

SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-Q
November 07, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

1-13948

(Commission file number)

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

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

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

1-800-514-0186
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

reporting
company)

Emerging growth company

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

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

The Company had 30,767,451 shares of common stock issued and outstanding as of November 7, 2018.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net sales	\$260.3	\$ 257.8	\$792.6	\$ 746.4
Cost of products sold	195.0	181.8	577.9	530.1
Gross profit	65.3	76.0	214.7	216.3
Selling expense	8.9	8.1	27.2	24.6
Research expense	3.6	3.9	11.8	12.9
General expense	21.3	23.2	66.1	67.4
Total nonmanufacturing expenses	33.8	35.2	105.1	104.9
Restructuring and impairment expense	0.4	1.5	1.4	4.2
Operating profit	31.1	39.3	108.2	107.2
Interest expense	7.3	7.4	20.1	20.0
Other income, net	11.2	3.3	10.4	0.6
Income from continuing operations before income taxes and income from equity affiliates	35.0	35.2	98.5	87.8
(Benefit) provision for income taxes	(5.6)	9.5	10.4	26.5
Income (loss) from equity affiliates, net of income taxes	0.3	—	(0.5)	0.4
Income from continuing operations	40.9	25.7	87.6	61.7
Income (loss) from discontinued operations	0.1	0.1	(0.3)	0.1
Net income	\$41.0	\$ 25.8	\$87.3	\$ 61.8
Net income per share - basic:				
Income per share from continuing operations	\$1.33	\$ 0.84	\$2.85	\$ 2.02
Income (loss) per share from discontinued operations	—	—	(0.01)	—
Net income per share – basic	\$1.33	\$ 0.84	\$2.84	\$ 2.02
Net income per share – diluted:				
Income per share from continuing operations	\$1.33	\$ 0.84	\$2.84	\$ 2.01
Income (loss) per share from discontinued operations	—	—	(0.01)	—
Net income per share – diluted	\$1.33	\$ 0.84	\$2.83	\$ 2.01
Weighted average shares outstanding:				
Basic	30,569,600	30,422,800	30,541,600	30,400,400
Diluted	30,722,800	30,569,500	30,683,100	30,534,700

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

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

(dollars in millions)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income	\$41.0	\$ 25.8	\$87.3	\$ 61.8
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2.8)	11.4	(24.8)	37.1
Less: Reclassification adjustment for realized translation adjustments	(0.2)	—	(0.6)	—
Unrealized gains (losses) on derivative instruments	0.4	(2.8)	0.7	(5.4)
Less: Reclassification adjustment for (gains) losses on derivative instruments included in net income	(0.8)	0.9	(2.4)	0.5
Net loss from postretirement benefit plans	—	(0.3)	—	(0.3)
Reclassification adjustment for amortization of postretirement benefit plans' costs included in net periodic benefit cost	0.8	0.2	2.3	2.4
Other comprehensive (loss) income	(2.6)	9.4	(24.8)	34.3
Comprehensive income	\$38.4	\$ 35.2	\$62.5	\$ 96.1

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

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

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

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 90.5	\$ 106.9
Accounts receivable, net	161.0	149.4
Inventories	150.9	155.2
Income taxes receivable	2.4	3.4
Assets held for sale	11.6	12.8
Other current assets	5.3	5.4
Total current assets	421.7	433.1
Property, plant and equipment, net	343.7	361.9
Deferred income tax benefits	1.8	1.0
Investment in equity affiliates	62.6	68.5
Goodwill	338.7	341.3
Intangible assets	279.0	297.2
Other assets	39.8	39.5
Total assets	\$ 1,487.3	\$ 1,542.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current debt	\$ 3.2	\$ 5.1
Accounts payable	58.6	59.4
Income taxes payable	1.1	4.0
Accrued expenses	73.4	78.6
Total current liabilities	136.3	147.1
Long-term debt	637.6	679.1
Long-term income tax payable	23.7	36.7
Pension and other postretirement benefits	28.9	30.7
Deferred income tax liabilities	44.7	42.3
Other liabilities	47.4	59.9
Total liabilities	918.6	995.8
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; 30,767,973 and 30,711,299 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	3.1	3.1
Additional paid-in-capital	70.0	66.3
Retained earnings	609.8	566.7
Accumulated other comprehensive loss, net of tax	(114.2) (89.4
Total stockholders' equity	568.7	546.7
Total liabilities and stockholders' equity	\$ 1,487.3	\$ 1,542.5

