

SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-Q
August 03, 2016
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 June 30, 2016

OR

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

For the transition period from _____ to _____

1-13948

(Commission file number)

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

62-1612879

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

100 North Point Center East, Suite 600

Alpharetta, Georgia

(Address of principal executive offices)

30022

(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The Company had 30,555,531 shares of common stock issued and outstanding as of August 3, 2016.

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		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net Sales	\$217.3	\$ 181.9	\$431.9	\$ 369.9
Cost of products sold	150.4	127.1	301.5	263.7
Gross Profit	66.9	54.8	130.4	106.2
Selling expense	6.4	5.1	12.8	10.5
Research expense	4.4	3.7	8.7	7.0
General expense	17.7	16.8	37.1	33.0
Total nonmanufacturing expenses	28.5	25.6	58.6	50.5
Restructuring and impairment expense	0.9	5.2	2.7	9.2
Operating Profit	37.5	24.0	69.1	46.5
Interest expense	4.1	1.9	8.7	3.6
Other income, net	1.0	6.1	3.3	8.2
Income from Continuing Operations before Income Taxes and Income from Equity Affiliates	34.4	28.2	63.7	51.1
Provision for income taxes	9.1	6.5	17.2	12.0
Income from equity affiliates, net of income taxes	0.7	2.8	0.6	4.2
Income from Continuing Operations	26.0	24.5	47.1	43.3
Loss from Discontinued Operations	—	(1.1)	—	(1.1)
Net Income	\$26.0	\$ 23.4	\$47.1	\$ 42.2
Net Income per Share - Basic:				
Income per share from continuing operations	\$0.85	\$ 0.80	\$ 1.54	\$ 1.42
Loss per share from discontinued operations	—	(0.04)	—	(0.04)
Net income per share – basic	\$0.85	\$ 0.76	\$ 1.54	\$ 1.38
Net Income per Share – Diluted:				
Income per share from continuing operations	\$0.85	\$ 0.80	\$ 1.54	\$ 1.41
Loss per share from discontinued operations	—	(0.04)	—	(0.04)
Net income per share – diluted	\$0.85	\$ 0.76	\$ 1.54	\$ 1.37
Weighted Average Shares Outstanding:				
Basic	30,313,200	30,274,300	30,304,100	30,226,600
Diluted	30,447,700	30,397,000	30,435,200	30,345,400

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

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

(dollars in millions)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net Income	\$26.0	\$ 23.4	\$47.1	\$42.2
Other Comprehensive Income (Loss), net of tax:				
Foreign currency translation adjustments	(8.9)	12.9	5.1	(35.8)
Unrealized gains (losses) on derivative instruments	2.1	1.9	12.0	(9.7)
Less: Reclassification adjustment for losses on derivative instruments included in net income	3.6	2.1	5.6	3.6
Reclassification adjustment for amortization of postretirement benefit plans' costs (gains) included in net periodic benefit cost	1.6	(0.7)	1.1	(1.3)
Other Comprehensive Income (Loss)	(1.6)	16.2	23.8	(43.2)
Comprehensive Income (Loss)	\$24.4	\$ 39.6	\$70.9	\$(1.0)

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)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 143.8	\$ 186.5
Accounts receivable, net	126.6	119.4
Inventories	108.1	112.4
Assets held for sale	20.7	21.9
Other current assets	6.0	4.6
Total Current Assets	405.2	444.8
Property, Plant and Equipment, net	307.1	308.1
Deferred Income Tax Benefits	0.1	0.1
Investment in Equity Affiliates	66.0	67.5
Goodwill	232.5	233.3
Intangible Assets	206.9	213.9
Other Assets	25.7	22.3
Total Assets	\$1,243.5	\$ 1,290.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current debt	\$3.7	\$ 3.3
Accounts payable	42.4	49.0
Income taxes payable	3.3	5.3
Accrued expenses	66.9	85.5
Total Current Liabilities	116.3	143.1
Long-Term Debt	506.8	568.2
Pension and Other Postretirement Benefits	33.3	33.5
Deferred Income Tax Liabilities	44.3	45.3
Other Liabilities	26.5	32.0
Total Liabilities	727.2	822.1
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; 30,553,204 and 30,474,149 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	3.0	3.0
Additional paid-in-capital	56.2	53.7
Retained earnings	574.7	552.6
Accumulated other comprehensive loss, net of tax	(117.6)	(141.4)
Total Stockholders' Equity	516.3	467.9
Total Liabilities and Stockholders' Equity	\$1,243.5	\$ 1,290.0

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, 2014	30,465,522	\$ 3.0	\$ 49.8	\$ 512.7	\$ (76.5)	\$ 489.0
Net income				42.2		42.2
Other comprehensive loss, net of tax					(43.2)	(43.2)
Dividends declared (\$0.76 per share)				(23.1)		(23.1)
Restricted stock issuances, net	70,449	—	—			—
Stock-based employee compensation expense			1.5			1.5
Excess tax benefits of stock-based employee compensation			0.5			0.5
Stock issued to directors as compensation	1,698	—	0.1			0.1
Purchases and retirement of common stock	(63,365)	—		(2.9)		(2.9)
Balance, June 30, 2015	30,474,304	\$ 3.0	\$ 51.9	\$ 528.9	\$ (119.7)	\$ 464.1
Balance, December 31, 2015	30,474,149	\$ 3.0	\$ 53.7	\$ 552.6	\$ (141.4)	\$ 467.9
Net income				47.1		47.1
Other comprehensive income, net of tax					23.8	23.8
Dividends declared (\$0.80 per share)				(24.4)		(24.4)
Restricted stock issuances, net	94,260	—	—			—
Stock-based employee compensation expense			2.6			2.6
Excess tax expense of stock-based employee compensation			(0.2)			(0.2)
Stock issued to directors as compensation	3,333	—	0.1			0.1
Purchases and retirement of common stock	(18,538)	—		(0.6)		(0.6)
Balance, June 30, 2016	30,553,204	\$ 3.0	\$ 56.2	\$ 574.7	\$ (117.6)	\$ 516.3

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)

	Six Months Ended	
	June 30, 2016	June 30, 2015
Operating		
Net income	\$47.1	\$ 42.2
Less: Loss from discontinued operations	—	(1.1)
Income from continuing operations	47.1	43.3
Non-cash items included in net income:		
Depreciation and amortization	22.1	19.5
Restructuring-related impairment	0.5	3.5
Deferred income tax provision	0.2	0.9
Pension and other postretirement benefits	1.8	2.3
Stock-based compensation	2.7	1.6
Loss (income) from equity affiliates	(0.6)	(4.2)
Gain on sale of intangible assets	(1.8)	(4.3)
Excess tax expense (benefits) of stock-based awards	0.2	(0.5)
Cash dividends received from equity affiliates	—	3.9
Other items	(1.6)	0.5
Changes in operating working capital:		
Accounts receivable	(4.9)	(17.9)
Inventories	7.7	(4.4)
Prepaid expenses	(1.3)	(0.7)
Accounts payable	(6.8)	(1.6)
Accrued expenses	(11.4)	(0.7)
Accrued income taxes	(1.6)	14.2
Net changes in operating working capital - (use) source	(18.3)	(11.1)
Net cash provided by (used in) operating activities of:		
- Continuing operations	52.3	55.4
- Discontinued operations	(0.1)	0.3
Net Cash Provided by Operations	52.2	55.7
Investing		
Capital spending	(9.7)	(9.1)
Capitalized software costs	(0.9)	(0.5)
Acquisitions, net of cash acquired	—	(0.4)
Other investing	1.9	2.4
Net Cash Used in Investing	(8.7)	(7.6)

