

SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-Q
November 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

1-13948

(Commission file number)

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware 62-1612879
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

100 North Point Center East, Suite 600 30022
Alpharetta, Georgia
(Address of principal executive offices) (Zip Code)

1-800-514-0186
(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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

reporting
company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The Company had 30,721,566 shares of common stock issued and outstanding as of November 1, 2017.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net sales	\$257.8	\$ 209.3	\$746.4	\$ 641.2
Cost of products sold	182.0	146.2	530.9	447.7
Gross profit	75.8	63.1	215.5	193.5
Selling expense	8.1	6.0	24.6	18.8
Research expense	3.9	4.2	12.9	12.9
General expense	23.8	20.8	69.2	57.9
Total nonmanufacturing expenses	35.8	31.0	106.7	89.6
Restructuring and impairment expense	1.5	1.3	4.2	4.0
Operating profit	38.5	30.8	104.6	99.9
Interest expense	7.4	3.9	20.0	12.6
Other income, net	4.1	0.7	3.2	4.0
Income from continuing operations before income taxes and income from equity affiliates	35.2	27.6	87.8	91.3
Provision for income taxes	9.5	10.7	26.5	27.9
Income from equity affiliates, net of income taxes	—	1.8	0.4	2.4
Income from continuing operations	25.7	18.7	61.7	65.8
Income from discontinued operations	0.1	—	0.1	—
Net income	\$25.8	\$ 18.7	\$61.8	\$ 65.8
Net income per share - basic:				
Income per share from continuing operations	\$0.84	\$ 0.62	\$2.02	\$ 2.16
Income (loss) per share from discontinued operations	—	—	—	—
Net income per share – basic	\$0.84	\$ 0.62	\$2.02	\$ 2.16
Net income per share – diluted:				
Income per share from continuing operations	\$0.84	\$ 0.61	\$2.01	\$ 2.15
Income (loss) per share from discontinued operations	—	—	—	—
Net income per share – diluted	\$0.84	\$ 0.61	\$2.01	\$ 2.15
Weighted average shares outstanding:				
Basic	30,422,800	31,640,000	30,400,400	30,820,000
Diluted	30,569,500	31,458,800	30,534,700	30,443,100

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Net income	\$25.8	\$ 18.7	\$61.8	\$ 65.8
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	11.4	0.2	37.1	5.3
Unrealized (losses) gains on derivative instruments	(2.8)	(0.3)	(5.4)	11.7
Less: Reclassification adjustment for losses on derivative instruments included in net income	0.9	0.6	0.5	6.2
Net loss from postretirement benefit plans	(0.3)	—	(0.3)	—
Less: Reclassification adjustment for amortization of postretirement benefit plans' costs included in net periodic benefit cost	0.2	1.0	2.4	2.1
Other comprehensive income	9.4	1.5	34.3	25.3
Comprehensive income	\$35.2	\$ 20.2	\$96.1	\$ 91.1

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 100.6	\$ 107.4
Accounts receivable, net	163.2	115.1
Inventories	143.9	119.4
Income taxes receivable	2.9	—
Assets held for sale	16.0	17.3
Other current assets	6.9	5.1
Total current assets	433.5	364.3
Property, plant and equipment, net	359.8	307.4
Deferred income tax benefits	2.3	3.7
Investment in equity affiliates	65.0	63.8
Goodwill	340.1	229.5
Intangible assets	301.1	177.5
Other assets	30.2	27.5
Total assets	\$ 1,532.0	\$ 1,173.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current debt	\$ 3.5	\$ 3.0
Accounts payable	56.9	50.3
Income taxes payable	1.9	5.3
Accrued expenses	79.2	77.2
Total current liabilities	141.5	135.8
Long-term debt	690.5	437.4
Pension and other postretirement benefits	35.5	33.1
Deferred income tax liabilities	40.3	29.8
Other liabilities	55.1	29.3
Total liabilities	962.9	665.4
Stockholders' equity:		
Preferred stock, \$0.10 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.10 par value; 100,000,000 shares authorized; 30,710,443 and 30,544,494 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	3.1	3.1
Additional paid-in-capital	63.7	59.2
Retained earnings	607.3	585.3
Accumulated other comprehensive loss, net of tax	(105.0) (139.3
Total stockholders' equity	569.1	508.3
Total liabilities and stockholders' equity	\$ 1,532.0	\$ 1,173.7
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.		

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 (dollars in millions, except per share amounts)
 (Unaudited)

	Common Stock Issued		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, December 31, 2015	30,474,149	\$ 3.0	\$ 53.7	\$ 552.6	\$ (141.4)	\$ 467.9
Net income	—	—	—	65.8	—	65.8
Other comprehensive income, net of tax	—	—	—	—	25.3	25.3
Dividends declared (\$1.20 per share)	—	—	—	(36.6)	—	(36.6)
Restricted stock issuances, net	94,576	0.1	—	—	—	0.1
Stock-based employee compensation expense	—	—	3.5	—	—	3.5
Excess tax deficit of stock-based employee compensation	—	—	(0.2)	—	—	(0.2)
Stock issued to directors as compensation	5,031	—	0.2	—	—	0.2
Purchases and retirement of common stock	(19,539)	—	—	(0.6)	—	(0.6)
Balance, September 30, 2016	30,554,217	\$ 3.1	\$ 57.2	\$ 581.2	\$ (116.1)	\$ 525.4
Balance, December 31, 2016	30,544,494	\$ 3.1	\$ 59.2	\$ 585.3	\$ (139.3)	\$ 508.3
Net income	—	—	—	61.8	—	61.8
Other comprehensive income, net of tax	—	—	—	—	34.3	34.3
Dividends declared (\$1.26 per share)	—	—	—	(38.7)	—	(38.7)
Restricted stock issuances, net	186,773	—	—	—	—	—
Stock-based employee compensation expense	—	—	4.3	—	—	4.3
Stock issued to directors as compensation	4,352	—	0.2	—	—	0.2
Purchases and retirement of common stock	(25,176)	—	—	(1.1)	—	(1.1)
Balance, September 30, 2017	30,710,443	\$ 3.1	\$ 63.7	\$ 607.3	\$ (105.0)	\$ 569.1

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(dollars in millions)

(Unaudited)

	Nine Months Ended		
	September 30,	September 30,	
	2017	2016	
Operating			
Net income	\$61.8	\$ 65.8	
Less: Income from discontinued operations	0.1	—	
Income from continuing operations	61.7	65.8	
Non-cash items included in net income:			
Depreciation and amortization	46.7	33.3	
Restructuring-related impairment	0.8	0.5	
Deferred income tax provision	2.4	(3.3))
Pension and other postretirement benefits	2.5	2.7	
Stock-based compensation	4.5	3.7	
(Income) loss from equity affiliates	(0.4)	(2.4))
Gain on sale of intangible assets	—	(1.8))
Gain on sale of assets	(4.8)	—)
Excess tax expense of stock-based awards	—	0.2	
Cash dividends received from equity affiliates	1.8	—	
Other items	(0.2)	(1.2))
Changes in operating working capital, net of assets acquired:			
Accounts receivable	(16.7)	(14.7))
Inventories	1.4	4.9	
Prepaid expenses	(0.6)	(1.0))
Accounts payable	1.2	(2.5))
Accrued expenses	(0.2)	(7.2))
Accrued income taxes	(6.9)	6.1	
Net changes in operating working capital	(21.8)	(14.4))
Net cash provided by (used in) operating activities of:			
- Continuing operations	93.2	83.1	
- Discontinued operations	0.1	(0.1))
Net cash provided by operations	93.3	83.0	
Investing			
Capital spending	(27.5)	(17.5))
Capitalized software costs	(2.6)	(1.7))
Acquisitions, net of cash acquired	(291.7)	—	
Proceeds from sale of assets	7.0	—	
Other investing	5.6	4.2	
Net cash used in investing	(309.2)	(15.0))

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(dollars in millions)

(Unaudited)

	Nine Months Ended	
	September 30,	September 30,
	2017	2016
Financing		
Cash dividends paid to SWM stockholders	(38.7)	(36.6)
Proceeds from issuances of long-term debt	440.4	35.6
Payments on long-term debt	(196.2)	(167.2)
Purchases of common stock	(1.1)	(0.6)
Payments for debt issuance costs	(0.6)	—
Excess tax expense of stock-based awards	—	(0.2)
Net cash provided by (used in) financing	203.8	(169.0)
Effect of exchange rate changes on cash and cash equivalents	5.3	4.0
Decrease in cash and cash equivalents	(6.8)	(97.0)
Cash and cash equivalents at beginning of period	107.4	186.5
Cash and cash equivalents at end of period	\$100.6	\$ 89.5
Supplemental Cash Flow Disclosures		
Cash paid for interest	\$15.2	\$ 10.5
Cash paid for taxes, net	\$30.8	\$ 24.4
Change in capital spending in accounts payable and accrued liabilities	\$4.4	\$ 1.3
Deferred contingent business acquisition consideration	\$8.6	\$ —

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

Nature of Business

Schweitzer-Mauduit International, Inc., or SWM or the Company, headquartered in Alpharetta, Georgia in the United States of America, is a multinational diversified producer of highly engineered solutions and advanced materials for a variety of industries. The Company operates two segments: Advanced Materials & Structures and Engineered Papers.

The Advanced Materials & Structures segment, or AMS, produces mostly resin-based rolled goods such as nets, films and meltblown materials, typically through an extrusion process or other non-woven technologies. These products are used in a variety of specialty applications across the filtration, construction and infrastructure, transportation, industrial and medical end-markets. As discussed more fully in Note 3. Business Acquisitions, in January 2017, the Company completed the acquisition of Conwed Plastics LLC, a Delaware limited liability company, and its Belgian subsidiary ("Conwed NV" and collectively with Conwed Plastic LLC, "Conwed"), which has been integrated into the AMS segment.

The Engineered Papers segment, or EP, primarily serves the tobacco industry with production of various cigarette papers and reconstituted tobacco products, or "recon". Traditional reconstituted tobacco leaf, or "RTL", is used as a blend with virgin tobacco in cigarettes and used as wrappers and binders for cigars. Recon, as well as LIP (low ignition propensity) cigarette paper, a specialty product with fire-safety features, are two key profit drivers, which together account for more than half of segment net sales. The EP segment also produces non-tobacco papers for both premium applications, such as energy storage, and industrial commodity paper grades, which are often produced to maximize machine utilization.

The Company has operations in the United States, United Kingdom, Canada, France, Luxembourg, Russia, Brazil, China, Belgium and Poland, conducts business in over 90 countries, and operates 23 production locations worldwide. The Company also has a 50% equity interest in two joint ventures in China: China Tobacco Mauduit (Jiangmen) Paper Industry Ltd., or CTM, which produces various cigarette papers, and China Tobacco Schweitzer (Yunnan) Reconstituted Tobacco Co. Ltd., or CTS, which produces RTL.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and the notes thereto have been prepared in accordance with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission, or the SEC, and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America, or U.S. GAAP. However, such information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods including the results of a business reclassified as a discontinued operation which is more fully described in Note 4. Discontinued Operations.

The results of operations are not necessarily indicative of the results to be expected for the full year. The unaudited condensed consolidated financial statements and these notes thereto included herein should be read in conjunction with the audited consolidated financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on February 24, 2017.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and controlled subsidiaries. The Company's share of the net income of its 50%-owned joint ventures in China is included in the condensed consolidated statements of income as Income from equity affiliates, net of income taxes. Intercompany balances and transactions have been eliminated.

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SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, inventory valuation, useful lives of tangible and intangible assets, fair values, sales returns and rebates, receivables valuation, pension, postretirement and other benefits, restructuring and impairment, taxes and contingencies. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" (Topic 606). This guidance specifies how and when an entity will recognize revenue arising from contracts with customers and requires entities to disclose information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). The Company will adopt this ASU effective January 1, 2018, utilizing the modified retrospective transition approach upon adoption. This approach requires an adjustment upon adoption to the financial statements to reflect the cumulative impact of the guidance and results in no change to prior period financial statements. Based on continuing evaluation of the provisions included in the new guidance, along with the related updates discussed below, the Company does not expect that adoption of this guidance will materially impact the amount or timing of revenues recognized in the consolidated financial statements or materially affect our financial position. The majority of our revenues generated are recognized upon delivery and transfer of title to the product to our customers. The time at which delivery and transfer of title occurs, for the majority of our contracts with customers, is the point when the product leaves our facility, thereby rendering our performance obligation fulfilled. The Company is currently in the process of finalizing the financial statement disclosures required under ASU 2014-09 that will be incorporated upon adoption of the guidance as well as updating internal procedures and internal controls, as applicable, in preparation for adoption in 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842): Amendments to the FASB Accounting Standards Codification." The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. Companies must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Company is currently in the process of evaluating the impact of the pronouncement on the Company's outstanding leases and expects that adoption will have an impact on the consolidated balance sheets related to recording right-of-use assets and corresponding lease liabilities. Further, the Company is currently in the process of evaluating the impact of adoption on the consolidated statements of income.