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			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Additional Paid-In Capital			
Balance, June 30, 2017	30,706,861	\$ 3.1	\$ 61.5	\$ 594.5	\$ (114.4)	\$ 544.7
Net income	—	—	—	25.8	—	25.8
Other comprehensive income, net of tax	—	—	—	—	9.4	9.4
Dividends declared (\$0.42 per share)	—	—	—	(12.9)	—	(12.9)
Restricted stock issuances, net	2,560	—	—	—	—	—
Stock-based employee compensation expense	—	—	2.1	—	—	2.1
Stock issued to directors as compensation	1,611	—	0.1	—	—	0.1
Purchases and retirement of common stock	(589)	—	—	(0.1)	—	(0.1)
Balance, September 30, 2017	30,710,443	\$ 3.1	\$ 63.7	\$ 607.3	\$ (105.0)	\$ 569.1
Balance, June 30, 2018	30,754,759	\$ 3.1	\$ 68.8	\$ 582.2	\$ (111.6)	\$ 542.5
Net income	—	—	—	41.0	—	41.0
Other comprehensive loss, net of tax	—	—	—	—	(2.6)	(2.6)
Dividends declared (\$0.43 per share)	—	—	—	(13.3)	—	(13.3)
Restricted stock issuances, net	14,663	—	—	—	—	—
Stock-based employee compensation expense	—	—	1.1	—	—	1.1
Stock issued to directors as compensation	972	—	0.1	—	—	0.1
Purchases and retirement of common stock	(2,421)	—	—	(0.1)	—	(0.1)
Balance, September 30, 2018	30,767,973	\$ 3.1	\$ 70.0	\$ 609.8	\$ (114.2)	\$ 568.7

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

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

	Common Stock Issued		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, December 31, 2016	30,544,494	\$ 3.1	\$ 59.2	\$ 585.3	\$ (139.3)	\$ 508.3
Net income	—	—	—	61.8	—	61.8
Other comprehensive income, net of tax	—	—	—	—	34.3	34.3
Dividends declared (\$1.26 per share)	—	—	—	(38.7)	—	(38.7)
Restricted stock issuances, net	186,773	—	—	—	—	—
Stock-based employee compensation expense	—	—	4.3	—	—	4.3
Stock issued to directors as compensation	4,352	—	0.2	—	—	0.2
Purchases and retirement of common stock	(25,176)	—	—	(1.1)	—	(1.1)
Balance, September 30, 2017	30,710,443	\$ 3.1	\$ 63.7	\$ 607.3	\$ (105.0)	\$ 569.1
Balance, December 31, 2017	30,711,299	\$ 3.1	\$ 66.3	\$ 566.7	\$ (89.4)	\$ 546.7
Cumulative effects of changes in accounting standards	—	—	—	(1.7)	—	(1.7)
Net income	—	—	—	87.3	—	87.3
Other comprehensive loss, net of tax	—	—	—	—	(24.8)	(24.8)
Dividends declared (\$1.29 per share)	—	—	—	(39.7)	—	(39.7)
Restricted stock issuances, net	122,817	—	—	—	—	—
Stock-based employee compensation expense	—	—	3.5	—	—	3.5
Stock issued to directors as compensation	3,615	—	0.2	—	—	0.2
Purchases and retirement of common stock	(69,758)	—	—	(2.8)	—	(2.8)
Balance, September 30, 2018	30,767,973	\$ 3.1	\$ 70.0	\$ 609.8	\$ (114.2)	\$ 568.7

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

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

(dollars in millions)

(Unaudited)

	Nine Months Ended	
	September 30,	September 30,
	2018	2017
Operating		
Net income	\$87.3	\$ 61.8
Less: (Loss) income from discontinued operations	(0.3)	0.1
Income from continuing operations	87.6	61.7
Non-cash items included in net income:		
Depreciation and amortization	46.8	46.7
Restructuring-related impairment	0.2	0.8
Deferred income tax provision	3.0	2.4
Pension and other postretirement benefits	2.8	2.5
Stock-based compensation	3.7	4.5
Loss (income) from equity affiliates	0.5	(0.4)
Gain on sale of assets	—	(4.8)
Long-term income tax payable	(12.0)	—
Change in fair value of contingent consideration	(10.2)	—
Cash dividends received from equity affiliates	2.0	1.8
Other items	(0.1)	(0.2)
Changes in operating working capital, net of assets acquired:		
Accounts receivable	(23.7)	(16.7)
Inventories	(3.2)	1.4
Prepaid expenses	(0.3)	(0.6)
Accounts payable	1.7	1.2
Accrued expenses	(4.3)	(0.2)
Accrued income taxes	(1.5)	(6.9)
Net changes in operating working capital	(31.3)	(21.8)
Net cash provided by operating activities of:		
- Continuing operations	93.0	93.2
- Discontinued operations	0.2	0.1
Net cash provided by operations	93.2	93.3
Investing		
Capital spending	(19.8)	(27.5)
Capitalized software costs	(1.1)	(2.6)
Acquisitions, net of cash acquired	—	(291.7)
Proceeds from sale of assets	—	7.0
Other investing	2.6	5.6
Net cash used in investing	(18.3)	(309.2)