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
 (dollars in millions)
 (Unaudited)

	Six Months Ended	
	June 30, 2016	June 30, 2015
Financing		
Cash dividends paid to SWM stockholders	(24.4)	(23.1)
Changes in short-term debt	0.5	0.3
Proceeds from issuances of long-term debt	31.6	27.4
Payments on long-term debt	(96.9)	(62.0)
Purchases of common stock	(0.6)	(2.9)
Excess tax benefits of stock-based awards	(0.2)	0.5
Net Cash Used in Financing	(90.0)	(59.8)
Effect of exchange rate changes on cash and cash equivalents	3.8	(20.9)
Decrease in cash and cash equivalents	(42.7)	(32.6)
Cash and cash equivalents at beginning of period	186.5	290.3
Cash and cash equivalents at end of period	\$143.8	\$257.7
Supplemental Cash Flow Disclosures		
Cash paid for interest	\$7.4	\$3.7
Cash paid (recovered) for taxes, net	\$18.0	\$(4.0)
Change in capital spending in accounts payable and accrued liabilities	\$1.8	\$2.6

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 maintains two operating product line segments: Engineered Papers and Advanced Materials and Structures.

Historically, through its Engineered Papers, or EP, segment, the Company has primarily served the tobacco industry via the manufacture and sale of paper and reconstituted tobacco products, which remains a key focus. The primary products sold to the tobacco industry include cigarette, plug wrap and base tipping papers, or Cigarette Papers, which are used to wrap various parts of a cigarette, reconstituted tobacco leaf, or RTL, which is used as a blend with virgin tobacco in cigarettes, and reconstituted tobacco wrappers and binders for cigars. These products are sold directly to tobacco companies or their designated converters in the Americas, Europe, Asia, Africa, the Middle East and elsewhere. The EP segment is a manufacturer of lightweight specialty papers used in manufacturing banded papers used in the production of lower ignition propensity, or LIP, cigarettes and also produces premium specialized papers for other applications, including low volume specialized commercial and industrial commodity paper grades produced, among other reasons, to maximize machine utilization.

Through its Advanced Materials & Structures, or AMS, segment, the Company is a specialty producer of resin-based plastic netting through an extrusion process, as well as certain meltblown products, machined plastic core tubes, urethane films, and resin-based rolled products for use in other end segments, such as filtration, surface protection, medical and other industrials. As discussed more fully in Note 3. Business Acquisitions, in October 2015, the Company completed the acquisition of Argotec Intermediate Holdings, LLC, or Argotec, a manufacturer of urethane films for use in high-performance niche applications such as surface and automotive paint protection, glass lamination, medical woundcare and other industrial uses. This acquisition has been incorporated into the AMS segment.

The Company has operations in the United States, United Kingdom, Canada, France, Luxembourg, Russia, Brazil, China and Poland, conducts business in over 90 countries, and operates 18 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 cigarette and porous plug wrap 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 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016.

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

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 (loss) income from equity affiliates. Intercompany balances and transactions have been eliminated.

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 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). Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). The Company is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." This update requires entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using the Last-in, First-out, or LIFO, or the retail inventory method. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. The Company is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

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. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This standard makes several modifications to existing guidance related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

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

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 is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

Note 2. Other Comprehensive Income

Comprehensive income includes net income, as well as 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 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):

	June 30, 2016	December 31, 2015
Accumulated pension and OPEB liability adjustments, net of income tax of \$20.3 million and \$21.9 million at June 30, 2016 and December 31, 2015, respectively	\$(34.5)	\$(35.6)
Accumulated unrealized loss on derivative instruments, net of income tax of \$4.2 million and \$0.3 million at June 30, 2016 and December 31, 2015, respectively	(4.0)	(21.6)
Accumulated unrealized foreign currency translation adjustments	(79.1)	(84.2)
Accumulated other comprehensive loss	\$(117.6)	\$(141.4)

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

	Three Months Ended					
	June 30, 2016			June 30, 2015		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Unrealized gain (loss) on Pension and OPEB liability adjustments	\$3.4	\$(1.8)	\$1.6	\$(1.1)	\$0.4	\$(0.7)
Unrealized gain (loss) on derivative instruments	5.7	—	5.7	4.1	(0.1)	4.0
Unrealized (loss) gain on foreign currency translation	(8.9)	—	(8.9)	12.9	—	12.9
Total	\$0.2	\$(1.8)	\$(1.6)	\$15.9	\$0.3	\$16.2

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

	Six Months Ended					
	June 30, 2016			June 30, 2015		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Unrealized gain (loss) on Pension and OPEB liability adjustments	\$2.7	\$(1.6)	\$1.1	\$(2.0)	\$0.7	\$(1.3)
Unrealized gain (loss) on derivative instruments	13.7	3.9	17.6	(6.4)	0.3	(6.1)
Unrealized gain (loss) on foreign currency translation	5.1	—	5.1	(35.8)	—	(35.8)
Total	\$21.5	\$2.3	\$23.8	\$(44.2)	\$1.0	\$(43.2)

Note 3. Business Acquisitions

On October 28, 2015, the Company completed the acquisition of Argotec Intermediate Holdings, LLC, or Argotec, through an Equity Interest Purchase Agreement entered into on September 17, 2015, by and among the Company, SWM Argotec, LLC, an indirect wholly-owned subsidiary of the Company, Argotec Intermediate Holdings Two LLC, and certain equity holders of Argotec Holdings LLC. The acquisition of Argotec expanded and diversified SWM's global presence in advanced materials and has been incorporated into the Company's AMS segment.

As of June 30, 2016, the fair values of the assets acquired and liabilities assumed are provisional because final appraisals have not yet been completed. As consideration, the Company paid \$282.7 million in cash, subject to certain customary post-closing adjustments, primarily for the adjusted value of working capital at the acquisition date. The acquisition was financed using borrowings under the Company's Amended Credit Agreement, see Note 10. Debt, for additional information.

The consideration paid for Argotec and the preliminary fair values of the assets acquired and liabilities assumed as of the October 28, 2015 acquisition date were as follows (\$ in millions):

	Preliminary Fair Value as of October 28, 2015
Cash and cash equivalents	\$ 2.7
Accounts receivable	16.1
Inventory	16.3
Other current assets	0.1
Property, plant and equipment	15.9
Other noncurrent assets	0.1
Identifiable intangible assets	131.0
Total Assets	182.2
Accounts payable	4.6
Accrued expenses	4.5
Net assets acquired	173.1
Goodwill	109.6

Cash paid \$ 282.7

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

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 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 Argotec on October 28, 2015 was \$16.1 million, with gross contractual amounts receivable of \$16.8 million. Acquired inventories and property, plant and equipment were recorded at their fair values. Acquired intangible assets are primarily trade names, customer relationships and non-competition agreements.