In March, April and May 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting," and ASU 2016-12,

"Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients," which provide supplemental adoption guidance and clarification to ASC 2014-09. ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12 must be adopted concurrently with the adoption of ASU 2014-09. The Company has assessed the impact of the pronouncements on the consolidated financial statements in conjunction with its assessment of ASU 2014-09, as discussed above.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 718): Intra-Entity Transfers of Assets Other Than Inventory." This standard states that an entity should recognize the income tax consequences of an intra-entity

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

transfer of an asset other than inventory when the transfer occurs, thus eliminating the exception for an intra-entity transfer of an asset other than inventory. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The guidance clarifies the definition of a business with the objective of assisting entities in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. The new update is effective for annual periods beginning after December 15, 2017. The amendments in ASU 2017-01 will be implemented on a prospective basis in the first quarter of 2018 and are not expected to have a material impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendment eliminates the second step of the analysis that required the measurement of a goodwill impairment by comparing the implied value of a reporting unit's goodwill and the goodwill's carrying amount. This guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendment requires an employer to report the service cost component in the same line item or line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal from operations. This guidance is effective for annual periods beginning after December 15, 2017. The Company will adopt this ASU effective January 1, 2018, utilizing the retrospective transition approach upon adoption. The adoption of this guidance will result in a reclassification of the components of net periodic pension cost, other than service cost, from Cost of products sold and General expense to Other income (expense), net, in the Consolidated Statements of Income. The adoption of this guidance will have no effect on Net income in the Consolidated Statements of Income and no effect on the other consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting". This amendment clarifies the changes to terms or conditions of a share-based payment award that require an entity to apply modification accounting. ASU 2017-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted and prospective application is required. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". This amendment better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. Early application is permitted and should be applied to hedging relationships existing on the date of adoption. The effect of adoption should be reflected as of the

beginning of the fiscal year of adoption. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Other Comprehensive Income

Comprehensive income includes net income, as well as certain items charged and credited directly to stockholders' equity, which are excluded from net income. The Company has presented comprehensive income in the condensed consolidated statements of comprehensive income (loss). Reclassification adjustments of derivative instruments are presented in Net sales, Other (expense) income, net, or Interest expense in the condensed consolidated statements of income. See Note 11. Derivatives for additional information. Amortization of accumulated pension and other post-employment benefit, or OPEB, liabilities are included in the computation of net periodic pension and OPEB costs, which are more fully discussed in Note 13. Postretirement and Other Benefits.

Components of Accumulated other comprehensive loss, net of tax, were as follows (\$ in millions):

	September 30, 2017	December 31, 2016
Accumulated pension and OPEB liability adjustments, net of income tax benefit of \$16.0 million and \$17.6 million at September 30, 2017 and December 31, 2016, respectively	\$(34.4)	\$(36.5)
Accumulated unrealized loss on derivative instruments, net of income tax benefit of \$5.2 million and \$3.0 million at September 30, 2017 and December 31, 2016, respectively	(6.8)	(1.9)
Accumulated unrealized foreign currency translation adjustments	(63.8)	(100.9)
Accumulated other comprehensive loss	\$(105.0)	\$(139.3)

Changes in the components of Accumulated other comprehensive loss were as follows (\$ in millions):

	Three Months Ended					
	September 30, 2017			September 30, 2016		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Unrealized gain (loss) on pension and OPEB liability adjustments	\$1.1	\$(1.2)	\$(0.1)	\$1.2	\$(0.2)	\$1.0
Unrealized (loss) gain on derivative instruments	(2.1)	0.2	(1.9)	2.0	(1.7)	0.3
Unrealized gain (loss) on foreign currency translation	11.4	—	11.4	0.2	—	0.2
Total	\$10.4	\$(1.0)	\$9.4	\$3.4	\$(1.9)	\$1.5
	Nine Months Ended					
	September 30, 2017			September 30, 2016		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Unrealized gain (loss) on pension and OPEB liability adjustments	\$3.7	\$(1.6)	\$2.1	\$3.9	\$(1.8)	\$2.1
Unrealized (loss) gain on derivative instruments	(7.1)	2.2	(4.9)	15.7	2.2	17.9
Unrealized gain on foreign currency translation	37.1	—	37.1	5.3	—	5.3
Total	\$33.7	\$0.6	\$34.3	\$24.9	\$0.4	\$25.3

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Note 3. Business Acquisitions

On January 20, 2017, the Company completed the acquisition of Conwed pursuant to the Equity Interest Purchase Agreement, dated as of December 14, 2016, by and among the Company, Delstar Technologies, Inc., Baldwin Enterprises, Inc., Conwed and Leucadia National Corporation. As a result of the transaction, Conwed and its subsidiaries (including Conwed NV) became wholly-owned indirect subsidiaries of the Company. The acquisition of Conwed expanded and continued the diversification of SWM's global presence in advanced materials and has been integrated into the Company's AMS segment.

As of September 30, 2017, the fair values of the assets acquired and liabilities assumed are provisional because final appraisals have not yet been completed. The consideration transferred to acquire Conwed was \$295.0 million in cash, subject to certain customary post-closing adjustments, plus three potential earn-out payments not to exceed \$40.0 million in the aggregate, which payments are contingent upon the achievement of certain financial metrics in each of 2019, 2020 and 2021, in each case, upon the terms and subject to the conditions contained in the Purchase Agreement. The estimated fair value of the potential earn-out payments at the acquisition date was \$8.6 million, for total consideration transferred of \$303.6 million. The estimated fair value of the deferred contingent consideration was determined based on management's projections related to the achievement of certain financial metrics for the aforementioned years. The discount rate used to value the liability was based on specific business risk, cost of capital and other factors. The fair value of the contingent consideration was determined using significant unobservable inputs and is considered a Level 3 liability. There were no changes to the assumptions underlying the estimated fair value calculation during the three or nine months ended September 30, 2017.

The purchase price for Conwed was funded from the Company's borrowings under the First Amendment to Second Amended and Restated Credit Agreement, while the purchase price for Conwed NV was funded from cash on hand. See Note 10. Debt, for additional information.

The consideration paid for Conwed and the preliminary fair values of the assets acquired and liabilities assumed as of the January 20, 2017 acquisition date were as follows (\$ in millions):

	Preliminary Fair Value as of January 20, 2017
Cash and cash equivalents	\$ 3.3
Accounts receivable	15.4
Inventory	20.6
Other current assets	1.1
Property, plant and equipment	31.7
Identifiable intangible assets	134.4
Total assets	206.5
Accounts payable and accrued expenses	8.2
Deferred tax liabilities	0.9
Net identifiable assets acquired	197.4

Goodwill 106.2

Fair value of consideration transferred \$ 303.6

The Company used the income, market or cost approach (or a combination thereof) for the valuation as appropriate and used valuation inputs in these models and analyses that were based on market participant assumptions. Market

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participants are considered to be buyers and sellers in the principal or most advantageous market for the asset or liability. For certain items, the carrying amount was determined to be a reasonable approximation of fair value based on information available to SWM management. The fair value of receivables acquired from Conwed on January 20, 2017 was \$15.4 million, with gross contractual amounts receivable of \$15.8 million. Acquired inventories and property, plant and equipment were recorded at their fair values. Acquired intangible assets are primarily customer relationships, developed technology, trade names and non-competition agreements.

The fair value of the inventory acquired from Conwed on January 20, 2017 was \$20.6 million, which included a step-up in basis of \$2.9 million. Finished goods and work-in-process inventory was valued using the comparative sales method, which is a function of the estimated selling price less the sum of (a) any cost to complete, (b) costs of disposal, (c) holding costs and (d) a reasonable profit for allowance for the acquirer. Raw materials were valued using the replacement cost method of the cost approach.

Properties acquired included manufacturing and related facilities, land and leased sites that include leasehold improvements, and machinery and equipment for use in manufacturing operations. Management valued properties using the market and cost approaches, supported where available by observable market data which included consideration of obsolescence.

Intangible assets acquired included a number of customer relationships in the infrastructure, construction and industrial end-markets. In addition to these intangible assets, the Company acquired a number of patented and unpatented technologies, a number of business-to-business trade names and non-competition agreements. Management valued intangible assets using the relief from royalty, multi-period excess earnings and with-and-without methods, all forms of the income approach supported by observable market data for peer companies. The following table shows the fair values assigned to intangible assets (\$ in millions):

	Preliminary Fair Value as of January 20, 2017	Weighted-Average Amortization Period (Years)
Amortizable intangible assets:		
Customer relationships	\$ 108.0	15.0
Developed technology	18.1	17.2
Non-competition agreements	1.2	7.2
Total amortizable intangible assets	127.3	
Indefinite-lived intangible assets:		
Trade names	7.1	Indefinite
Total	\$ 134.4	

In connection with the acquisition, the Company recorded goodwill, which represents the excess of the consideration transferred over the preliminary fair value of tangible and intangible assets acquired, net of liabilities assumed. The goodwill is attributed primarily to Conwed's revenue growth and potential operational synergies from combining the SWM and Conwed businesses and workforces as well as the benefits of access to different markets and customers. Goodwill from the Conwed acquisition was assigned to the AMS reportable segment. The goodwill was determined on the basis of the preliminary fair values of the assets and liabilities identified as part of the transaction. The goodwill acquired in connection with Conwed and its domestic subsidiaries is expected to be deductible for tax purposes. The goodwill associated with Conwed NV is not expected to be deductible for tax purposes.

For the nine months ended September 30, 2017, the Company recognized \$0.1 million of direct and indirect acquisition-related costs and incurred \$0.6 million in acquisition-related financing costs. In 2016, the Company

recognized \$1.4 million of direct and indirect acquisition-related costs. Direct and indirect acquisition-related costs were expensed as incurred and are included in the General expense line item in the consolidated statements of income. Financing costs related to expanding the Amended Credit Agreement (as defined below) have been capitalized and will be amortized in Interest expense over the life of the Amended Credit Agreement.

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The amounts of Net sales and Income from continuing operations of Conwed included in the Company's consolidated income statement from the acquisition date are as follows (\$ in millions):

	Net Sales	Income from Continuing Operations
July 1, 2017 - September 30, 2017	\$40.7	\$ 4.7
January 20, 2017 - September 30, 2017	106.2	7.9

The amounts of the unaudited pro forma Net sales and Income from continuing operations of the combined entity had the acquisition date been January 1, 2016 are as follows (\$ in millions):

	Net Sales	Income from Continuing Operations
2016 Supplemental Pro Forma from July 1, 2016 - September 30, 2016	\$248.1	\$ 20.7
2016 Supplemental Pro Forma from January 1, 2016 - September 30, 2016	751.0	71.0
2017 Supplemental Pro Forma from January 1, 2017 - September 30, 2017	\$754.1	\$ 58.4

Note 4. Discontinued Operations

The Company's former paper mill in San Pedro, Philippines is reported as a discontinued operation. This operation was previously presented as a component of the EP segment. The physical assets at the Philippines paper mill were sold during the fourth quarter of 2013. For all periods presented, results of this operation have been removed from each individual line within the statements of income and the operating activities section of the statements of cash flow. In each case, a separate line has been added for the net results of discontinued operations.

Included in Other current assets, Other assets and Accrued expenses within the condensed consolidated balance sheet are the following major classes of assets and liabilities, respectively, associated with the discontinued operations (\$ in millions):

	September 30, 2017	December 31, 2016
Assets of discontinued operations:		
Current assets	\$ 1.0	\$ 1.0
Other assets	2.4	2.5
Liabilities of discontinued operations:		
Current liabilities	0.2	0.1

The net financial results of discontinued operations were a gain of \$0.1 million and \$0.0 million for each of the three and nine months ended September 30, 2017 and 2016, respectively. These gains are the result of the Company's efforts to dispose of the remaining assets and liabilities of the discontinued operations.

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Note 5. Net Income Per Share

The Company uses the two-class method to calculate earnings per share. The Company has granted restricted stock that contains non-forfeitable rights to dividends on unvested shares. Since these unvested shares are considered participating securities under the two-class method, the Company allocates earnings per share to common stock and participating securities according to dividends declared and participation rights in undistributed earnings.