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

	Nine Months Ended	
	September 30,	September 30,
	2018	2017
Financing		
Cash dividends paid to SWM stockholders	(39.7)	(38.7)
Changes in short-term debt	(1.4)	—
Proceeds from issuances of long-term debt	636.1	440.4
Payments on long-term debt	(676.9)	(196.2)
Purchases of common stock	(2.8)	(1.1)
Payments for debt issuance costs	(3.4)	(0.6)
Net cash (used in) provided by financing	(88.1)	203.8
Effect of exchange rate changes on cash and cash equivalents	(3.2)	5.3
Increase (decrease) in cash and cash equivalents	(16.4)	(6.8)
Cash and cash equivalents at beginning of period	106.9	107.4
Cash and cash equivalents at end of period	\$90.5	\$ 100.6
Supplemental Cash Flow Disclosures		
Cash paid for interest	\$20.6	\$ 15.2
Cash paid for taxes, net	\$20.6	\$ 30.8
Change in capital spending in accounts payable and accrued liabilities	\$0.5	\$ 4.4
Deferred contingent business acquisition consideration	\$—	\$ 8.6

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

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

Note 1. General

Nature of Business

Schweitzer-Mauduit International, Inc., or SWM or the Company, headquartered in 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: Advanced Materials and Structures and Engineered Papers.

The Advanced Materials & Structures segment, or AMS, produces mostly resin-based rolled goods such as nets, films and meltblown materials, typically through an extrusion process or other non-woven technologies. These products are used in a variety of specialty applications across the filtration, construction and infrastructure, transportation, industrial and medical end-markets. As discussed more fully in Note 4. Business Acquisitions, in January 2017, the Company completed the acquisition of Conwed Plastics LLC, a Delaware limited liability company, and its Belgian subsidiary ("Conwed NV" and collectively with Conwed Plastic LLC, "Conwed"), which has been integrated into the AMS segment.

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

We conduct business in over 90 countries and operate 23 production locations worldwide, with facilities in the U.S., Canada, United Kingdom, France, Luxembourg, Belgium, Russia, Brazil, China and Poland. We also have a 50% equity interest in two joint ventures in China. The first, China Tobacco Mauduit (Jiangmen) Paper Industry Ltd., or CTM, produces cigarette and porous plug wrap papers and the second, China Tobacco Schweitzer (Yunnan) Reconstituted Tobacco Co. Ltd., or CTS, 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 5. Discontinued Operations.

The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year. The unaudited condensed consolidated financial statements and these notes thereto included herein should be read in conjunction with the audited consolidated financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 1, 2018.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and controlled subsidiaries. The Company's share of the net income of its 50%-owned joint ventures in China is included in the condensed consolidated statements of income as Income from equity affiliates, net of income taxes. Intercompany balances and transactions have been eliminated. Certain reclassifications of prior year data were made in the Condensed Consolidated Statements of Income and in the Notes to Consolidated Financial Statements. The reclassifications were made to conform to the current year presentation.

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

Use of Estimates

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" (Topic 606). This guidance specifies how and when an entity will recognize revenue arising from contracts with customers and requires entities to disclose information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this ASU effective January 1, 2018, utilizing the modified retrospective transition approach upon adoption. This approach required an adjustment upon adoption to the financial statements to reflect the cumulative impact of the guidance and results in no change to prior period financial statements. The guidance in this update was applied to all contracts that were not completed at the date of adoption. Based on the evaluation of the provisions included in the new guidance, along with the related updates discussed below, the adoption of this standard resulted in a cumulative-effect adjustment directly to retained earnings of \$0.5 million as of January 1, 2018. The adoption of this guidance did not materially impact the amount or timing of revenues recognized in the consolidated financial statements or materially effect our financial position. See Note 2. Revenue Recognition for further discussion.