Properties acquired included a manufacturing and related facility, land and leased sites that include leasehold improvements, and machinery and equipment for use in manufacturing operations. Management valued properties using the cost approach supported where available by observable market data which included consideration of obsolescence. One of the properties acquired, the Argotec-Stevens facility in Easthampton, Massachusetts with an estimated fair value of \$1.0 million, was held for sale as of the acquisition date and during the fourth quarter of 2015 came under contract for sale to a third party. The sale of this property was completed in April 2016 and no gain or loss was recognized on disposal of the facility.

Intangible assets acquired included a trade name that is both business-to-business and business-to-consumer. In addition to this intangible asset, the Company acquired a number of customer relationships in the aeronautical, transportation, graphics, medical and industrial markets. Management valued intangible assets using the relief from royalty and multi-period excess earnings methods, both 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 October 28, 2015	Weighted-Average Amortization Period (Years)
Amortizable intangible assets:		
Customer relationships	\$ 115.3	15
Non-competition agreements	1.7	4
Total amortizable intangible assets	117.0	15
Indefinite-lived intangible assets:		
Trade names	14.0	Indefinite
Total	\$ 131.0	

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 Argotec's revenue growth from combining the SWM and Argotec businesses and workforces as well as the benefits of access to different markets and customers. Goodwill from the Argotec acquisition was assigned to the AMS reportable segment. The goodwill from this acquisition is expected to be deductible for tax purposes. The goodwill was determined on the basis of the preliminary fair values of the assets and liabilities identified as part of the transaction.

In the three and six months ended June 30, 2016, the Company recognized \$0.1 million and \$0.3 million, respectively, of direct and indirect acquisition-related costs related to the acquisition. In 2015, the Company recognized \$1.8 million of direct and indirect acquisition-related costs and incurred \$7.4 million in financing costs related to the acquisition. 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 Credit Agreement 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 the unaudited pro forma Net Sales and Income from Continuing Operations of the combined entity had the acquisition date been January 1, 2015 are as follows (\$ in millions):

	Net Sales	Income from Continuing Operations
2015 Supplemental Pro Forma from April 1, 2015 - June 30, 2015	\$213.3	\$ 26.2
2015 Supplemental Pro Forma from January 1, 2015 - June 30, 2015	430.8	45.3

Note 4. Discontinued Operations

Beginning in 2013, the Company's former paper mill in San Pedro, Philippines has been reported as a discontinued operation. This mill 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 mill 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):

	June 30, 2016	December 31, 2015
Assets of discontinued operations:		
Current assets	\$ 1.1	\$ 1.1
Other assets	2.6	2.6
Liabilities of discontinued operations:		
Current liabilities	0.1	0.2

Summary financial results of discontinued operations were as follows (\$ in millions):

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Net sales	\$—	\$—
Other expense	—(0.9)	—(0.9)
Loss from discontinued operations before income taxes	—(0.9)	—(0.9)
Income tax provision	—(0.2)	—(0.2)
Loss from discontinued operations	\$—(1.1)	\$—(1.1)

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.

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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 June 30, 2016		Six Months Ended June 30, 2015	
Numerator (basic and diluted):				
Net income	\$26.0	\$ 23.4	\$47.1	\$ 42.2
Less: Dividends paid to participating securities	—	—	(0.1)	(0.2)
Less: Undistributed earnings available to participating securities	(0.2)	(0.3)	(0.2)	(0.3)
Undistributed and distributed earnings available to common stockholders	\$25.8	\$ 23.1	\$46.8	\$ 41.7
Denominator:				
Average number of common shares outstanding	30,313.2	30,274.3	30,304.6	30,226.6
Effect of dilutive stock-based compensation	134.5	122.7	131.1	118.8
Average number of common and potential common shares outstanding	30,447.7	30,397.0	30,435.7	30,345.4

Note 6. Inventories

Inventories are valued at the lower of cost, using the First-In, First-Out, or FIFO, and weighted average methods, or market. The Company's costs included in inventory primarily include pulp, resins, 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 replacement cost or 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):

	June 30, December 31, 2016 2015	
Raw materials	\$ 38.8	\$ 45.2
Work in process	19.4	17.3
Finished goods	40.5	36.1
Supplies and other	9.4	13.8
Total	\$ 108.1	\$ 112.4

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Note 7. Goodwill

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2016 were as follows (\$ in millions):

	Engineered Papers	Advanced Materials & Structures	Total
Goodwill as of December 31, 2015	\$ 4.8	\$ 228.5	\$ 233.3
Goodwill adjusted during the period	—	0.1	0.1
Foreign currency translation adjustments	—	(0.9)	(0.9)
Goodwill as of June 30, 2016	\$ 4.8	\$ 227.7	\$ 232.5

Note 8. Intangible Assets

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

	June 30, 2016		Net	December 31, 2015		Net
	Gross Carrying Amount	Accumulated Amortization*	Carrying Amount	Gross Carrying Amount	Accumulated Amortization*	Carrying Amount
Amortized intangible assets						
Engineered Papers						
Customer-related intangibles	\$ 10.0	\$ 10.0	\$ —	\$ 10.0	\$ 10.0	\$ —
Advanced Materials & Structures						
Customer Relationships	167.7	12.2	155.5	167.7	6.4	161.3
Developed Technology	16.0	3.2	12.8	16.0	2.4	13.6
Customer Contracts	0.9	0.7	0.2	0.9	0.5	0.4
Non-Compete Agreements	1.7	0.3	1.4	1.7	0.1	1.6
Patents	1.5	0.1	1.4	1.5	0.1	1.4
Total	\$ 197.8	\$ 26.5	\$ 171.3	\$ 197.8	\$ 19.5	\$ 178.3

Unamortized intangible assets (Advanced Materials & Structures)

Trade names	\$ 35.6	\$ 35.6
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* Accumulated amortization also includes adjustments for foreign currency translation.

Amortization expense of intangible assets was \$3.1 million and \$1.0 million for the three months ended June 30, 2016 and 2015, respectively, and \$6.2 million and \$2.1 million for the six months ended June 30, 2016 and 2015, respectively. Finite-lived intangibles in the AMS segment are expensed using the straight-line amortization method. The estimated average aggregate amortization expense is \$11.7 million in each of the next five years.

Note 9. Restructuring and Impairment Activities

The Company incurred restructuring and impairment expenses of \$0.9 million and \$5.2 million in the three months ended June 30, 2016 and 2015, respectively, and \$2.7 million and \$9.2 million in the six months ended June 30, 2016 and 2015, respectively.