Diluted net income per common share is computed based on net income divided by the weighted average number of common and potential common shares outstanding. Potential common shares during the respective periods are those related to dilutive stock-based compensation, including long-term stock-based incentive compensation and directors' accumulated deferred stock compensation, which may be received by the directors in the form of stock or cash. A reconciliation of the average number of common and potential common shares outstanding used in the calculations of basic and diluted net income per share follows (\$ in millions, shares in thousands):

	Three Months Ended September 30, 2017		September 30, 2016		Nine Months Ended September 30, 2017		September 30, 2016	
Numerator (basic and diluted):								
Net income	\$25.8	\$ 18.7			\$61.8	\$ 65.8		
Less: Dividends paid to participating securities	(0.1)	(0.1)			(0.3)	(0.2)		
Less: Undistributed earnings available to participating securities	(0.1)	—			(0.2)	(0.2)		
Undistributed and distributed earnings available to common stockholders	\$25.6	\$ 18.6			\$61.3	\$ 65.4		
Denominator:								
Average number of common shares outstanding	30,422.8	30,316.4			30,400.4	30,308.2		
Effect of dilutive stock-based compensation	146.7	142.4			134.3	134.9		
Average number of common and potential common shares outstanding	30,569.5	30,458.8			30,534.7	30,443.1		

Note 6. Inventories

Inventories are valued at the lower of cost (using the First-In, First-Out and weighted average methods) or market. The Company's costs included in inventory primarily include resins, pulp, chemicals, direct labor, utilities, maintenance, depreciation, finishing supplies and an allocation of certain overhead costs. Machine start-up costs or abnormal machine shut downs are expensed in the period incurred and are not reflected in inventory. The definition of market value, with respect to all inventories, is net realizable value. The Company reviews inventories at least quarterly to determine the necessity of write-offs for excess, obsolete or unsalable inventory. The Company estimates write-offs for inventory obsolescence and shrinkage based on its judgment of future realization. These reviews require the Company to assess customer and market demand. The following schedule details inventories by major class (\$ in millions):

	September 30, 2017	December 31, 2016
Raw materials	\$ 53.7	\$ 40.9
Work in process	23.0	23.9
Finished goods	58.1	44.9
Supplies and other	9.1	9.7
Total	\$ 143.9	\$ 119.4

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Note 7. Goodwill

The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2017 were as follows (\$ in millions):

	Advanced Materials & Structures	Engineered Papers	Total
Goodwill as of December 31, 2016	\$ 224.8	\$ 4.7	\$229.5
Goodwill acquired during the period	106.2	—	106.2
Foreign currency translation adjustments	4.0	0.4	4.4
Goodwill as of September 30, 2017	\$ 335.0	\$ 5.1	\$340.1

Note 8. Intangible Assets

The gross carrying amount and accumulated amortization for intangible assets consisted of the following (\$ in millions):

	September 30, 2017				
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Accumulated Foreign Exchange	Net Carrying Amount
Amortized Intangible Assets					
Advanced Materials & Structures					
Customer relationships	\$276.3	\$ 28.5	\$ —	\$ (1.2)	\$ 249.0
Developed technology	34.0	5.4	—	—	28.6
Customer contracts	0.9	0.9	—	—	—
Trade names	21.8	0.8	20.7	0.3	—
Non-compete agreements	2.9	1.0	—	—	1.9
Patents	1.5	0.2	—	—	1.3
Total	\$337.4	\$ 36.8	\$ 20.7	\$ (0.9)	\$ 280.8
Unamortized Intangible Assets (Advanced Materials & Structures)					
Trade names	\$20.0	\$ —	\$ —	\$ (0.3)	\$ 20.3

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	December 31, 2016				
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Accumulated Foreign Exchange	Net Carrying Amount
Amortized Intangible Assets					
Advanced Materials & Structures					
Customer relationships	\$168.3	\$ 15.9	\$ —	\$ 3.1	\$ 149.3
Developed technology	15.9	3.6	—	0.4	11.9
Customer contracts	0.9	0.9	—	—	—
Trade names	21.8	—	20.7	0.3	0.8
Non-compete agreements	1.7	0.5	—	—	1.2
Patents	1.5	0.2	—	—	1.3
Engineered Papers					
Customer relationships	10.0	10.0	—	—	—
Total	\$220.1	\$ 31.1	\$ 20.7	\$ 3.8	\$ 164.5
Unamortized Intangible Assets (Advanced Materials & Structures)					
Trade names	\$12.9	\$ —	\$ —	\$ (0.1)	\$ 13.0

Amortization expense of intangible assets was \$5.2 million and \$3.0 million for the three months ended September 30, 2017 and 2016, respectively, and \$15.7 million and \$9.2 million for the nine months ended September 30, 2017 and 2016, respectively. Incremental amortization expense of intangible assets for the Conwed acquisition was \$2.2 million for the three months ended September 30, 2017 and \$6.0 million for the nine months ended September 30, 2017. Finite-lived intangibles in the AMS segment are expensed using the straight-line amortization method. The estimated average aggregate amortization expense is \$20.4 million in each of the next five years.

In December 2016, the Company made a strategic decision to transition away from certain legacy business trade names associated with its recent acquisitions in the AMS segment in favor of a streamlined SWM branding approach. As a result of adopting this branding strategy, in the fourth quarter of 2016, the Company recognized an impairment expense of \$20.7 million, representing a write-down of the DelStar trade name intangible asset to its fair market value. The remaining value of this trade name was amortized over the first six months of 2017, as the DelStar trade name was phased out.

Note 9. Restructuring and Impairment Activities

The Company incurred Restructuring and impairment expense of \$1.5 million and \$1.3 million in the three months ended September 30, 2017 and 2016, respectively, and \$4.2 million and \$4.0 million in the nine months ended September 30, 2017 and 2016, respectively.

In the AMS segment, Restructuring and impairment expense was \$1.2 million and \$0.0 million for the three months ended September 30, 2017 and 2016, respectively, and \$2.4 million and \$0.6 million in the nine months ended September 30, 2017 and 2016, respectively. Restructuring and impairment expense for the nine months ended September 30, 2017 consisted of severance accruals for employees at our U.S. and Belgium manufacturing operations. In the nine months ended September 30, 2016, Restructuring and impairment expense consisted of severance accruals for employees at our U.S. manufacturing operations.

In the EP segment, Restructuring and impairment expense was \$0.4 million and \$1.3 million for the three months ended September 30, 2017 and 2016, respectively, and \$1.7 million and \$3.1 million in the nine months ended September 30, 2017 and 2016, respectively. Restructuring and impairment expense for the nine months ended September 30, 2017 consisted of \$0.9 million in severance accruals for employees at our manufacturing facilities in the U.S. and France, as well as an impairment charge of \$0.8 million at our Philippines RTL location. During the nine months ended September 30, 2016, Restructuring and impairment expense consisted of \$2.6 million in severance accruals for

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employees at our manufacturing facilities in the U.S., France and Brazil, as well as \$0.5 million of impairment expense at our Poland manufacturing facility.

Additionally, the Company reallocated \$0.1 million between segments and incurred no restructuring and impairment expense during the three months ended September 30, 2017 and 2016, respectively, and incurred \$0.1 million and \$0.3 million in the nine months ended September 30, 2017 and 2016, respectively, in each case related to accruals for severance expenses within supporting overhead departments which were not allocated to a specific segment.

Restructuring liabilities were classified within Accrued expenses in each of the consolidated balance sheets as of September 30, 2017 and December 31, 2016. Changes in the restructuring liabilities, substantially all of which are employee-related, during the periods ended September 30, 2017 and December 31, 2016 are summarized as follows (\$ in millions):

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Balance at beginning of year	\$ 4.3	\$ 7.7
Accruals for announced programs	3.4	4.3
Cash payments	(4.8)	(8.4)
Exchange rate impacts	0.4	0.7
Balance at end of period	\$ 3.3	\$ 4.3

Long-lived assets to be sold are classified as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the assets; the assets are available for immediate sale in present condition subject only to terms that are usual and customary for sales of such assets; an active program to locate a buyer and other actions required to complete the plan to sell the assets have been initiated; the sale of the assets is probable, and transfer of the assets is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond our control extend the period of time required to sell the assets beyond one year; the assets are being actively marketed for sale at a price that is reasonable in relation to current fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A long-lived asset that is classified as held for sale is initially measured at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset until the date of sale. The fair value of a long-lived asset less any costs to sell is assessed each reporting period it remains classified as held for sale and any reduction in fair value is reported as an adjustment to the carrying value of the asset. Upon being classified as held for sale, depreciation is ceased. Long-lived assets to be disposed of other than by sale continue to be depreciated. Upon determining that a long-lived asset meets the criteria to be classified as held for sale, the assets and liabilities of the disposal group, if material, are reported in the line item Assets held for sale in our condensed consolidated balance sheets.

In early 2015, the Company made the decision to dispose of the Company's mothballed RTL facility and related equipment in the Philippines. These assets are included in the EP segment. During 2015, the Company reclassified the balance of the equipment, along with the land and building associated with the property, at this location from Property, plant and equipment, net, to Assets held for sale on the consolidated balance sheets. The reclassifications were made for all assets that are expected to be sold within one year of the balance sheet date and, as of September 30,

2017, all of the physical assets of this entity are classified as Assets held for sale. Impairment charges of \$0.2 million and \$0.8 million were recognized on these assets during the three and nine months ended September 30, 2017, respectively. There were no impairment charges recognized on these assets during the three or nine months ended September 30, 2016.

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Note 10. Debt

The components of total debt are summarized in the following table (\$ in millions):

	September 30, 2017	December 31, 2016
Term Loan A-1	\$ 60.0	\$ 60.0
Term Loan A-2	245.0	246.9
Revolving Credit Agreement - U.S. dollar borrowings	344.5	131.0
Revolving Credit Agreement - euro borrowings	37.8	—
French Employee Profit Sharing	9.0	9.5
Long Term Capital Lease Obligations	3.9	—
Less: Debt issuance costs	(6.2)	(7.0)
Total Debt	694.0	440.4
Less: Current debt	(3.5)	(3.0)
Long-Term Debt	\$ 690.5	\$ 437.4

Credit Agreement

On December 1, 2016, the Company entered into the First Amendment to Second Amended and Restated Credit Agreement ("First Amendment") with JPMorgan Chase Bank, N.A. as administrative agent. Under the terms of the First Amendment, and effective upon the closing of the Conwed acquisition on January 20, 2017, the Company's maximum net debt to EBITDA ratio, as defined in the First Amendment, calculated on a trailing four fiscal quarter basis, is required to be not greater than 4.25 at December 31, 2017, reducing to 4.00 after December 31, 2017, 3.75 after March 31, 2018, 3.50 after June 30, 2018 and 3.00 after December 31, 2018.

On October 28, 2015, the Company, together with two of its Luxembourg-based wholly-owned holding subsidiaries, entered into the Second Amended and Restated Credit Agreement, or the Amended Credit Agreement, with JPMorgan Chase Bank, N.A., as administrative agent, providing for credit facilities in the aggregate principal amount of \$1 billion, consisting of a \$650 million revolving credit facility, or Revolving Credit Facility, available to the Company; a \$100 million Term Loan A-1, or Term Loan A-1, made to the Company; and a \$250 million Term Loan A-2, or Term Loan A-2 and, together with Term Loan A-1, the Term Loans, made to the Company. The Revolving Credit Facility matures on October 28, 2020. The Term Loan A-1 amortizes at the rate of 5.0% for the first two years, at the rate of 10.0% for the final three years and matures on October 28, 2020. The Term Loan A-2 amortizes at the rate of 1.0% per year and matures on October 28, 2022. The Term Loans are generally subject to mandatory repayment out of the net cash proceeds of asset sales which are not reinvested in operating assets. The credit facilities are secured by substantially all of the personal property of the Company and its domestic subsidiaries, while the obligations of the Luxembourg-based holding subsidiaries are secured by a pledge of certain of the equity interests held in their operating subsidiaries. In December 2015, the Company prepaid the full amount of amortization for Term Loan A-1, which totaled \$40 million.

The interest rate margins applicable to the Revolving Credit Facility and the Term Loans under the Amended Credit Agreement are based on a fluctuating rate of interest measured by reference to either, at the Company's option, (i) a base rate, plus an applicable margin, which ranges from 0.25% to 1.50%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 0.50% to 1.75%, in the case of Term Loan A-2, or (ii) an adjusted London interbank offered rate (adjusted for maximum reserves), or LIBOR, plus an applicable margin, which ranges from 1.25% to 2.50%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 1.50% to 2.75%, in the case of

Term Loan A-2. The applicable margin, in each case, will be adjusted from time to time based on the Company's ratio of net debt to EBITDA as defined in the Amended Credit Agreement. As of September 30, 2017, the average interest rate was 3.25% on outstanding US Revolving Credit Facility borrowings, 2.00% on outstanding Euro Revolving Credit Facility borrowings, 3.25% on outstanding Term Loan A-1 borrowings and 3.50% on outstanding Term Loan A-2 borrowings. The weighted average effective interest rate on our debt facilities was approximately 3.12% and 2.34% for the nine months ended September 30, 2017 and 2016, respectively.