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. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements", providing companies with the option to adopt the provisions of the standard prospectively without adjusting comparative periods; the Company expects to elect this option for transition and adopt the standard on January 1, 2019. Upon adoption, the Company will recognize a cumulative-effect adjustment to the opening balance of retained earnings. The Company plans to apply the package of practical expedients provided in the standard. The Company has established an implementation team in order to analyze the standard and is currently modifying its current accounting policies and procedures for differences and changes which will result from applying the requirements of the new standard to its lease contracts. The Company expects that adoption will have a material impact on the consolidated balance sheets related to recording right-of-use assets and corresponding lease liabilities. The Company is also currently in the process of evaluating the impact of adoption on the consolidated statements of income, but does not expect that the impact will be material and will represent a timing difference in recognition of lease expense over the lease term of certain lease contracts. The Company does not expect the adoption of the new lease standard to have an impact on its debt covenant compliance under its current debt and indenture agreements.

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 ASU 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 adopted these updates effective January 1, 2018 and adoption of these updates did not materially affect our financial position or materially impact the amount or timing of revenues recognized in the consolidated financial statements, as discussed above. See Note 2. Revenue Recognition for further discussion.

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

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 718): Intra-Entity Transfers of Assets Other Than Inventory." This standard states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, thus eliminating the exception for an intra-entity transfer of an asset other than inventory. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company adopted this ASU effective January 1, 2018, utilizing the modified retrospective basis transition approach upon adoption. The adoption of this guidance resulted in a cumulative-effect adjustment directly to retained earnings of \$2.2 million as of January 1, 2018.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The guidance clarifies the definition of a business with the objective of assisting entities in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. The new update is effective for annual periods beginning after December 15, 2017. The Company adopted this guidance as of January 1, 2018. Adoption of ASU 2017-01 did not have an impact on the consolidated financial statements.

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

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendment requires an employer to report the service cost component in the same line item or line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal from operations. This guidance is effective for annual periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018, utilizing the retrospective transition approach upon adoption. The adoption of this guidance resulted in a reclassification of the components of net periodic pension cost, other than service cost, from Cost of products sold and General expense to Other income (expense), net, in the Consolidated Statements of Income. The reclassification of these costs effects only the EP segment, as there are no pension costs associated with the AMS segment. For the three and nine months ended September 30, 2017, respectively, \$0.8 million and \$2.6 million in pension expense were reclassified from Operating profit to Other expense in the condensed consolidated statement of income for the 2017 comparative periods. The adoption of this guidance had no effect on Net income in the Consolidated Statements of Income and no effect on the other consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting". This amendment clarifies the changes to terms or conditions of a share-based payment award that require an entity to apply modification accounting. ASU 2017-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted and prospective application is required. The Company adopted this guidance as of January 1, 2018. Adoption of ASU 2017-09 did not have a material impact on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This amendment better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. Early application is permitted and should be applied to hedging relationships existing on the date of adoption. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption. The Company elected to early adopt this guidance as of January 1, 2018. Refer to Note

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12. Derivatives for additional information regarding the impact of adoption of this standard on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU was issued following the enactment of the Tax Cuts and Jobs Act (the "Tax Act") of 2017. This ASU allows an entity to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Act. ASU 2018-02 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. Early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees and make the accounting treatment for employee and nonemployee share-based transactions more consistent. ASU 2018-07 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. Early adoption is permitted, but no earlier than the entity's adoption date of Topic 606. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." The new standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The provisions of this ASU are effective for years beginning after December 15, 2020, with early adoption permitted. The new standard requires the amendments to be applied on a retrospective basis for all periods presented. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The new standard provides updated guidance surrounding implementation costs associated with cloud computing arrangements that are service contracts. The provisions of this ASU are effective for years beginning after December 15, 2020, with early adoption permitted. The Company is currently in the process of evaluating the impact of the pronouncement on the consolidated financial statements.

Note 2. Revenue Recognition

The Company has two main sources of revenue: product sales and materials conversion. The Company recognizes product sales revenues when control of a product is transferred to the customer. For the majority of product sales, transfer of control occurs when the products are shipped from one of the Company's manufacturing facilities to the customer. The cost of delivering finished goods to the Company's customers is recorded as a component of cost of products sold. Those costs include the amounts paid to a third party to deliver the finished goods. Any freight costs billed to and paid by a customer are included in net sales. The Company also provides services to customers through the conversion of customer-owned raw materials into processed finished goods. In these transactions, the Company generally recognizes revenue as processing is completed.