In the EP segment, restructuring and impairment expenses were \$0.9 million and \$5.3 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.8 million and \$9.1 million for the six months ended June 30, 2016 and 2015. Restructuring and impairment expenses for the six months ended June 30, 2016 consisted of \$1.3 million in severance accruals for employees at our manufacturing facilities in the U.S., France and Brazil and \$0.5 million of impairment expense recognized on equipment at our Poland manufacturing facility. During the six months ended June 30, 2015, restructuring and impairment expenses were composed of \$5.6 million in severance accruals for employees

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at our Quimperlé and Spay, France facilities as well as \$3.5 million in loss recognized to adjust the recorded value of equipment at our Philippines RTL location to its estimated fair value as discussed in more detail below.

The AMS segment, incurred restructuring and impairment expenses of \$0.0 million and reversed \$0.2 million in expenses for the three months ended June 30, 2016 and 2015, respectively, and incurred \$0.6 million and reversed \$0.2 million for the six months ended June 30, 2016 and 2015, respectively. Restructuring and impairment expenses for the six months ended June 30, 2016 consisted of severance accruals for employees at our U.S. manufacturing operations. In the six months ended June 30, 2015, restructuring and impairment expenses were reversed related to previously accrued severance costs in our AMS segment resulting from one of our business acquisitions in December 2014.

Additionally, the Company incurred \$0.0 million and \$0.1 million in restructuring expenses during the three months ended June 30, 2016 and 2015, respectively, and \$0.3 million and \$0.3 million in restructuring expenses during the six months ended June 30, 2016 and 2015, 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 June 30, 2016 and December 31, 2015. Changes in the restructuring liabilities, substantially all of which are employee-related, during the periods ended June 30, 2016 and December 31, 2015 are summarized as follows (\$ in millions):

	Six Months Ended June 30, 2016	Year Ended December 31, 2015
Balance at beginning of year	\$ 7.7	\$ 8.7
Accruals for announced programs	2.2	8.0
Cash payments	(5.1)	(8.3)
Exchange rate impacts	0.2	(0.7)
Balance at end of period	\$ 5.0	\$ 7.7

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 asset 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 are continued 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 June 30, 2016, all of the physical assets of this entity are classified as Assets Held for Sale. There were no impairment charges recognized on these assets during the three or six months ended June 30, 2016.

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Note 10. Debt

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

	June 30, December 31,	
	2016	2015
Term Loan A-1	\$60.0	\$ 60.0
Term Loan A-2	248.1	249.4
Revolving Credit Agreement - U.S. dollar borrowings	199.0	197.0
Revolving Credit Agreement - euro borrowings	—	62.4
French Employee Profit Sharing	10.7	11.4
Bank Overdrafts	0.5	—
Total Debt	518.3	580.2
Less: Debt issuance costs	(7.8)	(8.7)
Less: Current debt	(3.7)	(3.3)
Long-Term Debt	\$506.8	\$ 568.2

Credit Agreement

On October 28, 2015, the Company, together with two of its Luxembourg-based wholly-owned holding subsidiaries, entered into a 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 (Term Loan A-1) made to the Company; and a \$250 million Term Loan A-2 (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 Amended Credit Agreement amended and restated the Company's Amended and Restated Credit Agreement, dated as of December 11, 2013, which provided for a \$500 million unsecured revolving credit facility which was scheduled to mature on December 11, 2018.

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 1.25%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 0.50% to 1.50%, in the case of Term Loan A-2, or (ii) an adjusted London interbank offered rate (adjusted for maximum reserves) (LIBOR), plus an applicable margin, which ranges from 1.25% to 2.25%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 1.50% to 2.50%, 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 June 30, 2016, the average interest rate on

outstanding Amended Credit Agreement borrowings was 2.25% on US Revolving Credit Facility borrowings, 1.75% on Euro Revolving Credit Facility borrowings, 2.25% on Term Loan A-1 borrowings and 2.50% on Term Loan A-2 borrowings. The weighted average effective interest rate on our debt facilities was approximately 2.31% and 1.42% for the six months ended June 30, 2016 and 2015, respectively.

The Amended Credit Agreement also contains representations and warranties which are customary for facilities of this type and covenants and provisions that, among other things, require the Company to maintain (a) a maximum net debt to EBITDA ratio of 3.50, reducing to 3.00 after September 30, 2016 and (b) minimum interest coverage of 3.00. The

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Amended Credit Agreement contains provisions allowing the Company to increase the leverage ratio upon the incurrence of certain unsecured indebtedness or temporarily upon the occurrence of a material acquisition. The Company was in compliance with all of its covenants under the Amended Credit Agreement at June 30, 2016.

In conjunction with the Amended Credit Agreement, the Company capitalized approximately \$7.4 million in deferred debt issuance costs associated with the new facility which will be amortized over the term of the related debt instrument. As of June 30, 2016 and December 31, 2015, the Company's total deferred debt issuance costs, net of accumulated amortization, were \$7.8 million and \$8.7 million, respectively. Amortization expense of \$0.9 million and \$0.3 million was recorded during the six months ended June 30, 2016 and 2015, respectively, and has been included as a component of Interest Expense in the accompanying consolidated statements of income.

Fair Value of Debt

At June 30, 2016 and December 31, 2015, 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 value 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.

The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at June 30, 2016 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location		Location	
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts Receivable	\$ 1.2	Accrued Expenses	\$ 2.9
Foreign exchange contracts	Other Assets	1.6	Other Liabilities	1.2

Interest rate contracts	Other Assets	—	Other Liabilities	1.2
Total derivatives designated as hedges		\$ 2.8		\$ 5.3

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The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at December 31, 2015 (\$ 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	\$ 0.7	Accrued Expenses	\$ 10.8
Foreign exchange contracts	Other Assets	—	Other Liabilities	7.0
Interest rate contracts	Other Assets	—	Other Liabilities	0.6
Total derivatives designated as hedges		\$ 0.7		\$ 18.4

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				Loss Reclassified from AOCI			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended
Foreign exchange contracts	\$2.3	\$1.8	\$12.7	\$(9.5)	\$(3.5)	\$(2.1)	\$(5.3)	\$(3.6)
Interest rate contracts	(0.2)	0.1	(0.7)	(0.2)	(0.1)	—	(0.3)	—
Total	\$2.1	\$1.9	\$12.0	\$(9.7)	\$(3.6)	\$(2.1)	\$(5.6)	\$(3.6)

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 months ended June 30, 2016 and 2015.

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 (Loss) Recognized in Other Income / Expense			
	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	Ended	Ended	Ended	Ended
Foreign exchange contracts	\$(1.4)	\$(0.5)	\$0.4	\$(1.6)

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

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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 \$13.0 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 for unpaid ICMS and Fundo Estadual de Combate à Pobreza (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 \$5.0 million in the first Electricity Assessment and \$8.5 million in the second Electricity Assessment, based on the foreign currency exchange rate at June 30, 2016. 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. On the State's appeal, the court required SWM-B to post security for the injunction concerning the Electricity Assessment for May 2006 - November 2007. SWM-B's challenge to the third Electricity Assessment (approximately \$4.0 million as of June 30, 2016) remains pending at the first administrative level (Junta de Revisão Fiscal).

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 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.