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In addition to the updated net debt to EBITDA ratios noted above, the Amended Credit Agreement also contains representations and warranties which are customary for facilities of this type and other covenants and provisions. The Company was in compliance with all of its covenants under the Amended Credit Agreement at September 30, 2017.

In conjunction with the First Amendment, the Company capitalized approximately \$0.6 million in deferred debt issuance costs which will be amortized over the term of the related debt instrument. As of September 30, 2017 and December 31, 2016, the Company's total deferred debt issuance costs, net of accumulated amortization, were \$6.2 million and \$7.0 million, respectively. Amortization expense of \$1.4 million and \$1.3 million was recorded during the nine months ended September 30, 2017 and 2016, respectively, and has been included as a component of Interest expense in the accompanying consolidated statements of income.

Fair Value of Debt

At September 30, 2017 and December 31, 2016, the estimated fair values of the Company's current and long-term debt approximated the respective carrying amounts as the interest rates were variable and based on current market indices.

Note 11. Derivatives

In the normal course of business, the Company is exposed to foreign currency exchange rate risk and interest rate risk on its variable-rate debt. To manage these risks, the Company utilizes a variety of practices including, where considered appropriate, derivative instruments. The Company has no derivative instruments for trading or speculative purposes or derivatives with credit risk-related contingent features. All derivative instruments used by the Company are either exchange traded or are entered into with major financial institutions in order to reduce credit risk and risk of nonperformance by third parties. The fair values of the Company's derivative instruments are determined using observable inputs and are considered Level 2 assets or liabilities.

The Company utilizes currency forward, swap and, to a lesser extent, option contracts to selectively hedge its exposure to foreign currency risk when it is practical and economical to do so. The use of these contracts minimizes transactional exposure to exchange rate changes. We designate certain of our foreign currency hedges as cash flow hedges. Changes in the fair value of cash flow hedges are reported as a component of other comprehensive income (loss) and reclassified into earnings when the forecasted transaction affects earnings. For foreign exchange contracts not designated as cash flow hedges, changes in the contracts' fair values are recorded to net income each period.

The Company selectively hedges its exposure to interest rate increases on variable-rate, long-term debt when it is practical and economical to do so. Changes in the fair value of interest rate contracts considered cash flow hedges are reported as a component of other comprehensive income (loss) and reclassified into earnings when the forecasted transaction affects earnings.

On January 20, 2017, the Company entered into an interest rate swap transaction with JPMorgan Chase Bank, N.A. for a three-year term on a notional amount of \$315 million. The interest rate swap is intended to manage the Company's interest rate risk by fixing the interest rate on a portion of the Company's debt currently outstanding under its credit facility that was previously subject to a floating interest rate equal to 1-month LIBOR plus a credit spread. The swap provides for the Company to pay a fixed rate of 1.65% per annum in addition to the credit spread on such portion of its outstanding debt in exchange for receiving a variable interest rate based on 1-month LIBOR.

On January 20, 2017, the Company also entered into a three-year cross-currency swap with JPMorgan Chase Bank, N.A. designated as a hedge of a portion of the Company's net investment in certain Euro-denominated subsidiaries.

The terms of the cross-currency swap provide for an exchange of principal on a notional amount of \$100 million swapped to €93.7 million at maturity. The Company will receive from our swap counterparty U.S. dollar interest at a fixed rate of 1.65% per annum and pay to our swap counterparty Euro interest at a fixed rate of -0.18% per annum.

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The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at September 30, 2017 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	\$ 3.9	Accrued expenses	\$—
Foreign exchange contracts	Other assets	0.8	Other liabilities	11.8
Interest rate contracts	Other assets	—	Other liabilities	0.1
Total derivatives designated as hedges		\$ 4.7		\$ 11.9

The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at December 31, 2016 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	\$ 1.0	Accrued expenses	\$ 1.8
Foreign exchange contracts	Other assets	1.9	Other liabilities	—
Interest rate contracts	Other assets	—	Other liabilities	0.4
Total derivatives designated as hedges		\$ 2.9		\$ 2.2

The following table provides the gross effect that derivative instruments in cash flow hedging relationships had on accumulated other comprehensive income (loss), or AOCI, and results of operations (\$ in millions):

Derivatives Designated as Cash Flow Hedging Relationships	Unrealized Gain (Loss) Recognized in AOCI on Derivatives, Net of Tax				Gain (Loss) Reclassified from AOCI			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2017	2016	2017	2016	2017	2016	2017	2016
Foreign exchange contracts	\$(2.8)	\$(0.4)	\$(4.6)	\$12.3	\$(0.6)	\$(0.4)	\$0.5	\$(5.7)
Interest rate contracts	—	0.1	(0.8)	(0.6)	(0.3)	(0.2)	(1.0)	(0.5)
Total	\$(2.8)	\$(0.3)	\$(5.4)	\$11.7	\$(0.9)	\$(0.6)	\$(0.5)	\$(6.2)

The Company's designated derivative instruments are highly effective. As such, related to the hedge ineffectiveness or amounts excluded from hedge effectiveness testing, there were no gains or losses recognized immediately in income for the three or nine months ended September 30, 2017 or 2016.

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The following table provides the effect that derivative instruments not designated as cash flow hedging instruments had on net income (\$ in millions):

Derivatives Not Designated as Cash Flow Hedging Instruments	Amount of Gain Recognized in Other Income / Expense			
	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Foreign exchange contracts	\$4.6	\$ 0.8	\$ 3.2	\$ 1.2

Note 12. Commitments and Contingencies

Litigation

Imposto sobre Circulação de Mercadorias e Serviços, or ICMS, a form of value-added tax in Brazil, was assessed to our Brazilian subsidiary Schweitzer-Mauduit do Brasil Indústria e Comércio de Papel Ltda., or SWM-B, in December 2000. SWM-B received two assessments from the tax authorities of the State of Rio de Janeiro for unpaid ICMS taxes on certain raw materials from January 1995 through November 2000, collectively the Raw Materials Assessments.

The Raw Materials Assessments concerned the accrual and use by SWM-B of ICMS tax credits generated from the production and sale of certain non-tobacco related grades of paper sold domestically that are immune from the tax to offset ICMS taxes otherwise owed on the sale of products that are not immune. SWM-B has contested the Raw Materials Assessments based on Article 150, VI of the Brazilian Federal Constitution of 1988, which grants immunity from ICMS taxes to papers intended for printing books, newspapers and periodicals, or immune papers, and thus to the raw material inputs used to produce immune papers. One of the two assessments, or Assessment 1 (case number 2001.001.115144-5), related in part to tax periods that predated our acquisition of the Pirahy mill in Pirai, Brazil. In October 2015, the Federal Supreme Court of Brazil denied the State's appeal of Assessment 1, in the amount of approximately \$16.0 million, a decision which is now final. The second assessment, or Assessment 2 (case number 2001.001.064544-6), pertains exclusively to periods during which SWM-B owned the Pirahy mill. Assessment 2 in the amount of approximately \$13.2 million remains pending before the Federal Supreme Court of Brazil on SWM-B's appeal on the merits and is likely to be finally decided by the action of the chamber of the court hearing the matter. No docket entry has been made yet regarding argument on Assessment 2.

SWM-B received assessments from the tax authorities of the State of Rio de Janeiro, or the State, for unpaid ICMS and Fundo Estadual de Combate à Pobreza, or FECP, a value-added tax similar to ICMS, taxes on interstate purchases of electricity. The State issued three sets of assessments against SWM-B, one for May 2006 - November 2007, a second for January 2008 - December 2010, and a third for September 2011 - September 2013, collectively the Electricity Assessments. SWM-B has challenged all three Electricity Assessments in administrative proceedings before the State tax council (in the first-level court Junta de Revisão Fiscal and the appellate court Conselho de Contribuintes) based on Resolution 1.610/89, which defers these taxes on electricity purchased by an "electricity-intensive consumer." In October and November 2014, a majority of the Conselho de Contribuintes sitting en banc ruled against SWM-B in each of the first and second electricity assessments. The State issued notices to SWM-B to pay approximately \$5.4 million in the first electricity assessment and \$9.2 million in the second electricity assessment, based on the foreign currency exchange rate at September 30, 2017. SWM-B filed separate challenges to these electricity assessments in further court proceedings in the State judicial system, and different chambers of the judicial court granted SWM-B preliminary injunctions against enforcement. In March and July 2017, the first-level

judicial court ruled that SWM-B must present additional evidence that it is an "electricity-intensive consumer" concerning the first and second electricity assessments. SWM-B is now pursuing these actions. SWM-B's challenge to the third electricity assessment (approximately \$4.6 million as of September 30, 2017), was decided adversely to SWM-B at the first administrative level (Junta de Revisão Fiscal) and is now on appeal to the Conselho de Contribuintes.

SWM-B believes that both the remaining Raw Materials Assessment and the Electricity Assessments will ultimately be resolved in its favor. No liability has been recorded in our consolidated financial statements for these assessments

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based on our evaluation of these matters under the facts and law as presently understood. The Company can give no assurance as to the ultimate outcome of such proceedings.

In December 2016, the Conseil de Prud'hommes d'Orange (a French court dealing with labor matters) rendered a decision by which the Company's wholly owned subsidiary, Schweitzer Mauduit France ("SWM France"), was ordered to pay approximately €1.3 million to 18 former employees of Malaucène Industries, another wholly owned subsidiary, on the grounds, among other things, that SWM France was a "co-employer" of the plaintiffs, and, as a result, liable for certain obligations of Malaucène Industries with respect to such employees. Malaucène Industries stopped production in 2009. The Company believes that SWM France, which is a corporate holding company and indirect corporate parent of Malaucène Industries, is not a "co-employer" of any person and that the other claims are also without merit. The Company has no liability recorded in the consolidated financial statements for this matter, believing that the chances of SWM France to reverse the decision on appeal are sufficient that no such reserve is warranted. There can be no assurance, however, that the court of appeals will decide in favor of SWM France on any of the questions pending before the court.

Environmental Matters

The Company's operations are subject to various nations' federal, state and local laws, regulations and ordinances relating to environmental matters. The nature of the Company's operations exposes it to the risk of claims with respect to various environmental matters, and there can be no assurance that material costs or liabilities will not be incurred in connection with such claims. While the Company has incurred in the past several years, and will continue to incur, capital and operating expenditures in order to comply with environmental laws and regulations, it believes that its future cost of compliance with environmental laws, regulations and ordinances, and its exposure to liability for environmental claims and its obligation to participate in the remediation and monitoring of certain hazardous waste disposal sites, will not have a material effect on its financial condition, results of operations or cash flows. However, future events, such as changes in existing laws and regulations (including the enforcement thereof), or unknown contamination of sites owned, operated or used for waste disposal by the Company (including contamination caused by prior owners and operators of such sites or other waste generators), or similar circumstances arising at our unconsolidated joint ventures, may give rise to additional costs which could have a material effect on the Company's financial condition or results of operations.

General Matters

In the ordinary course of its business activities, the Company and its subsidiaries are involved in certain other judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include insured and uninsured regulatory, employment, general and commercial liability, environmental, intellectual property rights and other matters. At this time, the Company does not expect any of these proceedings to have a material adverse effect on its reputation, business, financial condition, results of operations or cash flows. However, as the outcomes of such proceedings are unpredictable, the Company can give no assurance that the results of any such proceedings will not materially affect its reputation, business, financial condition, results of operations or cash flows.

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Note 13. Postretirement and Other Benefits

The Company sponsors pension benefits in the United States, France and Canada and OPEB benefits related to postretirement healthcare and life insurance in the United States and Canada. The Company's Canadian pension and OPEB benefits are not material and therefore are not included in the following disclosures.

Pension and OPEB Benefits

The components of net pension and OPEB benefit costs for U.S. employees and net pension benefit costs for French employees during the three and nine months ended September 30, 2017 and 2016 were as follows (\$ in millions):

	Three Months Ended September 30,					
	U.S. Pension Benefits		French Pension Benefits		U.S. OPEB Benefits	
	2017	2016	2017	2016	2017	2016
Service cost	\$—	\$—	\$0.3	\$0.2	\$—	\$—
Interest cost	1.2	1.3	0.1	0.2	—	—
Expected return on plan assets	(1.6)	(1.7)	—	(0.1)	—	—
Amortizations and other	0.6	0.8	0.3	0.3	0.1	0.1
Net periodic benefit cost	\$0.2	\$0.4	\$0.7	\$0.6	\$0.1	\$0.1

	Nine Months Ended September 30,					
	U.S. Pension Benefits		French Pension Benefits		U.S. OPEB Benefits	
	2017	2016	2017	2016	2017	2016
Service cost	\$—	\$—	\$0.8	\$0.8	\$—	\$—
Interest cost	3.6	3.9	0.3	0.4	—	—
Expected return on plan assets	(4.8)	(5.1)	(0.1)	(0.2)	—	—
Amortizations and other	2.4	2.8	0.9	0.8	0.2	0.2
Net periodic benefit cost	\$1.2	\$1.6	\$1.9	\$1.8	\$0.2	\$0.2

During the fiscal year ending December 31, 2017, the Company expects to recognize approximately \$3.4 million for amortization of accumulated other comprehensive loss related to its U.S. pension and OPEB plans and approximately \$1.2 million for its French pension plans.