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which generally occurs when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Generally, the Company considers collectability of amounts due under a contract to be probable upon inception of a sale based on an evaluation of the credit worthiness of each customer. If collectability is not considered to be probable, the Company defers recognition of revenue on satisfied performance obligations until the uncertainty is resolved. Any variable consideration, such as discounts or price concessions, is set forth in the terms of the contract at inception, and is included in the

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assessment of the transaction price at the outset of the arrangement. The transaction price is allocated to the individual performance obligations due under the contract based on the relative stand-alone fair value of the performance obligations identified in the contract. The Company typically uses an observable price to determine the stand-alone selling price for separate performance obligations.

The Company does not typically include extended payment terms or significant financing components in our contracts with customers. Certain product sales contracts may include cash-based incentives (volume rebates or credits), which are accounted for as variable consideration. We estimate these amounts at least quarterly based on the expected forecast quantities to be provided to customers and reduce revenues recognized accordingly. Incidental items that are immaterial in the context of the contract are recognized as expense in the period incurred. The Company generally expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within sales and marketing expenses. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. As a practical expedient, the Company treats shipping and handling activities that occur after control of the good transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation.

Following is the Company's net sales disaggregated by revenue source (\$ in millions). Sales and usage-based taxes are excluded from net sales.

	Three Months Ended					
	September 30, 2018			September 30, 2017		
	AMS	EP	Total	AMS	EP	Total
Product revenues	\$117.9	\$124.2	\$242.1	\$112.4	\$122.3	\$234.7
Materials conversion revenues	1.9	13.9	15.8	3.2	17.9	21.1
Other revenues	1.0	1.4	2.4	0.6	1.4	2.0
Total revenues (1)	\$120.8	\$139.5	\$260.3	\$116.2	\$141.6	\$257.8

(1) Revenues include net hedging gains and losses for the three months ended September 30, 2018 and 2017.

	Nine Months Ended					
	September 30, 2018			September 30, 2017		
	AMS	EP	Total	AMS	EP	Total
Product revenues	\$346.9	\$378.6	\$725.5	\$318.4	\$350.8	\$669.2
Materials conversion revenues	10.3	50.1	60.4	14.0	57.9	71.9
Other revenues	2.9	3.8	6.7	1.6	3.7	5.3
Total revenues (1)	\$360.1	\$432.5	\$792.6	\$334.0	\$412.4	\$746.4

(1) Revenues include net hedging gains and losses for the nine months ended September 30, 2018 and 2017.

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Net sales are attributed to the following geographic locations based on the location of the Company's direct customers (\$ in millions):

	Three Months Ended					
	September 30, 2018			September 30, 2017		
	AMS	EP	Total	AMS	EP	Total
United States	\$84.7	\$47.0	\$131.7	\$80.6	\$46.8	\$127.4
Europe and the former Commonwealth of Independent States	10.0	51.0	61.0	13.5	52.8	66.3
Asia/Pacific (including China)	20.3	17.9	38.2	16.4	21.2	37.6
Latin America	2.1	11.0	13.1	2.4	11.0	13.4
Other foreign countries	3.7	12.6	16.3	3.3	9.8	13.1
Total revenues (1)	\$120.8	\$139.5	\$260.3	\$116.2	\$141.6	\$257.8

(1) Revenues include net hedging gains and losses for the three months ended September 30, 2018 and 2017.

	Nine Months Ended					
	September 30, 2018			September 30, 2017		
	AMS	EP	Total	AMS	EP	Total
United States	\$247.6	\$146.7	\$394.3	\$227.6	\$140.2	\$367.8
Europe and the former Commonwealth of Independent States	36.5	168.6	205.1	37.6	155.1	192.7
Asia/Pacific (including China)	56.9	57.1	114.0	50.8	59.7	110.5
Latin America	7.8	33.0	40.8	7.8	32.4	40.2
Other foreign countries	11.3	27.1	38.4	10.2	25.0	35.2
Total revenues (1)	\$360.1	\$432.5	\$792.6	\$334.0	\$412.4	\$746.4

(1) Revenues include net hedging gains and losses for the nine months ended September 30, 2018 and 2017.