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,

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intellectual property rights and other matters. At this time, the Company does not expect any of these proceedings to have an adverse material effect on its reputation, business, financial condition, results of operations or cash flows. However, as the outcome 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.

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 six months ended June 30, 2016 and 2015 were as follows (\$ in millions):

	Three Months Ended June 30,					
	U.S. Pension Benefits		French Pension Benefits		U.S. OPEB Benefits	
	2016	2015	2016	2015	2016	2015
Service cost	\$—	\$—	\$0.3	\$0.3	\$—	\$—
Interest cost	1.3	1.3	0.1	0.1	—	—
Expected return on plan assets	(1.7)	(1.7)	—	—	—	—
Amortizations and other	1.0	1.4	0.2	0.3	—	(0.1)
Net periodic benefit cost	\$0.6	\$1.0	\$0.6	\$0.7	\$—	\$(0.1)

	Six Months Ended June 30,					
	U.S. Pension Benefits		French Pension Benefits		U.S. OPEB Benefits	
	2016	2015	2016	2015	2016	2015
Service cost	\$—	\$—	\$0.6	\$0.6	\$—	\$—
Interest cost	2.6	2.6	0.2	0.2	—	—
Expected return on plan assets	(3.4)	(3.5)	(0.1)	(0.1)	—	—
Amortizations and other	2.0	2.8	0.5	0.6	0.1	(0.2)
Net periodic benefit cost	\$1.2	\$1.9	\$1.2	\$1.3	\$0.1	\$(0.2)

During the fiscal year ending December 31, 2016, the Company expects to recognize approximately \$4.1 million for amortization of accumulated other comprehensive loss related to its U.S. pension and OPEB plans and approximately \$1.0 million for its French pension plans.

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.

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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 six months ended June 30, 2016 or 2015.

Our effective tax rate from continuing operations was 26.5% and 23.0% for the three months ended June 30, 2016 and 2015, respectively, and increased primarily due to a higher concentration of profits generated in higher-tax jurisdictions coupled with a reduction in the generation of certain foreign tax credits. Our effective tax rate from continuing operations was 27.0% and 23.5% for the six months ended June 30, 2016 and 2015, respectively, and increased primarily due to a higher concentration of profits generated in higher-tax jurisdictions coupled with a reduction in the generation of certain foreign tax credits.

Note 15. Segment Information

The Company's two operating product line segments are also the Company's reportable segments: Engineered Papers and Advanced Materials & Structures. The EP segment, which consists of the Company's former Paper and Reconstituted Tobacco segments, primarily produces cigarette papers including LIP papers, plug wrap papers and base tipping papers used to wrap various parts of a cigarette for sale to cigarette manufacturers and reconstituted tobacco leaf, or RTL, and wrapper and binder products for sale to cigarette and cigar manufacturers. The EP segment also includes commercial and industrial products such as lightweight printing and writing papers, battery separator paper, drinking straw wrap, filter paper and other specialized papers. These non-tobacco industry products are generally sold directly to converters and other end-users or brokers. The AMS segment primarily produces engineered resin-based, rolled goods such as films, nets, and other non-wovens for use in high-performance filtration, surface protection, medical, and industrial applications and consists of the operations of DelStar, the December 2014 acquisitions, and Argotec. In conjunction with the consolidation of the Paper and Reconstituted Tobacco segments into the EP segment in October 2015, the corresponding information for all prior periods presented has been restated to correspond to the presentation in the current year.

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, 2015. 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. The Company has recast the prior period operating profit by segment for comparative purposes to conform to current year presentation, which reflects a change in the way certain internal charges are allocated to individual business units. These changes had no impact on consolidated operating profit and were not material to the segment measurements presented.

(\$ in millions)	Net Sales							
	Three Months Ended				Six months ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
Engineered Papers	\$145.3	66.9 %	\$141.3	77.7 %	\$288.9	66.9	\$288.8	78.1 %
Advanced Materials & Structures	72.0	33.1	40.6	22.3	143.0	33.1	81.1	21.9
Total Consolidated	\$217.3	100.0%	\$181.9	100.0%	\$431.9	100.0%	\$369.9	100.0%

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(\$ in millions)	Operating Profit							
	Three Months Ended				Six Months Ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
Engineered Papers	\$35.9	95.7 %	\$26.9	112.1 %	\$71.4	103.3 %	\$54.7	117.6 %
Advanced Materials & Structures	8.9	23.7	5.4	22.5	14.1	20.4	8.0	17.2
Unallocated	(7.3)	(19.4)	(8.3)	(34.6)	(16.4)	(23.7)	(16.2)	(34.8)
Total Consolidated	\$37.5	100.0 %	\$24.0	100.0 %	\$69.1	100.0 %	\$46.5	100.0 %

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, 2015. 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, 2015 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				Six Months Ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
Net sales	\$217.3	100.0%	\$181.9	100.0%	\$431.9	100.0%	\$369.9	100.0%
Gross profit	66.9	30.8	54.8	30.1	130.4	30.2	106.2	28.7
Restructuring & impairment expense	0.9	0.4	5.2	2.9	2.7	0.6	9.2	2.5
Operating profit	37.5	17.3	24.0	13.2	69.1	16.0	46.5	12.6
Interest expense	4.1	1.9	1.9	1.0	8.7	2.0	3.6	1.0
Income from continuing operations	26.0	12.0	24.5	13.5	47.1	10.9	43.3	11.7
Loss from discontinued operations	—	—	(1.1)	(0.6)	—	—	(1.1)	(0.3)
Net income	26.0	12.0%	23.4	12.9%	\$47.1	10.9%	\$42.2	11.4%
Diluted earnings per share from continuing operations	\$0.85		\$0.80		\$1.54		\$1.41	
Diluted earnings per share	\$0.85		\$0.76		\$1.54		\$1.37	
Cash provided by operations	\$34.6		\$44.5		\$52.2		\$55.7	
Capital spending	\$5.2		\$3.9		\$9.7		\$9.1	

Second Quarter Highlights

In the three months ended June 30, 2016, SWM reported net income of \$26.0 million on total net sales of \$217.3 million. Compared to the prior-year period, net sales increased \$35.4 million due primarily to incremental net sales generated from the operations of our newly acquired Argotec business and the net combined favorable impact of changes in volumes, mix of products sold and average selling prices along with favorable net foreign currency translation impacts in our EP segment. Our AMS segment was impacted by unfavorable net foreign currency translation impacts.

Gross profit increased by \$12.1 million to \$66.9 million in the three months ended June 30, 2016 compared with \$54.8 million in the prior-year period primarily due to incremental gross profit generated by the operations of our newly acquired Argotec business along with a net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements, along with favorable foreign currency translation impacts in the EP segment. These factors were partially offset by the impact of planned reductions of low margin industrial sales, higher resin costs and unfavorable fixed cost absorption in the AMS segment.

Cash provided by operations was \$34.6 million in the second quarter of 2016 compared to \$44.5 million in the prior-year period. The \$9.9 million decrease was due primarily to unfavorable net changes in operating working capital partially offset by higher net income compared to the prior-year period. Uses of cash during the three months ended June 30, 2016 included \$5.2 million of capital spending, \$12.2 million cash dividends paid to SWM stockholders and \$72.2 million in net repayments of debt.