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Note 14. Income Taxes

For interim financial reporting, the Company estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with ASC No. 740-270 "Accounting for Income Taxes in Interim Periods." These interim estimates are subject to variation due to several factors, including our ability to accurately forecast our pre-tax and taxable income and loss by jurisdiction, changes in laws or regulations, and expenses or losses for which tax benefits are not recognized. Jurisdictions with a projected loss for the year or an actual year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of including these jurisdictions on the quarterly effective tax rate calculations could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings verses annual projections. Also, the impact of discrete items and non-deductible losses on our effective tax rate is greater when our pre-tax income is lower.

All unrecognized tax positions would impact the Company's effective tax rate if recognized. With respect to penalties and interest incurred from income tax assessments or related to unrecognized tax benefits, the Company's policy is to classify penalties as provision for income taxes and interest as interest expense in its consolidated statement of income. There were no material income tax penalties or interest accrued during the three or nine months ended September 30, 2017 or 2016.

Our effective tax rate from continuing operations was 27.0% and 38.8% for the three months ended September 30, 2017 and 2016, respectively. The decrease was due to favorable discrete items in the current year, versus unfavorable discrete items in the prior year period. Our effective tax rate from continuing operations was 30.2% and 30.6% for the nine months ended September 30, 2017 and 2016, respectively.

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Note 15. Segment Information

The Company's two operating product line segments are also the Company's reportable segments: Advanced Materials & Structures and Engineered Papers. The AMS segment primarily produces engineered resin-based rolled goods such as nets, films and other non-wovens for use in high-performance applications in the filtration, infrastructure and construction, transportation, medical and industrial end-markets. It consists of the operations of various acquisitions, including Conwed. The EP segment primarily produces various cigarette papers and recon for sale to cigarette manufacturers. The EP segment also includes non-tobacco paper for battery separators, printing and writing, drinking straw wrap and furniture laminates.

Information about Net Sales and Operating Profit

The accounting policies of these segments are the same as those described in Note 2. Summary of Significant Accounting Policies in the notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The Company primarily evaluates segment performance and allocates resources based on operating profit. Expense amounts not associated with segments are referred to as unallocated expenses.

(\$ in millions)	Net Sales							
	Three Months Ended				Nine Months Ended			
	September 30, 2017		September 30, 2016		September 30, 2017		September 30, 2016	
Advanced Materials & Structures	\$116.2	45.1 %	\$72.5	34.6 %	\$334.0	44.7 %	\$215.5	33.6 %
Engineered Papers	141.6	54.9	136.8	65.4	412.4	55.3	425.7	66.4
Total Consolidated	\$257.8	100.0%	\$209.3	100.0%	\$746.4	100.0%	\$641.2	100.0%

(\$ in millions)	Operating Profit							
	Three Months Ended				Nine Months Ended			
	September 30, 2017		September 30, 2016		September 30, 2017		September 30, 2016	
Advanced Materials & Structures	\$15.4	40.0 %	\$8.7	28.2 %	\$40.9	39.1 %	\$22.8	22.8 %
Engineered Papers	32.3	83.9	32.0	103.9	90.0	86.0	103.4	103.5
Unallocated	(9.2)	(23.9)	(9.9)	(32.1)	(26.3)	(25.1)	(26.3)	(26.3)
Total Consolidated	\$38.5	100.0 %	\$30.8	100.0 %	\$104.6	100.0 %	\$99.9	100.0 %

(\$ in millions)	Segment Assets	
	September 30, 2017	December 31, 2016
	Advanced Materials & Structures	\$918.4
Engineered Papers	523.0	505.1
Unallocated	90.6	99.3
Total Consolidated	\$1,532.0	\$ 1,173.7

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

The following is a discussion of our financial condition and results of operations. This discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this report and the audited consolidated financial statements and related notes and the selected financial data included in our Annual Report on Form 10-K for the year ended December 31, 2016. The discussion of our financial condition and results of operations includes various forward-looking statements about our markets, the demand for our products, our future prospects and other matters. These statements are based on certain assumptions and estimates that we consider reasonable. For information about risks and exposures relating to us and our business, you should read the section entitled "Risk Factors" in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 and the section entitled "Forward-Looking Statements" at the end of this Item 2. Unless the context indicates otherwise, references to "SWM", "we", "us", "our", the "Company" or similar terms include Schweitzer-Mauduit International, Inc. and our consolidated subsidiaries.

Summary

(\$ in millions, except per share amounts)	Three Months Ended				Nine Months Ended			
	September 30, 2017		September 30, 2016		September 30, 2017		September 30, 2016	
Net sales	\$257.8	100.0%	\$209.3	100.0%	\$746.4	100.0%	\$641.2	100.0%
Gross profit	75.8	29.4	63.1	30.1	215.5	28.9	193.5	30.2
Restructuring & impairment expense	1.5	0.6	1.3	0.6	4.2	0.6	4.0	0.6
Operating profit	38.5	14.9	30.8	14.7	104.6	14.0	99.9	15.6
Interest expense	7.4	2.9	3.9	1.9	20.0	2.7	12.6	2.0
Income from continuing operations	25.7	10.0	18.7	8.9	61.7	8.3	65.8	10.3
Loss from discontinued operations	0.1	—	—	—	0.1	—	—	—
Net income	\$25.8	10.0 %	\$18.7	8.9 %	\$61.8	8.3 %	\$65.8	10.3 %
Diluted earnings per share from continuing operations	\$0.84		\$0.61		\$2.01		\$2.15	
Diluted earnings per share	\$0.84		\$0.61		\$2.01		\$2.15	
Cash provided by operations	\$48.4		\$30.8		\$93.3		\$83.0	
Capital spending	\$8.2		\$7.8		\$27.5		\$17.5	

Third Quarter Highlights

For the three months ended September 30, 2017, SWM reported net income of \$25.8 million on total net sales of \$257.8 million. Compared to the prior-year period, net sales increased \$48.5 million due primarily to incremental net sales generated from the newly acquired Conwed operations, organic (excluding the impact of acquisitions) growth in AMS, and higher sales in the EP segment.

Gross profit increased by \$12.7 million to \$75.8 million for the three months ended September 30, 2017 compared with \$63.1 million in the prior-year period. The incremental gross profit generated by the newly acquired Conwed business and organic growth in AMS was partially offset by the impact of lower RTL sales in the EP segment.

Cash provided by operations was \$48.4 million for the third quarter of 2017 compared to \$30.8 million in the prior-year period. The \$17.6 million increase was due primarily to favorable net changes in operating working capital and higher net income. Uses of cash during the three months ended September 30, 2017 included \$8.2 million of capital spending, \$12.9 million in cash dividends paid to SWM shareholders and \$34.7 million in net payments on long-term debt, while sources of cash during the three months ended September 30, 2017 included \$7.0 million from the sale of assets.

Year-to-Date Highlights

For the nine months ended September 30, 2017, SWM reported net income of \$61.8 million on total net sales of \$746.4 million. Compared to the prior-year period, net sales increased \$105.2 million due primarily to incremental net sales generated from the newly acquired Conwed operations and organic growth in AMS, which was partially offset by the impact of lower sales in the EP segment.

Gross profit increased by \$22.0 million to \$215.5 million for the nine months ended September 30, 2017 compared with \$193.5 million in the prior-year period. The incremental gross profit generated by the newly acquired Conwed business and organic growth in AMS was partially offset by the impact of lower RTL sales in the EP segment.

Cash provided by operations was \$93.3 million for the nine months ended September 30, 2017 compared to \$83.0 million in the prior-year period. The \$10.3 million increase was due primarily to incremental profits from the Conwed acquisition and a favorable change in the deferred income tax provision, partially offset by the unfavorable net changes in operating working capital and lower net income compared to the prior-year period. Uses of cash during the nine months ended September 30, 2017 included \$27.5 million of capital spending, \$38.7 million in cash dividends paid to SWM shareholders and \$291.7 million, net of cash acquired, for the Conwed acquisition, while sources of cash during the first nine months of 2017 included \$244.2 million in net proceeds from issuance of debt to partially finance the Conwed acquisition and \$7.0 million from the sale of assets.

Three Months Ended September 30, 2017 Compared with the Three Months Ended September 30, 2016

Net Sales
(\$ in millions)

	Three Months Ended		Change	Percent Change
	September 30, 2017	September 30, 2016		
Advanced Materials & Structures	\$ 116.2	\$ 72.5	\$ 43.7	60.3 %
Engineered Papers	141.6	136.8	4.8	3.5
Total	\$ 257.8	\$ 209.3	\$ 48.5	23.2 %

Net sales were \$257.8 million in the three months ended September 30, 2017 compared with \$209.3 million in the prior-year period. The increase in net sales consisted of the following (\$ in millions):

	Amount	Percent
Incremental revenue from acquired companies	\$ 40.7	19.5 %
Changes in volume, product mix and selling prices	4.6	2.2
Changes due to royalties	(1.4)	(0.7)
Changes due to net foreign currency impacts	4.6	2.2
Total	\$ 48.5	23.2 %

AMS segment net sales were \$116.2 million for the three months ended September 30, 2017 compared to \$72.5 million during the prior-year period. The increase of \$43.7 million or 60.3% was due primarily to \$40.7 million in incremental net sales generated by the operations of the newly acquired Conwed business. Absent the impact of the Conwed acquisition, AMS segment net sales increased \$3.0 million primarily due to the higher volume of surface protection products sold to the transportation end-market compared to the prior-year period, partially offset by lower filtration sales.

EP segment net sales during the three months ended September 30, 2017 of \$141.6 million increased by \$4.8 million, or 3.5%, versus net sales of \$136.8 million in the prior-year quarter. Compared to the prior-year period, the increase in net sales was primarily the result of a \$4.7 million positive impact from foreign currency effects and a \$1.5 million combined positive impact of average selling prices, sales volume and mix of products sold, offset by a \$1.4 million decline in royalties.

Gross Profit
(\$ in millions)

	Three Months Ended			Percent of Net Sales		
	September 30, 2017	September 30, 2016	Change	Change	2017	2016
Net Sales	\$ 257.8	\$ 209.3	\$ 48.5	23.2 %	100.0 %	100.0 %
Cost of products sold	182.0	146.2	35.8	24.5	70.6	69.9
Gross Profit	\$ 75.8	\$ 63.1	\$ 12.7	20.1 %	29.4 %	30.1 %

Gross profit increased by \$12.7 million during the three months ended September 30, 2017 to \$75.8 million versus the prior-year period of \$63.1 million. AMS gross profit increased by \$13.7 million, primarily due to the incremental gross profit associated with the newly acquired Conwed business, along with organic sales growth and a favorable mix of products sold, partially offset by higher input costs and certain manufacturing inefficiencies. In the EP segment, gross profit decreased by \$1.0 million, primarily due to lower RTL sales volume and lower royalties compared to the prior-year period, partially offset by a favorable impact from foreign currency effects.

Nonmanufacturing Expenses
(\$ in millions)

	Three Months Ended			Percent Change	Percent of Net Sales	
	September 2017	September 2016	September 30, Change		2017	2016
Selling expense	\$ 8.1	\$ 6.0	\$ 2.1	35.0 %	3.1 %	2.9 %
Research expense	3.9	4.2	(0.3)	(7.1)	1.5	2.0
General expense	23.8	20.8	3.0	14.4	9.3	9.9
Nonmanufacturing expenses	\$ 35.8	\$ 31.0	\$ 4.8	15.5 %	13.9%	14.8%

Nonmanufacturing expenses in the three months ended September 30, 2017 increased by \$4.8 million to \$35.8 million from \$31.0 million in the prior-year period due primarily to incremental costs from the newly acquired Conwed business.