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Note 3. Other Comprehensive Income

Comprehensive income includes net income, as well as certain items charged and credited directly to stockholders' equity, which are excluded from net income. The Company has presented comprehensive income in the condensed consolidated statements of comprehensive income (loss). Reclassification adjustments of derivative instruments are presented in Net sales, Other (expense) income, net, or Interest expense in the condensed consolidated statements of income. See Note 12. 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 14. Postretirement and Other Benefits.

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

	September 30, 2018	December 31, 2017
Accumulated pension and OPEB liability adjustments, net of income tax benefit of \$12.9 million and \$13.8 million at September 30, 2018 and December 31, 2017, respectively	\$(22.6)	\$(24.9)
Accumulated unrealized (loss) gain on derivative instruments, net of income tax benefit of \$1.5 million and \$0.2 million at September 30, 2018 and December 31, 2017, respectively	(1.3)	0.4
Accumulated unrealized foreign currency translation adjustments, net of income tax benefit of \$2.7 million and \$4.5 million at September 30, 2018 and December 31, 2017, respectively	(90.3)	(64.9)
Accumulated other comprehensive loss	\$(114.2)	\$(89.4)

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

	Three Months Ended					
	September 30, 2018			September 30, 2017		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Unrealized gain (loss) on pension and OPEB liability adjustments	\$1.0	\$(0.2)	\$0.8	\$1.1	\$(1.2)	\$(0.1)
Unrealized (loss) gain on derivative instruments	(0.4)	—	(0.4)	(2.1)	0.2	(1.9)
Unrealized (loss) gain on foreign currency translation	(3.1)	0.1	(3.0)	11.4	—	11.4
Total	\$(2.5)	\$(0.1)	\$(2.6)	\$10.4	\$(1.0)	\$9.4

	Nine Months Ended					
	September 30, 2018			September 30, 2017		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Unrealized gain (loss) on pension and OPEB liability adjustments	\$3.2	\$(0.9)	\$2.3	\$3.7	\$(1.6)	\$2.1
Unrealized (loss) gain on derivative instruments	(3.0)	1.3	(1.7)	(7.1)	2.2	(4.9)
Unrealized (loss) gain on foreign currency translation	(23.6)	(1.8)	(25.4)	37.1	—	37.1
Total	\$(23.4)	\$(1.4)	\$(24.8)	\$33.7	\$0.6	\$34.3

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Note 4. Business Acquisitions

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

The consideration for the Conwed acquisition was \$295.0 million in cash, subject to certain customary post-closing adjustments, plus three potential earn-out payments not to exceed \$40.0 million in the aggregate, which payments are contingent upon the achievement of certain financial metrics in each of 2019, 2020 and 2021, in each case, upon the terms and subject to the conditions contained in the Purchase Agreement. The estimated fair value of the potential earn-out payments at the acquisition date was \$8.6 million, for total consideration transferred of \$303.6 million. The estimated fair value of the deferred contingent consideration was determined based on management's projections related to the achievement of certain financial metrics for the aforementioned years. The discount rate used to value the liability was based on specific business risk, cost of capital and other factors. The fair value of the contingent consideration was determined using significant unobservable inputs and is considered a Level 3 liability. The liability associated with the contingent consideration is remeasured each quarter subsequent to the acquisition date, taking into consideration the changes in management's projections related to the achievement of certain financial metrics related to the contingent consideration. The liability will continue to be remeasured each quarter until either the agreement has expired or the contingency is resolved. Any changes in the fair value of contingent consideration related to updated assumptions and estimates are recognized within Other income, net, in the Condensed Consolidated Statements of Income during the period in which the change occurs.

As of December 31, 2017, the fair value of the contingent liability was \$9.5 million. As of September 30, 2018, the fair value of the contingent liability had increased to \$10.2 million, including \$0.7 million in accretion year-to-date. Upon review of management's projections and estimates through December 31, 2021, the Company determined that the contingent payments were no longer probable, such that the fair value of the contingent consideration was reduced to \$0.0 million as of September 30, 2018, resulting in a \$10.2 million gain recognized in Other income, net.

The purchase price for Conwed was funded from the Company's borrowings under the First Amendment to Second Amended and Restated Credit Agreement, while the purchase price for Conwed NV was funded from cash on hand. See Note 11. Debt, for additional information.