Year-to-Date Highlights

In the six months ended June 30, 2016, SWM reported net income of \$47.1 million on total net sales of \$431.9 million. Compared to the prior-year period, net sales increased \$62.0 million due primarily to incremental net sales generated from the operations of our newly acquired Argotec business and the net combined favorable impact of changes in volumes, mix of products sold and average selling prices in our EP segment, partially offset by unfavorable net foreign currency translation impacts. Our AMS segment was impacted by planned reductions of low margin industrial sales and unfavorable net foreign currency translation impacts.

Gross profit increased by \$24.2 million to \$130.4 million in the six months ended June 30, 2016 compared with \$106.2 million in the prior-year period primarily due to incremental gross profit generated by the operations of our newly acquired Argotec business along with the net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements in our EP segment. These factors were partially offset by unfavorable net foreign currency translation impacts as well as planned reductions of low margin industrial sales, higher resin costs and unfavorable fixed cost absorption in our AMS segment.

Cash provided by operations was \$52.2 million in the first six months of 2016 compared to \$55.7 million in the prior-year period. The \$3.5 million decrease was due primarily to unfavorable net changes in operating working capital partially offset by higher net income compared to the prior-year period. Uses of cash during the six months ended June 30, 2016 included \$9.7 million of capital spending, \$24.4 million cash dividends paid to SWM stockholders, and \$64.8 million in net repayments of debt.

Three Months Ended June 30, 2016 Compared with the Three Months Ended June 30, 2015

Net Sales

(\$ in millions)

	Three Months Ended			Percent Change
	June 30, 2016	June 30, 2015	Change	
Engineered Papers	\$ 145.3	\$ 141.3	\$ 4.0	2.8 %
Advanced Materials & Structures	72.0	40.6	31.4	77.3
Total	\$ 217.3	\$ 181.9	\$ 35.4	19.5 %

Net sales were \$217.3 million in the three months ended June 30, 2016 compared with \$181.9 million in the prior-year period. The increase in net sales consisted of the following (\$ in millions):

	Amount	Percent
Incremental revenue from acquired companies	\$ 31.9	17.5 %
Changes in volume, product mix and selling prices	2.8	1.5
Changes due to net foreign currency impacts	2.1	1.2
Changes due to rebates, freight and royalties	(1.4)	(0.7)
Total	\$ 35.4	19.5 %

EP segment net sales during the three months ended June 30, 2016 of \$145.3 million increased by \$4.0 million, or 2.8%, versus net sales of \$141.3 million in the prior year quarter. The increase in net sales was primarily the result of \$2.6 million in favorable net foreign currency translation impacts and the \$2.8 million net combined favorable impact of changes in volumes, mix of products sold and average selling prices, in each case compared to the prior-year period, partially offset by the net combined impact of \$1.4 million in higher rebates, lower royalties and higher freight revenues.

AMS segment net sales were \$72.0 million for the three months ended June 30, 2016 compared to \$40.6 million during the prior-year period. The increase of \$31.4 million or 77.3% was due primarily to \$31.9 million in incremental net sales generated by the operations of our newly acquired Argotec business, partially offset by \$0.5 million of unfavorable net foreign currency translation impacts.

Gross Profit

(\$ in millions)

	Three Months Ended			Percent Change	Percent of Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Net Sales	\$ 217.3	\$ 181.9	\$ 35.4	19.5 %	100.0%	100.0%
Cost of products sold	150.4	127.1	23.3	18.3	69.2	69.9
Gross Profit	\$ 66.9	\$ 54.8	\$ 12.1	22.1 %	30.8 %	30.1 %

Gross profit increased by \$12.1 million during the three months ended June 30, 2016 to \$66.9 million versus the prior-year period of \$54.8 million. In the EP segment, the \$3.9 million net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements, along with \$1.9 million net favorable foreign currency translation impacts were partially offset by the \$0.9 million combined impact of lower royalty income and higher discounts, returns and allowances. The AMS segment benefited from \$8.3 million in incremental gross profit associated with the operations of our newly acquired Argotec business, partially offset by the \$1.4 million combined impact of planned reductions of low margin industrial sales, higher resin costs and unfavorable

fixed cost absorption.

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Nonmanufacturing Expenses
(\$ in millions)

	Three Months Ended			Percent Change	Percent of Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Selling expense	\$6.4	\$ 5.1	\$ 1.3	25.5 %	2.9 %	2.8 %
Research expense	4.4	3.7	0.7	18.9	2.0	2.0
General expense	17.7	16.8	0.9	5.4	8.2	9.3
Nonmanufacturing expenses	\$28.5	\$ 25.6	\$ 2.9	11.3 %	13.1 %	14.1 %

Nonmanufacturing expenses in the three months ended June 30, 2016 increased by \$2.9 million to \$28.5 million from \$25.6 million in the prior-year period due primarily to \$4.5 million in higher incremental costs from the operations of our newly acquired Argotec business, \$0.6 million in higher research and development and selling expenditures, excluding Argotec, and approximately \$0.2 million in unfavorable foreign currency translation impacts, partially offset by \$2.4 million in lower general and administrative expenses which includes the impact of reclassification of certain costs and restructuring actions taken in our AMS segment and French EP operations in prior quarters.

Restructuring and Impairment Expense
(\$ in millions)

	Three Months Ended			Percent Change	Percent of Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Engineered Papers	\$0.9	\$5.3	\$(4.4)	(83.0) %	0.6 %	3.8 %
Advanced Materials & Structures	—	(0.2)	0.2	100.0	—	(0.5)
Unallocated expenses	—	0.1	(0.1)	(100.0)		
Total	\$0.9	\$5.2	\$(4.3)	(82.7) %	0.4 %	2.9 %

The Company incurred total restructuring and impairment expense of \$0.9 million in the three months ended June 30, 2016 compared with \$5.2 million in the three months ended June 30, 2015. In the 2016 period, the restructuring expense primarily related to \$0.9 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. This restructuring expense will be accrued over the remaining service lives of the affected employees.

In the 2015 period, the restructuring expense primarily related to the implementation of a previously announced voluntary retirement program available to certain employees at our Spay, France facility. This restructuring expense will be accrued over the remaining service lives of the affected employees, of which \$2.5 million was recognized during the three months ended June 30, 2015. During 2015, we also recognized a loss of \$2.8 million to write down equipment at our mothballed Philippines site to its expected recoverable sales value.

Operating Profit
(\$ in millions)

	Three Months Ended			Percent Change	Return on Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Engineered Papers	\$35.9	\$26.9	\$9.0	33.5 %	24.7%	19.0%
Advanced Materials & Structures	8.9	5.4	3.5	64.8	12.4	13.3
Unallocated expenses	(7.3)	(8.3)	1.0	(12.0)		
Total	\$37.5	\$24.0	\$13.5	56.3 %	17.3%	13.2%

Operating profit was \$37.5 million in the three months ended June 30, 2016 compared with \$24.0 million during the prior-year period.