Restructuring and Impairment Expense
(\$ in millions)

	Three Months Ended			Percent Change	Percent of Net Sales	
	September 2017	September 2016	September 30, Change		2017	2016
Advanced Materials & Structures	\$ 1.2	\$ —	\$ 1.2	N/A	1.0%	— %
Engineered Papers	0.4	1.3	(0.9)	(69.2)	0.3	1.0
Unallocated expenses	(0.1)	—	(0.1)	N/A		
Total	\$ 1.5	\$ 1.3	\$ 0.2	15.4 %	0.6%	0.6%

The Company incurred total restructuring and impairment expense of \$1.5 million and \$1.3 million in the three months ended September 30, 2017 and 2016, respectively. In the 2017 period, the restructuring expense primarily related to \$1.3 million in severance accruals for employees at our AMS and EP manufacturing operations in the U.S. and France, as well as an asset impairment charge of \$0.2 million on held for sale equipment at our Philippines RTL location.

In the 2016 period, the restructuring expense primarily related to \$1.3 million in severance accruals for employees at our EP manufacturing operations related to the implementation of previously announced voluntary retirement programs available to certain employees at our French manufacturing facilities.

Operating Profit
(\$ in millions)

	Three Months Ended			Percent Change	Return on Net Sales	
	September 2017	September 2016	September 30, Change		2017	2016
Advanced Materials & Structures	\$15.4	\$ 8.7	\$ 6.7	77.0 %	13.3 %	12.0 %
Engineered Papers	32.3	32.0	0.3	0.9	22.8	23.4
Unallocated expenses	(9.2)	(9.9)	0.7	7.1		
Total	\$38.5	\$ 30.8	\$ 7.7	25.0 %	14.9 %	14.7 %

Operating profit was \$38.5 million in the three months ended September 30, 2017 compared with \$30.8 million during the prior-year period.

The AMS segment's operating profit in the three months ended September 30, 2017 was \$15.4 million compared to \$8.7 million in the prior-year period. The increase of \$6.7 million, or 77.0%, was primarily due to the net operating profit from the Conwed acquisition and the favorable impact of higher organic net sales and associated gross profits.

The EP segment's operating profit in the three months ended September 30, 2017 was \$32.3 million, an increase of \$0.3 million, or 0.9%, from \$32.0 million in the prior-year period. The increase was primarily due to the favorable impact of foreign currency effects and lower non-manufacturing expenses, offset by lower royalties compared to the prior-year period.

Unallocated expenses in the three months ended September 30, 2017 were \$9.2 million compared to \$9.9 million in the prior-year period. The decrease of \$0.7 million, or 7.1%, in unallocated expenses during the three months ended September 30, 2017 was primarily attributable to favorable timing of professional fees compared to the prior-year period.

Non-Operating Expenses

Interest expense was \$7.4 million in the three months ended September 30, 2017, an increase from \$3.9 million in the prior-year period. The weighted average effective interest rate on our debt facilities was approximately 3.24% and 2.42% for the three months ended September 30, 2017 and 2016, respectively. The increase in interest expense is due to higher debt balances outstanding compared to the prior-year period in conjunction with the Conwed acquisition. Interest expense was also unfavorably affected by a higher average interest rate compared to the prior-year period as a result of entering the interest rate swap agreement and increases in market rates.

Other income, net, was \$4.1 million during the three months ended September 30, 2017. The \$3.4 million increase compared to Other income, net, of \$0.7 million during the three months ended September 30, 2016 was due primarily to the sale of assets in 2017. This increase was partially offset by the negative impact of foreign currency changes, primarily from the Euro.

Income Taxes

A \$9.5 million provision for income taxes in the three months ended September 30, 2017 resulted in an effective tax rate of 27.0% compared with 38.8% in the prior-year period. The decrease was due to favorable discrete items in the current year, versus unfavorable discrete items in the prior year period.

Income from Equity Affiliates

Income from equity affiliates was \$0.0 million in the three months ended September 30, 2017 compared with \$1.8 million during the prior-year period. The decrease in earnings was driven primarily by lower sales volume at CTS in the third quarter of 2017 compared to the prior-year period.

Discontinued Operations

Because we closed our Philippines paper mill as previously reported, the results of this mill were reported as discontinued operations for all periods presented. Consequently, this mill's results have been removed from each line of the statements of income and the operating activities section of the statements of cash flow. In each case, a separate line has been added for the net results of the discontinued operation. Income from discontinued operations was \$0.1 million and \$0.0 million for the three months ended September 30, 2017 and 2016, respectively. This increase is the result of the Company's efforts to dispose of the remaining assets and liabilities of the discontinued operations.

Net Income and Income per Share

Net income in the three months ended September 30, 2017 was \$25.8 million, or \$0.84 per diluted share, compared with \$18.7 million, or \$0.61 per diluted share, during the prior-year period. The increase in net income was primarily due to the incremental operating profits from the Conwed acquisition, the favorable impact of higher organic sales and associated gross profits in our AMS segment, a lower tax rate, the favorable impact of foreign currency changes in our EP segment and a gain on the sale of assets in 2017. These factors were partially offset by the unfavorable impact of higher intangible asset amortization in our AMS segment as a result of the Conwed acquisition, lower income from equity affiliates and higher interest expense.

Nine Months Ended September 30, 2017 Compared with the Nine Months Ended September 30, 2016

Net Sales

(\$ in millions)

	Nine Months Ended		Change	Percent Change
	September 30, 2017	September 30, 2016		
Advanced Materials & Structures	\$334.0	\$ 215.5	\$118.5	55.0 %
Engineered Papers	412.4	425.7	(13.3)	(3.1)
Total	\$746.4	\$ 641.2	\$105.2	16.4 %

Net sales were \$746.4 million in the nine months ended September 30, 2017 compared with \$641.2 million in the prior-year period. The increase in net sales consisted of the following (\$ in millions):

	Amount	Percent
Incremental revenue from acquired companies	\$106.2	16.6 %
Changes in volume, product mix and selling prices	0.3	—
Changes due to net foreign currency impacts	2.5	0.4
Changes due to royalties	(3.8)	(0.6)
Total	\$105.2	16.4 %

AMS segment net sales were \$334.0 million for the nine months ended September 30, 2017 compared to \$215.5 million during the prior-year period. The increase of \$118.5 million or 55.0% was due primarily to \$106.2 million in incremental net sales generated by the operations of our newly acquired Conwed operations. Organic AMS segment net sales increased \$12.8 million primarily due to the higher volume of surface protection products sold to the transportation end-market compared to the prior-year period.

EP segment net sales during the nine months ended September 30, 2017 of \$412.4 million decreased by \$13.3 million versus net sales of \$425.7 million in the prior-year period. The decrease in net sales was primarily the result of the \$12.5 million net combined unfavorable impact of changes in volumes, mix of products sold and average selling prices and \$3.8 million impact of lower royalties received, offset by \$3.0 million in favorable net foreign currency translation impacts, primarily from the euro, compared to the prior-year period.

Gross Profit

(\$ in millions)

	Nine Months Ended			Percent Change	Percent of Net Sales	
	September 30, 2017	September 30, 2016	Change		2017	2016
Net Sales	\$746.4	\$ 641.2	\$105.2	16.4 %	100.0 %	100.0 %
Cost of products sold	530.9	447.7	83.2	18.6	71.1	69.8
Gross Profit	\$215.5	\$ 193.5	\$22.0	11.4 %	28.9 %	30.2 %

Gross profit increased by \$22.0 million during the nine months ended September 30, 2017 to \$215.5 million versus the prior-year period of \$193.5 million. AMS gross profit increased by \$39.2 million, primarily due to the incremental gross profit associated with the operations of our newly acquired Conwed business, along with organic sales growth and a favorable mix of products sold, partially offset by certain manufacturing inefficiencies and higher input costs. In the EP segment, gross profit decreased by \$17.2 million, primarily due to the unfavorable impact of lower sales combined with the lower sales volume's associated impact on manufacturing efficiencies and overhead absorption compared to the prior-year period.

Nonmanufacturing Expenses
(\$ in millions)

	Nine Months Ended			Percent Change	Percent of Net Sales	
	September 2017	September 2016	September 30, Change		2017	2016
Selling expense	\$24.6	\$ 18.8	\$ 5.8	30.9 %	3.3 %	2.9 %
Research expense	12.9	12.9	—	—	1.7	2.0
General expense	69.2	57.9	11.3	19.5	9.3	9.0
Nonmanufacturing expenses	\$106.7	\$ 89.6	\$ 17.1	19.1 %	14.3%	13.9%

Nonmanufacturing expenses in the nine months ended September 30, 2017 increased by \$17.1 million to \$106.7 million from \$89.6 million in the prior-year period due primarily to incremental costs from the operations of our newly acquired Conwed business.

Restructuring and Impairment Expense
(\$ in millions)

	Nine Months Ended			Percent Change	Percent of Net Sales	
	September 2017	September 2016	September 30, Change		2017	2016
Advanced Materials & Structures	\$ 2.4	\$ 0.6	\$ 1.8	300.0 %	0.7%	0.3%
Engineered Papers	1.7	3.1	(1.4)	(45.2)	0.4	0.7
Unallocated expenses	0.1	0.3	(0.2)	(66.7)		
Total	\$ 4.2	\$ 4.0	\$ 0.2	5.0 %	0.6%	0.6%

The Company incurred total restructuring and impairment expense of \$4.2 million in the nine months ended September 30, 2017 compared with \$4.0 million in the nine months ended September 30, 2016. In the 2017 period, the restructuring expense primarily related to \$3.4 million in severance accruals for employees at our EP and AMS manufacturing operations in the U.S., France and Belgium and \$0.8 million of an asset impairment charge recognized on held for sale equipment at our Philippines RTL facility.

In the comparable 2016 period, the restructuring expense primarily related to \$3.2 million in severance accruals for employees at our EP and AMS manufacturing operations in the U.S., France and Brazil, \$0.3 million in severance accruals within supporting overhead departments not allocated to a specific segment and \$0.5 million of impairment charge recognized on equipment at our Poland paper manufacturing facility.

Operating Profit
(\$ in millions)

	Nine Months Ended			Percent Change	Return on Net Sales	
	September 2017	September 30, 2016	Change		2017	2016
Advanced Materials & Structures	\$40.9	\$ 22.8	\$ 18.1	79.4 %	12.2 %	10.6 %
Engineered Papers	90.0	103.4	(13.4)	(13.0)	21.8	24.3
Unallocated expenses	(26.3)	(26.3)	—	—		
Total	\$104.6	\$ 99.9	\$ 4.7	4.7 %	14.0 %	15.6 %

Operating profit was \$104.6 million in the nine months ended September 30, 2017 compared with \$99.9 million during the prior-year period.

The AMS segment's operating profit in the nine months ended September 30, 2017 was \$40.9 million compared to \$22.8 million in the prior-year period. The increase of \$18.1 million, or 79.4%, was positively impacted by the incremental operating profit associated with the operations of our newly acquired Conwed business and organic net sales growth and associated gross profits.

The EP segment's operating profit in the nine months ended September 30, 2017 was \$90.0 million, a decrease of \$13.4 million, or 13.0%, from \$103.4 million in the prior-year period. The decrease was primarily due to the impact of lower sales combined with the lower sales volume's associated impact on manufacturing efficiencies and reduced overhead absorption compared to the prior-year period.

Unallocated expenses in the nine months ended September 30, 2017 was flat at \$26.3 million compared to \$26.3 million in the prior-year period.

Non-Operating Expenses

Interest expense was \$20.0 million in the nine months ended September 30, 2017, an increase from \$12.6 million in the prior-year period. The weighted average effective interest rate on our debt facilities was approximately 3.12% and 2.34% for the nine months ended September 30, 2017 and 2016, respectively. The increase in interest expense is due to higher debt balances outstanding compared to the prior-year period in conjunction with the Conwed acquisition. Interest expense was also unfavorably affected by a higher average interest rate compared to the prior-year period as a result of entering the interest rate swap agreement and increases in market rates.

Other income, net, was \$3.2 million during the nine months ended September 30, 2017. The \$0.8 million decrease compared to \$4.0 million in Other income, net, during the nine months ended September 30, 2016 was due primarily to a \$1.8 million of gain recognized related to the sale of water rights at our Spotswood, New Jersey facility in the prior year which did not recur in 2017, along with higher net currency losses in 2017 and transactional taxes incurred in Brazil, in each case compared to the prior-year period. These items were partially offset by a \$4.8 million gain on the sale of assets in 2017.

Income Taxes

A \$26.5 million provision for income taxes in the nine months ended September 30, 2017 resulted in an effective tax rate of 30.2% compared with 30.6% in the prior-year period.

Income from Equity Affiliates

Income from equity affiliates was \$0.4 million in the nine months ended September 30, 2017 compared with \$2.4 million during the prior-year period and reflected the results of operations of CTM and CTS. The decrease in earnings was driven primarily by lower sales volume at CTS in 2017 compared to the prior-year period.