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

	Fair Value as of January 20, 2017
Cash and cash equivalents	\$ 3.3
Accounts receivable	15.4
Inventory	20.6
Other current assets	1.1
Property, plant and equipment	31.7
Identifiable intangible assets	134.4
Total assets	206.5
Accounts payable and accrued expenses	8.2
Deferred tax liabilities	0.9
Net identifiable assets acquired	197.4
Goodwill	106.2
Fair value of consideration transferred	\$ 303.6

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

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

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

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

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

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

For the nine months ended September 30, 2018 and 2017, the Company recognized no and \$0.1 million of direct and indirect acquisition-related costs, respectively. In the nine months ended September 30, 2017, the Company incurred \$0.6 million in acquisition-related financing costs. Direct and indirect acquisition-related costs were expensed as incurred and are included in the General expense line item in the condensed consolidated statements of income. Financing costs related to expanding the Amended Credit Agreement (as defined below) have been capitalized and are amortized in Interest expense over the life of the Amended Credit Agreement.

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

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

The amounts of the unaudited pro forma Net sales and Income from continuing operations of the combined entity had the acquisition date been January 1, 2017 are as follows (\$ in millions):

Net Sales	Income from Continuing
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2017 Supplemental Pro Forma from January 1, 2017 - September 30, 2017 Operations
\$754.1 \$ 58.4

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Note 5. Discontinued Operations

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

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

	September 30, December 31,	
	2018	2017
Assets of discontinued operations:		
Current assets	\$ 0.8	\$ 1.0
Other assets	1.4	2.4
Liabilities of discontinued operations:		
Current liabilities	0.1	0.1

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

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net sales	\$ —	\$ —	\$ —	\$ —
Other income (expense)	0.1	0.1	(0.3)	0.1
Loss from discontinued operations before income taxes	0.1	0.1	(0.3)	0.1
Income tax (provision) benefit	—	—	—	—
Loss from discontinued operations	0.1	0.1	(0.3)	0.1

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Note 6. Net Income Per Share

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

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

	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		September 30, 2017	
Numerator (basic and diluted):								
Net income	\$41.0	\$ 25.8			\$87.3	\$ 61.8		
Less: Dividends paid to participating securities	(0.1)	(0.1)			(0.2)	(0.3)		
Less: Undistributed earnings available to participating securities	(0.2)	(0.1)			(0.4)	(0.2)		
Undistributed and distributed earnings available to common stockholders	\$40.7	\$ 25.6			\$86.7	\$ 61.3		
Denominator:								
Average number of common shares outstanding	30,569.6	30,422.8			30,541.6	30,400.4		
Effect of dilutive stock-based compensation	153.2	146.7			141.5	134.3		
Average number of common and potential common shares outstanding	30,722.8	30,569.5			30,683.1	30,534.7		

Note 7. Inventories

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

	September 30, December 31,	
	2018	2017
Raw materials	\$ 49.0	\$ 50.4
Work in process	25.1	21.3
Finished goods	67.4	74.2
Supplies and other	9.4	9.3
Total	\$ 150.9	\$ 155.2

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Note 8. Goodwill

The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2018 were as follows (\$ in millions):

	Advanced Materials & Structures	Engineered Papers	Total
Goodwill as of December 31, 2017	\$ 336.1	\$ 5.2	\$341.3
Foreign currency translation adjustments	(2.4)	(0.2)	(2.6)
Goodwill as of September 30, 2018	\$ 333.7	\$ 5.0	\$338.7

Note 9. Intangible Assets

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

	September 30, 2018				
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Accumulated Foreign Exchange	Net Carrying Amount
Amortized Intangible Assets					
Advanced Materials & Structures					
Customer relationships	\$276.3	\$ 46.0	\$ —	\$ (0.2)	\$ 230.5
Developed technology	34.0	8.0	—	0.1	25.9
Trade names	21.8	0.8	20.7	0.3	—
Non-compete agreements	2.9	1.6	—	—	1.3
Patents	1.5	0.3	—	—	1.2
Total	\$336.5	\$ 56.7	\$ 20.7	\$ 0.2	\$ 258.9
Unamortized Intangible Assets (Advanced Materials & Structures)					
Trade names	\$20.0	\$ —	\$ 0.1	\$ (0.2)	\$ 20.1

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	December 31, 2017				
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Accumulated Foreign Exchange	Net Carrying Amount
Amortized Intangible Assets					
Advanced Materials & Structures					
Customer relationships	\$276.3	\$ 32.9	\$ —	\$ (2.3)	\$ 245.7
Developed technology	34.0	6.0	—	(0.1)	28.1
Customer contracts	0.9	0.9	—	—	—
Trade names	21.8	0.8	20.7	0.3	—
Non-compete agreements	2.9	1.1	—	—	1.8
Patents	1.5	0.3	—	—	1.2
Total	\$337.4	\$ 42.0	\$ 20.7	\$ (2.1)	\$ 276.8
Unamortized Intangible Assets (Advanced Materials & Structures)					
Trade names	\$20.0	\$ —	\$ —	\$ (0.4)	\$ 20.4