The EP segment's operating profit in the three months ended June 30, 2016 was \$35.9 million, an increase of \$9.0 million, or 33.5%, from \$26.9 million in the prior-year period. The increase was primarily due to the \$3.9 million net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements, along with \$4.4 million in lower restructuring costs and \$1.8 million in net favorable foreign currency translation impacts, which were partially offset by the \$0.9 million combined impact of lower royalty income, and higher discounts, returns and allowances.

The AMS segment's operating profit in the three months ended June 30, 2016 was \$8.9 million compared to \$5.4 million in the prior-year period. The increase of \$3.5 million, or 64.8%, was positively impacted by \$3.9 million in incremental operating profit associated with the operations of our newly acquired Argotec business, \$1.7 million in lower net nonmanufacturing expenses partially as a result of restructuring actions taken during prior quarters, which were partially offset by the combined \$1.4 million impact of planned reductions of low margin industrial sales, higher resin costs and unfavorable fixed cost absorption, in each case compared to the prior-year period, as well as \$0.2 million in lower restructuring expense in the prior-year period compared to the current period.

Unallocated expenses in the three months ended June 30, 2016 were \$7.3 million compared to \$8.3 million in the prior-year period. The decrease of \$1.0 million, or 12.0%, in unallocated expenses during the three months ended June 30, 2016 compared to the prior-year period was primarily due to lower corporate overhead costs as well as to general decreases in other expenses which includes the impact of reclassification of certain costs and restructuring activities taken in prior quarters.

Non-Operating Expenses

Interest expense was \$4.1 million in the three months ended June 30, 2016, an increase from \$1.9 million in the prior-year period. The weighted average effective interest rate on our debt facilities was approximately 2.35% and 1.43% for the three months ended June 30, 2016 and 2015, respectively. The increase in interest expense is due to higher debt balances outstanding compared to the prior-year period in conjunction with the Argotec acquisition as well as the effect of the higher effective interest rate applied to borrowings under the Amended Credit Agreement which was executed in October 2015 when compared to our previous Credit Agreement.

Other income, net, was \$1.0 million during the three months ended June 30, 2016. The \$5.1 million decrease in other income, net compared to \$6.1 million during the three months ended June 30, 2015 was due primarily to the recognition of a gain of \$4.3 million related to the sale of water rights at our Spotswood, New Jersey facility in 2015 which was not repeated in the second quarter of 2016 and \$0.8 million in lower interest income from lower cash balances outstanding during the second quarter of 2016.

Income Taxes

A \$9.1 million provision for income taxes in the three months ended June 30, 2016 resulted in an effective tax rate of 26.5% compared with 23.0% in the prior-year period. The increase in the effective tax rate was primarily attributed to a higher concentration of profits generated in higher-tax jurisdictions coupled with a reduction in the generation of certain foreign tax credits in 2016 compared to the prior-year period.

Income from Equity Affiliates

Income from equity affiliates was \$0.7 million in the three months ended June 30, 2016 compared with \$2.8 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 volumes at CTS in the second quarter of 2016 compared to the prior-year period. In April 2016, CTM temporarily suspended production in order to bring its operations into compliance with newly effective emissions standards in China. In June, it resumed operations. At this time, we do not expect this to have a material adverse impact on our financial results this year.

Discontinued Operations

Because we closed our Philippines 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.

Net Income and Income per Share

Net income in the three months ended June 30, 2016 was \$26.0 million, or \$0.85 per diluted share, compared with \$23.4 million, or \$0.76 per diluted share, during the prior-year period. The increase in net income was primarily due to incremental income earned from the operations of our newly acquired Argotec business as well as a net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements, favorable foreign currency translation impacts and lower restructuring costs in the EP segment. These factors were partially offset by the impact of planned reductions of low margin industrial sales, higher resin costs and unfavorable fixed cost absorption in the AMS segment along with lower gain from the sale of water rights in 2016 compared to the prior year period and lower income from our equity affiliates.

Six Months Ended June 30, 2016 Compared with the Six Months Ended June 30, 2015

Net Sales

(\$ in millions)

	Six Months Ended			Percent Change
	June 30, 2016	June 30, 2015	Change	
Engineered Papers	\$288.9	\$288.8	\$0.1	N.M.
Advanced Materials & Structures	143.0	81.1	61.9	76.3
Total	\$431.9	\$369.9	\$62.0	16.8 %

N.M. - Not Meaningful

Net sales were \$431.9 million in the six months ended June 30, 2016 compared with \$369.9 million in the prior-year period. The increase in net sales consisted of the following (\$ in millions):

	Amount	Percent
Incremental revenue from acquired companies	\$64.4	17.4 %
Changes in volume, product mix and selling prices	3.8	1.0
Changes due to royalties	(0.3)	—
Changes due to rebates	(1.7)	(0.5)
Changes due to net foreign currency impacts	(4.2)	(1.1)
Total	\$62.0	16.8 %

EP segment net sales during the six months ended June 30, 2016 of \$288.9 million increased by \$0.1 million versus net sales of \$288.8 million in the prior year. The increase in net sales was primarily the result of the \$5.3 million net combined favorable impact of changes in volumes, mix of products sold and average selling prices, partially offset by \$3.2 million in unfavorable net foreign currency translation impacts, \$1.7 million in higher rebates to customers, and \$0.3 million in lower royalties received, in each case compared to the prior-year period.

AMS segment net sales were \$143.0 million for the six months ended June 30, 2016 compared to \$81.1 million during the prior-year period. The increase of \$61.9 million or 76.3% was due primarily to \$64.4 million in incremental net sales generated by the operations of our newly acquired Argotec business, partially offset by \$1.0 million of unfavorable net foreign currency translation impacts, mainly from a weaker euro. The segment was also impacted by the \$1.5 million impact of planned reductions of low margin industrial sales.

Gross Profit

(\$ in millions)

	Six Months Ended			Percent Change	Percent of Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Net Sales	\$431.9	\$369.9	\$62.0	16.8 %	100.0%	100.0%
Cost of products sold	301.5	263.7	37.8	14.3	69.8	71.3
Gross Profit	\$130.4	\$106.2	\$24.2	22.8 %	30.2 %	28.7 %

Gross profit increased by \$24.2 million during the six months ended June 30, 2016 to \$130.4 million versus the prior-year period of \$106.2 million. In the EP segment, the \$10.4 million net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements, along with \$0.9 million in favorable net foreign currency translation impacts were partially offset by the \$1.4 million combined impact of lower royalty income and higher discounts, returns and allowances, along with the \$0.4 million net combined impact of

lower raw material yield, lower fixed cost absorption and higher inflationary costs. The AMS segment benefited from \$17.7

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million in incremental gross profit associated with the operations of our newly acquired Argotec business, partially offset by \$0.3 million in unfavorable net foreign currency translation impacts as well as the combined \$3.1 million combined impact of planned reductions of low margin industrial sales, higher resin costs and unfavorable fixed cost absorption.

