually cause a shutdown of production of certain technical products.

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Energy and Water

The equipment used in the manufacture of the products of our fine paper and technical products businesses uses significant amounts of energy, primarily electricity, natural gas, oil and coal. We generate substantially all of our electrical energy at the Munising mill and approximately 20 percent of the electrical energy at our mills in Bruckmühl, Germany and Appleton, Wisconsin. We also purchase electrical energy from external sources, including electricity generated from renewable sources.

Availability of energy is not expected to be a problem in the foreseeable future, but the purchase price of such energy can and likely will fluctuate significantly based on changes in demand and other factors.

An adequate supply of water is needed to manufacture our products. We believe that there is an adequate supply of water for this purpose at each of our manufacturing locations.