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Discontinued Operations

Because we closed our Philippines paper mill as previously reported, the results of this mill were reported as discontinued operations for all periods presented. Consequently, this mill's results have been removed from each line of the statements of income and the operating activities section of the statements of cash flow. In each case, a separate line has been added for the net results of the discontinued operation. Income from discontinued operations was \$0.1 million and \$0.0 million for the nine months ended September 30, 2017 and 2016, respectively. The 2017 increase is the result of the Company's efforts to dispose of the remaining assets and liabilities of the discontinued operations.

Net Income and Income per Share

Net income in the nine months ended September 30, 2017 was \$61.8 million, or \$2.01 per diluted share, compared with \$65.8 million, or \$2.15 per diluted share, during the prior-year period. The decrease in net income was primarily due to the unfavorable impact of lower sales and associated gross profits in our EP segment, higher intangible asset amortization in our AMS segment as a result of the Conwed acquisition and higher interest expense. These factors were partially offset by the incremental operating profits from the Conwed acquisition, the favorable impact of higher organic sales and associated gross profits in our AMS segment and a gain on the sale of assets in 2017.

Liquidity and Capital Resources

The Company has created a long-term capital allocation strategy which is focused on the following:

- Reinvesting capital in businesses through a disciplined approach to meet global demand for value-adding solutions;
- Returning at least one-third of annual free cash flow to stockholders via dividends and/or share repurchase programs; and
- Retaining flexibility to execute growth opportunities in current and adjacent industries.

A major factor in our liquidity and capital resource planning is our generation of cash flow from operations, which is sensitive to changes in the mix of products sold, sales volume and selling prices of our products, as well as changes in our production volumes, costs, foreign currency exchange rates and working capital. Our liquidity is supplemented by funds available under our Amended Credit Agreement with a syndicate of banks that is used as either operating conditions or strategic opportunities warrant.

As of September 30, 2017, \$70.5 million of the Company's \$100.6 million of cash and cash equivalents was held by foreign subsidiaries. Movement of cash balances may have significant tax consequences. We established a holding company in Luxembourg in 2014. As a result of the holding company structure, a portion of the foreign earnings will flow directly to the U.S. without U.S. tax consequences. We consider the undistributed earnings of other foreign subsidiaries to be indefinitely reinvested. We believe that we are able to maintain a sufficient level of liquidity for our domestic operations and commitments without further repatriation of the cash held by these other foreign subsidiaries. Certain global business realignments and other activities have been, or may be, implemented that could permit the eventual repatriation of certain additional funds without material adverse U.S. tax consequences.

Capital spending and capitalized software costs for 2017 are projected to exceed \$40.0 million. We generally fund our capital projects using cash on-hand, cash generated from operations and our existing credit facilities, including the Amended Credit Agreement.

Cash Requirements

As of September 30, 2017, we had net operating working capital of \$194.9 million and cash and cash equivalents of \$100.6 million, compared with net operating working capital of \$124.1 million and cash and cash equivalents of \$107.4 million as of December 31, 2016. These changes primarily reflect the impacts of changes in currency exchange rates, net repayments of debt, business acquisitions and changes in operating working capital presented on the unaudited condensed consolidated statements of cash flow contained in this report.

Cash Flows from Operating Activities (\$ in millions)	Nine Months Ended	
	September 30, 2017	September 30, 2016
Net Income	\$61.8	\$ 65.8
Less: Loss from discontinued operations	0.1	—
Income from continuing operations	61.7	65.8
Non-cash items included in net income:		
Depreciation and amortization	46.7	33.3
Restructuring-related impairment	0.8	0.5
Deferred income tax provision	2.4	(3.3)
Pension and other postretirement benefits	2.5	2.7
Stock-based compensation	4.5	3.7
(Income) loss from equity affiliates	(0.4)	(2.4)
Gain on sale of intangible assets	—	(1.8)
Gain on sale of assets	(4.8)	—
Excess tax expense of stock-based awards	—	0.2
Cash dividends received from equity affiliates	1.8	—
Other items	(0.2)	(1.2)
Net changes in operating working capital	(21.8)	(14.4)
Net cash provided by (used in) operating activities of:		
Continuing operations	93.2	83.1
Discontinued operations	0.1	(0.1)
Net cash provided by operations	\$93.3	\$ 83.0

Net cash provided by operations was \$93.3 million in the nine months ended September 30, 2017 compared with \$83.0 million in the prior-year period. Net cash provided by operations increased primarily due to a \$19.2 million year-over-year increase in non-cash add backs to net income and a \$1.8 million increase in cash dividends from equity affiliates, partially offset by lower income of \$4.1 million and a \$7.4 million unfavorable year-over-year impact of a net change in operating working capital.

Net cash provided by operations was \$83.0 million in the nine months ended September 30, 2016 compared with \$80.2 million in the prior-year period. Our net cash provided by operations increased primarily due to the \$8.1 million favorable impact year-over-year of net change in operating working capital, partially offset by lower net income and a dividend received from our equity affiliate in the prior year.

Operating Working Capital (\$ in millions)	Nine Months Ended	
	September 30, 2017	September 30, 2016
Changes in operating working capital		
Accounts receivable	\$(16.7)	\$ (14.7)
Inventories	1.4	4.9
Prepaid expenses	(0.6)	(1.0)
Accounts payable	1.2	(2.5)
Accrued expenses	(0.2)	(7.2)
Accrued income taxes	(6.9)	6.1
Net changes in operating working capital	\$(21.8)	\$ (14.4)

In the nine months ended September 30, 2017, net changes in operating working capital used cash of \$21.8 million compared to the prior-year period, in which net changes in operating working capital used cash of \$14.4 million. This unfavorable change in working capital compared to the nine months ended September 30, 2016 was primarily driven by increased receivables associated with higher sales, inventory builds related to facility relocations, and higher cash tax payments.

In the nine months ended September 30, 2016, net changes in operating working capital used cash of \$14.4 million compared to the prior-year period, in which net changes in operating working capital used cash of \$22.5 million. This favorable change in working capital compared to the nine months ended September 30, 2015 was primarily driven by a lower increase in accounts receivable and a decrease in inventories, partially offset by a decrease in accounts payable, a higher reduction in accrued expenses and lower increase in accrued income taxes in 2016 compared to the prior-year period.

Cash Flows from Investing Activities (\$ in millions)	Nine Months Ended	
	September 30, 2017	September 30, 2016
Capital spending	\$(27.5)	\$ (17.5)
Capitalized software costs	(2.6)	(1.7)
Acquisitions, net of cash acquired	(291.7)	—
Proceeds from sale of assets	7.0	—
Other	5.6	4.2
Cash used for investing	\$(309.2)	\$ (15.0)

Cash used for investing activities during the nine months ended September 30, 2017 was \$309.2 million compared to \$15.0 million in the prior-year period and consisted primarily of cash paid for the acquisition of Conwed and capital spending, partially offset by \$7.0 million received from the sale of assets.

Cash used for investing activities during the nine months ended September 30, 2016 was \$15.0 million compared to \$12.2 million in the prior-year period and consisted primarily of capital spending.

Cash Flows from Financing Activities (\$ in millions)	Nine Months Ended	
	September 30, 2017	September 30, 2016
Cash dividends paid to SWM stockholders	\$(38.7)	\$ (36.6)
Net proceeds (payments) on long-term debt	244.2	(131.6)
Purchases of common stock	(1.1)	(0.6)
Payments for debt issuance costs	(0.6)	—
Excess tax expense of stock-based awards	—	(0.2)
Cash provided by (used in) financing	\$203.8	\$ (169.0)

During the nine months ended September 30, 2017, financing activities consisted primarily of \$244.2 million in net proceeds from long-term debt, primarily for the acquisition of Conwed, \$38.7 million in cash paid for dividends declared to SWM stockholders in the first nine months of 2017, share repurchases of \$1.1 million and \$0.6 million of payments for debt issuance costs.

During the nine months ended September 30, 2016, financing activities consisted primarily of share repurchases of \$0.6 million, cash dividends of \$36.6 million paid to SWM stockholders, and net payments on long-term debt of \$131.6 million.

The Company presently believes that the sources of liquidity discussed above are sufficient to meet its anticipated funding needs.

Dividend Payments

We have declared and paid cash dividends on our common stock every fiscal quarter since the second quarter of 1996. On November 1, 2017, we announced a cash dividend of \$0.43 per share payable on December 22, 2017 to stockholders of record as of December 1, 2017. The covenants contained in our Amended Credit Agreement (as defined below) require that we maintain certain financial ratios, as disclosed in Note 10. Debt, of the notes to the unaudited condensed consolidated financial statements, none of which under normal business conditions we would expect to materially limit our ability to pay such dividends. We plan to continue to assess our dividend policy in light of our capital allocation strategy, cash generation, debt levels and ongoing requirements for cash to fund operations and to pursue possible strategic opportunities.

Share Repurchases

In the nine months ended September 30, 2017, we repurchased 25,176 shares of our common stock at a cost of \$1.1 million for the value of employees' stock-based compensation share awards surrendered to satisfy their personal statutory income tax withholding obligations. See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In the nine months ended September 30, 2016, we repurchased 19,539 shares of our common stock for \$0.6 million for the value of employees' stock-based compensation share awards surrendered to satisfy their personal statutory income tax withholding obligations.

Debt Instruments and Related Covenants

Debt Instruments (\$ in millions)	Nine Months Ended	
	September 30, 2017	September 30, 2016
Proceeds from issuances of long-term debt	\$440.4	\$ 35.6
Payments on long-term debt	(196.2)	(167.2)
Net proceeds from borrowings	\$244.2	\$ (131.6)

Net proceeds from borrowings were \$244.2 million during the nine months ended September 30, 2017 and were used primarily for the acquisition of Conwed. With the current level of borrowing and forecasted results, we expect to remain in compliance with the financial covenants contained in our Second Amended and Restated Credit Agreement ("Amended Credit Agreement").

On December 1, 2016, the Company entered into the First Amendment to the Second Amended and Restated Credit Agreement ("First Amendment") with JPMorgan Chase Bank, N.A. as administrative agent. Under the terms of the First Amendment, and effective upon the closing of the Conwed acquisition on January 20, 2017, the Company's maximum net debt to EBITDA ratio, as defined in the First Amendment, calculated on a trailing four fiscal quarter basis, is required to be not greater than 4.25 at December 31, 2017, reducing to 4.00 after December 31, 2017, 3.75 after March 31, 2018, 3.50 after June 30, 2018 and 3.00 after December 31, 2018.

In October 2015, the Company, together with two of its Luxembourg-based wholly-owned holding subsidiaries, entered into the Amended Credit Agreement, which provides an aggregate principal amount of \$1 billion, consisting of a \$650 million revolving credit facility maturing in October 2020, a \$100 million Term Loan A-1 maturing in October 2020, and a \$250 million Term Loan A-2 maturing in October 2022. The term loans are generally subject to mandatory repayment out of the net cash proceeds of asset sales which are not reinvested in operating assets. The credit facilities are secured by substantially all of the personal property of the Company and its domestic subsidiaries while the obligations of the Luxembourg-based holding subsidiaries are secured by a pledge of certain of the equity interests held in their operating subsidiaries. Unused borrowing capacity under the Amended Credit Agreement was \$267.6 million as of September 30, 2017. We also had availability under our bank overdraft facilities of \$19.8 million as of September 30, 2017.

The Company was in compliance with all of its covenants under the Amended Credit Agreement at September 30, 2017. With the current level of borrowing and forecasted results, we expect to remain in compliance with our Amended Credit Agreement financial covenants.

Our total debt to capital ratios, as calculated under the Amended Credit Agreement, at September 30, 2017 and December 31, 2016 were 54.9% and 46.4%, respectively.

Off-Balance Sheet Arrangements

As of September 30, 2017, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Other Factors Affecting Liquidity and Capital Resources

Our pension obligations are funded by our separate pension trusts, which held \$125.0 million in assets at December 31, 2016. The combined projected benefit obligation of our U.S. and French pension plans was underfunded by \$30.6 million as of December 31, 2016. We make contributions to our pension trusts based on many factors, including regulatory guidelines, investment returns of the trusts and availability of cash for pension contributions compared to other priorities. The Company is not required to contribute during 2017 to its U.S. pension

plans although, it may make discretionary contributions dependent on market conditions to remain aligned with its investment policy statement. The Company is required to make a contribution of \$1.2 million during 2017 to its French pension plan.

The EP segment's PDM Industries S.A.S., or PDMI, mill has a minimum annual commitment for calcium carbonate purchases, a raw material used in the manufacturing of some paper products, which totals approximately \$2 million per year through 2024. Future purchases are expected to be at levels that exceed such minimum levels under these contracts.