Nonmanufacturing Expenses
(\$ in millions)

	Six Months Ended			Percent Change	Percent of Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Selling expense	\$12.8	\$10.5	\$2.3	21.9 %	3.0 %	2.8 %
Research expense	8.7	7.0	1.7	24.3	2.0	1.9
General expense	37.1	33.0	4.1	12.4	8.6	8.9
Nonmanufacturing expenses	\$58.6	\$50.5	\$8.1	16.0 %	13.6%	13.6%

Nonmanufacturing expenses in the six months ended June 30, 2016 increased by \$8.1 million to \$58.6 million from \$50.5 million in the prior-year period due primarily to \$8.7 million in higher incremental costs from the operations of our newly acquired Argotec business and \$1.8 million in higher research and development and selling expenditures, excluding Argotec, partially offset by \$0.4 million in favorable foreign currency translation impacts, mainly from a weaker euro, and \$2.0 million in lower general and administrative expenses which includes the impact of reclassification of certain costs and restructuring actions taken in our AMS segment and French EP operations in prior quarters.

Restructuring and Impairment Expense
(\$ in millions)

	Six Months Ended			Percent Change	Percent of Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Engineered Papers	\$1.8	\$9.1	\$(7.3)	(80.2) %	0.6%	3.2 %
Advanced Materials & Structures	0.6	(0.2)	0.8	400.0	0.4	(0.2)
Unallocated expenses	0.3	0.3	—	—		
Total	\$2.7	\$9.2	\$(6.5)	(70.7) %	0.6%	2.5 %

The Company incurred total restructuring and impairment expense of \$2.7 million in the six months ended June 30, 2016 compared with \$9.2 million in the six months ended June 30, 2015. In the 2016 period, the restructuring expense primarily related to \$1.9 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 expense recognized on equipment at our Poland paper manufacturing facility.

In the 2015 period, the restructuring expense primarily related to the implementation of a previously announced voluntary retirement program available to certain employees at our Spay, France facility. This restructuring expense will be accrued over the remaining service lives of the affected employees, of which \$5.6 million was recognized during the comparable 2015 period. During 2015, the Company also recognized a loss of \$0.7 million on the sale of certain equipment from our mothballed Philippines site and \$2.8 million of loss recognized to write down equipment at that same Philippines site to its expected recoverable sales value.

Operating Profit
(\$ in millions)

	Six Months Ended			Percent Change	Return on Net Sales	
	June 30, 2016	June 30, 2015	Change		2016	2015
Engineered Papers	\$71.4	\$54.7	\$16.7	30.5 %	24.7%	18.9%
Advanced Materials & Structures	14.1	8.0	6.1	76.3	9.9	9.9
Unallocated expenses	(16.4)	(16.2)	(0.2)	1.2		
Total	\$69.1	\$46.5	\$22.6	48.6 %	16.0%	12.6%

Operating profit was \$69.1 million in the six months ended June 30, 2016 compared with \$46.5 million during the prior-year period.

The EP segment's operating profit in the six months ended June 30, 2016 was \$71.4 million, an increase of \$16.7 million, or 30.5%, from \$54.7 million in the prior-year period. The increase was primarily due to the \$10.4 million net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements, \$1.3 million in favorable net foreign currency translation impacts, \$7.3 million in lower restructuring expenses and \$0.5 million in lower nonmanufacturing expenses, which were partially offset by the \$1.4 million combined impact of lower royalty income and lower discounts, returns and allowances, along with the \$1.4 million net combined impact of lower raw material yield, lower fixed cost absorption and higher inflationary costs.

The AMS segment's operating profit in the six months ended June 30, 2016 was \$14.1 million compared to \$8.0 million in the prior-year period. The increase of \$6.1 million, or 76.3%, was positively impacted by \$8.9 million in incremental operating profit associated with the operations of our newly acquired Argotec business and \$2.7 million in lower net selling and general and administrative expenses which includes the impact of reclassification of certain costs and of restructuring actions taken during previous quarters, partially offset by \$0.3 million in unfavorable net foreign currency translation impacts, \$0.8 million in higher restructuring expenses, as well as the combined \$3.2 million impact of planned reductions of low margin industrial sales, higher resin costs and unfavorable fixed cost absorption.

Non-Operating Expenses

Interest expense was \$8.7 million in the six months ended June 30, 2016, an increase from \$3.6 million in the prior-year period. The weighted average effective interest rate on our debt facilities was approximately 2.31% and 1.42% for the six months ended June 30, 2016 and 2015, respectively. The increase in interest expense is due to higher debt balances outstanding compared to the prior-year period in connection with the Argotec acquisition as well as the effect of the higher effective interest rate applied to borrowings under the Amended Credit Agreement which was executed in October 2015 when compared to our previous Credit Agreement.

Other income, net, was \$3.3 million during the six months ended June 30, 2016. The \$4.9 million decrease in other income, net compared to \$8.2 million during the six months ended June 30, 2015 was due primarily to \$2.5 million lower gain recognized related to the sale of water rights at our Spotswood, New Jersey facility, \$1.5 million in lower interest income from lower cash balances outstanding during the quarter, and \$0.2 million in lower royalties and fees earned from our joint ventures in China.

Income Taxes

A \$17.2 million provision for income taxes in the six months ended June 30, 2016 resulted in an effective tax rate of 27.0% compared with 23.5% in the prior-year period. The increase in the effective tax rate was primarily attributed to a higher concentration of profits generated in higher-tax jurisdictions coupled with a reduction in the generation of certain foreign tax credits in 2016 compared to the prior-year period.

Income from Equity Affiliates

Income from equity affiliates was \$0.6 million in the six months ended June 30, 2016 compared with \$4.2 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 volumes at CTS in the first half of 2016 compared to the prior-year period. In April 2016, CTM temporarily suspended production in order to bring its operations into compliance with newly effective emissions standards in China. In June, it resumed operations. At this time, we do not expect this to have a material adverse impact on our financial results this year.

Discontinued Operations

Because we closed our Philippines 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.

Net Income and Income per Share

Net income in the six months ended June 30, 2016 was \$47.1 million, or \$1.54 per diluted share, compared with \$42.2 million, or \$1.37 per diluted share, during the prior-year period. The increase in net income was primarily due to incremental income earned from the operations of our newly acquired Argotec business as well as a net combined favorable impact of changes in volumes, mix of products sold, average selling prices and other operational improvements, along with favorable net foreign currency translation impacts and lower restructuring costs in the EP segment. These factors were partially offset by the combined impact of planned reductions of low margin industrial sales, higher resin costs and unfavorable fixed cost absorption in the AMS segment along with lower income from our equity affiliates and lower gain on sale of water rights compared to the prior period.

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 June 30, 2016, \$128.5 million of the Company's \$143.8 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 for 2016 is projected to be approximately \$30 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 June 30, 2016, we had net operating working capital of \$148.8 million and cash and cash equivalents of \$143.8 million, compared with net operating working capital of \$118.5 million and cash and cash equivalents of \$186.5 million as of December 31, 2015. These changes primarily reflect the impacts of changes in currency exchange rates 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)	Six Months Ended	
	June 30, 2016	June 30, 2015
Net Income	\$ 47.1	