The Company has agreements with an energy cogeneration supplier in France whereby the supplier constructed and operates a cogeneration facility at certain of our mills and supplies steam that is used in the operation of these mills. The Company is committed to purchasing minimum annual amounts of steam generated by these facilities under the agreements through 2018. These minimum annual commitments total approximately \$2.3 million. The Company's current and expected requirements for steam at these facilities are at levels that exceed the minimum levels under the contracts.

Schweitzer-Mauduit do Brasil Industria e Comércio de Papel Ltda., our EP segment's Brazilian mill, has an agreement for the transmission and distribution of energy that covers 100% of the mill's consumption of electrical energy valued at approximately \$3.4 million annually through 2020. Our EP mills in France have contracts for the distribution and consumption of natural gas. The value to be provided under these natural gas contracts is estimated at approximately \$8.1 million in 2017.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws that are subject to the safe harbor created by such laws and other legal protections. Forward-looking statements include, without limitation, those regarding 2017 guidance and future performance, future market and EPS trends, future EPS contributions of our China JVs and RTL, AMS margins, sales and volume trends, Argotec financial results, growth prospects, capital spending, currency rates and trends and impact on EPS, 2017 momentum, future cash flows, effective tax rates, 2017 LIP sales trends, future RTL volumes, LIP pricing and royalties, diversification efforts of our AMS segment, accretion from the Conwed acquisition, future results of DelStar, interest rate swap impacts, future growth of non-tobacco sales, benefits of AMS' new enterprise resource planning system, and other statements generally identified by words such as "believe," "expect," "intend," "plan," "potential," "anticipate," "project," "appear," "should," "could," "may," "typically," "will," and similar words. These statements are not guarantees of future performance and involve certain risks and uncertainties that may cause actual results to differ materially from our expectations as of the date of this release. These risks include, among other things, those set forth in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2016, as well as the following factors:

Changes in sales or production volumes, pricing and/or manufacturing costs of reconstituted tobacco products, cigarette paper (including for LIP cigarettes), filtration-related products due to changing customer demands (including any change by our customers in their tobacco and tobacco-related blends for their cigarettes, their target inventory levels and/or the overall demand for their products), new technologies such as e-cigarettes, inventory adjustments and rebalancings, competition or otherwise;

Changes in the Chinese economy, including relating to the demand for reconstituted tobacco, premium cigarettes and netting;

Risks associated with the implementation of our strategic growth initiatives, including diversification, and the Company's understanding of, and entry into, new industries and technologies;

Changes in the source and intensity of competition in our commercial segments. We operate in highly competitive markets in which alternative supplies and technologies may attract our customers away from our products. In addition, our customers may, in some cases, produce for themselves the components that the Company sells to them

for incorporation into their products, thus reducing or eliminating their purchases from us;

• Our ability to attract and retain key personnel, due to our prior restructuring actions, the tobacco industry in which we operate or otherwise;

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Weather conditions, including potential impacts, if any, from climate change, known and unknown, seasonality factors that affect the demand for virgin tobacco leaf and natural disasters or unusual weather events;

Increases in commodity prices and lack of availability of such commodities, including energy, wood pulp and resins, could impact the sales and profitability of our products;

Adverse changes in the oil, gas, and mining sectors impacting key AMS segment customers;

Increases in operating costs due to inflation or otherwise, such as labor expense, compensation and benefits costs, including costs related to the comprehensive health care reform law enacted in the US in 2010;

Employee retention and labor shortages;

Changes in employment, wage and hour laws and regulations in the U.S., France and elsewhere, including loi de Sécurisation de l'emploi, unionization rule and regulations by the National Labor Relations Board, equal pay initiatives, additional anti-discrimination rules or tests and different interpretations of exemptions from overtime laws;

Labor strikes, stoppages, disruptions or other disruptions at our facilities;

Existing and future governmental regulation and the enforcement thereof, for example relating to the tobacco industry, taxation and the environment (including the impact thereof on our Chinese joint ventures);

New reports as to the effect of smoking on human health or the environment;

Changes in general economic, financial and credit conditions in the U.S., Europe, China and elsewhere, including the impact thereof on currency exchange rates (including any weakening of the euro and Real) and on interest rates;

Changes in the manner in which we finance our debt and future capital needs, including potential acquisitions;

The success of, and costs associated with, our current or future restructuring initiatives, including the granting of any needed governmental approvals and the occurrence of work stoppages or other labor disruptions;

Changes in the discount rates, revenue growth, cash flow growth rates or other assumptions used by the Company in its assessment for impairment of assets and adverse economic conditions or other factors that would result in significant impairment charges;

The failure of one or more material suppliers, including energy, resin and pulp suppliers, to supply materials as needed to maintain our product plans and cost structure;

International conflicts and disputes, such as those involving the Russian Federation and the Middle East, which restrict our ability to supply products into affected regions, due to the corresponding effects on demand, the application of international sanctions, or practical consequences on transportation, banking transactions, and other commercial activities in troubled regions;

The pace and extent of further international adoption of LIP cigarette standards and the nature of standards so adopted;

Risks associated with our 50%-owned, non-U.S. joint ventures relating to control and decision-making, compliance, accounting standards, transparency and customer relations, among others;

• A failure in our risk management and/or currency or interest rate swaps and hedging programs, including the failures of any insurance company or counterparty;

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The number, type, outcomes (by judgment or settlement) and costs of legal, tax, regulatory or administrative proceedings, litigation and/or amnesty programs, including those in Brazil and France;

The outcome and cost of LIP-related intellectual property infringement and validity litigation in Europe and the European Patent Office opposition proceedings;

Risks associated with acquisitions or other strategic transactions, including acquired liabilities and restrictions, retaining customers from businesses acquired, achieving any expected results or synergies from acquired businesses, complying with new regulatory frameworks, difficulties in integrating acquired businesses or implementing strategic transactions generally and risks associated with international acquisition transactions, including in countries where we do not currently have a material presence;

Risks associated with dispositions, including post-closing claims being made against us, disruption to our other businesses during a sale process or thereafter, credit risks associated with any buyer of such disposed assets and our ability to collect funds due from any such buyer;

Risks associated with our global asset realignment initiatives, including: changes in tax law, treaties, interpretations, or regulatory determinations; audits made by applicable regulatory authorities and/or our auditor; and our ability to operate our business in a manner consistent with the regulatory requirements for such realignment;

- Increased taxation on tobacco-related products;

Costs and timing of implementation of any upgrades or changes to our information technology systems;

Failure by us to comply with any privacy or data security laws or to protect against theft of customer, employee and corporate sensitive information;

Changes in tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities;

Changes in construction and infrastructure spending and its impact on demand for certain products;

Potential loss of consumer awareness and demand for acquired companies' products if it is decided to rebrand those products under the Company's legacy brand names; and

Other factors described elsewhere in this document and from time to time in documents that we file with the SEC.

All forward-looking statements made in this document are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this document, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, or changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance unless expressed as such, and should only be viewed as historical data.

For additional factors and further discussion of these factors, please see SWM's Annual Report on Form 10-K for the period ended December 31, 2016 and other reports we file from time to time with the SEC. The financial results reported in this release are unaudited.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk exposure at September 30, 2017 is consistent with, and not materially different than, the market risk and discussion of exposure presented under the caption “Quantitative and Qualitative Disclosures about Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We currently have in place systems relating to disclosure controls and procedures designed to ensure the timely recording, processing, summarizing and reporting of information required to be disclosed in periodic reports under the Securities Exchange Act of 1934, as amended. These disclosure controls and procedures include those designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions about required disclosure. Upon completing our review and evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of September 30, 2017.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting were identified as having occurred in the fiscal quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal proceedings and disputes. See Note 18. Commitments and Contingencies of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 and Note 12. Commitments and Contingencies of the notes to the unaudited condensed consolidated financial statements included in this report. Except as may have been referenced elsewhere in this report, there have been no material developments with regard to these matters.

Item 1A. Risk Factors

As of September 30, 2017, there were no material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table indicates the cost of and number of shares of the Company's common stock it repurchased during 2017:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs
			(# shares)	(\$ in millions)
January 1-March 31, 2017	24,200	\$ 41.93	—	—
April 1-June 30, 2017	387	37.89	—	—
July 1-31, 2017	589	37.88	—	—
August 1-31, 2017	—	—	—	—
September 1-30, 2017	—	—	—	—
Total Year-to-Date 2017	25,176	\$ 41.77	—	—

From time to time, the Company uses corporate 10b5-1 plans to allow for share repurchases to be made at predetermined stock price levels, without restricting such repurchases to specific windows of time. Any future common stock repurchases will be dependent upon various factors, including the Company's stock price, strategic opportunities and cash availability.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

Exhibit
Number Exhibit

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended.

32 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flow, and (vi) Notes to Consolidated Financial Statements.

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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.

Schweitzer-Mauduit International, Inc.
(Registrant)

By: /s/ Allison Aden
Allison Aden
Executive Vice President, Finance and
Chief Financial Officer
(duly authorized officer and principal financial officer)

November 1, 2017

By: /s/ Robert J. Cardin
Robert J. Cardin
Corporate Controller
(principal accounting officer)

November 1, 2017

GLOSSARY OF TERMS

The following are definitions of certain terms that may be used in this Quarterly Report on Form 10-Q filing:

"Banded cigarette paper" is a type of paper, used to produce lower ignition propensity cigarettes, by applying bands to the paper during the papermaking process.

"Heat-not-Burn" is an emerging tobacco industry technology in which a processed tobacco material is heated to release a nicotine-containing aerosol (vapor) for consumer intake. This technology is intended to be a reduced-risk product compared to traditional cigarettes.

"Lower ignition propensity" cigarette paper includes banded and print banded cigarette paper, both of which contain bands, which increase the likelihood that an unattended cigarette will self-extinguish.

"Net debt to EBITDA ratio" is a financial measurement used in bank covenants where "Net Debt" is defined as consolidated total debt minus unrestricted domestic cash and cash equivalents and 65% of non-domestic unrestricted domestic cash and cash equivalents, in excess of \$15 million, and "EBITDA" is defined as net income plus the sum of interest expense, income tax expense, depreciation and amortization, non-cash restructuring and impairment charges less amortization of deferred revenue and interest in the earnings of equity affiliates to the extent such earnings are not distributed to the Company.

"Net foreign currency translation impacts" are estimates of the impact of changes in foreign currency rates on the translation of the Company's financial results as compared to the applicable comparable period and are derived by translating the current local currency results into U.S. Dollars based upon the foreign currency exchange rates for the applicable comparable period.

"Net debt to equity ratio" is total debt less cash and cash equivalents, divided by stockholders' equity.

"Net operating working capital" is accounts receivable, inventory, income taxes receivable and prepaid expense, less accounts payable, accrued expenses and income taxes payable.

"Non-wovens" are a fabric-like material made from long fibers, bonded together by chemical, mechanical, heat or solvent treatment. The term is used to denote fabrics, such as felt, which are neither woven nor knitted.

"Print banded cigarette paper" is a type of paper, used to produce lower ignition propensity cigarettes, with bands added to the paper during a printing process, subsequent to the papermaking process.

"Reconstituted tobacco" is produced in two forms: leaf, or reconstituted tobacco leaf, and wrapper and binder products. Reconstituted tobacco leaf is blended with virgin tobacco as a design aid to achieve certain attributes of finished cigarettes. Wrapper and binder are reconstituted tobacco products used by manufacturers of cigars.

"Restructuring expense" represents expenses incurred in connection with activities intended to significantly change the size or nature of the business operations, including significantly reduced utilization of operating equipment, exit of a product or market or a significant workforce reduction and charges to reduce property, plant and equipment to its fair value.

"Reverse osmosis" is a water purification technology that uses a semipermeable membrane to remove larger particles from drinking water.

"Start-up costs" are costs incurred prior to generation of income producing activities in the case of a new plant, or costs incurred in excess of expected ongoing normal costs in the case of a new or rebuilt machine. Start-up costs can include excess variable costs such as raw materials, utilities and labor and unabsorbed fixed costs.

"Tobacco paper" includes cigarette paper which wraps the column of tobacco within a cigarette and has varying properties such as basis weight, porosity, opacity, tensile strength, texture and burn rate, as well as plug wrap paper which wraps the outer layer of a cigarette filter and is used to hold the filter materials in a cylindrical form, and tipping paper which joins the filter element to the tobacco-filled column of the cigarette and is both printable and glueable at high speeds.

"Total debt to capital ratio" is total debt divided by the sum of total debt and total stockholders' equity.

"Urethane" is a crystalline compound composed of organic units used in the manufacture of polyurethane and various types of films.

"Unallocated expenses" are expenses within supporting overhead departments which were not allocated to a specific segment.