Amortization expense of intangible assets was \$5.2 million and \$5.2 million for the three months ended September 30, 2018 and 2017, respectively, and \$15.6 million and \$15.7 million for the nine months ended September 30, 2018 and 2017, respectively. Finite-lived intangibles in the AMS segment are expensed using the straight-line amortization method. The estimated average aggregate amortization expense is \$20.3 million in each of the next five years.

Note 10. Restructuring and Impairment Activities

The Company incurred Restructuring and impairment expense of \$0.4 million and \$1.5 million in the three months ended September 30, 2018 and 2017, respectively, and \$1.4 million and \$4.2 million in the nine months ended September 30, 2018 and 2017, respectively.

In the AMS segment, Restructuring and impairment expense was \$0.4 million and \$1.2 million for the three months ended September 30, 2018 and 2017, respectively, and \$1.2 million and \$2.4 million in the nine months ended September 30, 2018 and 2017, respectively. Restructuring and impairment expense for the nine months ended September 30, 2018 consisted of \$0.9 million in severance accruals for employees at our U.S. manufacturing operations, as well as \$0.3 million in impairment charges at our U.S manufacturing operations. In the nine months ended September 30, 2017, Restructuring and impairment expense consisted of severance accruals for employees at our U.S. and Belgium manufacturing operations.

In the EP segment, Restructuring and impairment expense was \$0.0 million and \$0.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$0.2 million and \$1.7 million in the nine months ended September 30, 2018 and 2017, respectively. During the nine months ended September 30, 2018, Restructuring and impairment expense consisted of \$0.2 million in severance accruals for employees at our manufacturing facilities in France. During the nine months ended September 30, 2017, Restructuring and impairment expense consisted of \$0.9 million in severance accruals for employees at our manufacturing facilities in the U.S. and France, as well as an impairment charge of \$0.8 million at our Philippines RTL location.

Additionally, the Company incurred no restructuring and impairment expense and reallocated \$0.1 million between segments during the three months ended September 30, 2018 and 2017, respectively, and \$0.0 million and \$0.1 million in the nine months ended September 30, 2018 and 2017, respectively, in each case related to accruals for

severance expenses within supporting overhead departments which were not allocated to a specific segment.

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Restructuring liabilities were classified within Accrued expenses in each of the condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017. Changes in the restructuring liabilities, substantially all of which are employee-related, during the periods ended September 30, 2018 and December 31, 2017 are summarized as follows (\$ in millions):

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Balance at beginning of year	\$ 1.7	\$ 4.3
Accruals for announced programs	1.1	3.5
Cash payments	(2.5)	(6.4)
Other	1.8	—
Exchange rate impacts	—	0.3
Balance at end of period	\$ 2.1	\$ 1.7

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

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

In early 2015, the Company made the decision to dispose of the Company's mothballed RTL facility and related equipment in the Philippines. These assets are included in the EP segment. During 2015, the Company reclassified the balance of the equipment, along with the land and building associated with the property, at this location from Property, plant and equipment, net, to Assets held for sale on the consolidated balance sheets. The reclassifications were made for all assets that are expected to be sold within one year of the balance sheet date and, as of September 30, 2018, all of the physical assets of this entity are classified as Assets held for sale. The Company incurred no and \$0.8 million in impairment charges related to these assets during the nine months ended September 30, 2018 and 2017, respectively.

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Note 11. Debt

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

	September 30, 2018	December 31, 2017
Revolving credit facility - U.S. dollar borrowings	\$ 91.0	\$ 344.5
Revolving credit facility - Euro borrowings	3.5	26.4
Term loan facility	200.0	—
Term loan A-1	—	60.0
Term loan A-2	—	244.4
6.875% senior unsecured notes due October 1, 2026, net of discount of \$7.8 million	342.2	—
French employee profit sharing	6.7	9.1
Long-term capital lease obligations	4.6	4.1
Other	—	1.5
Debt issuance costs	(7.2) (5.8
Total debt	640.8	684.2
Less: Current debt	(3.2) (5.1
Long-term debt	\$ 637.6	\$ 679.1

New Credit Facility

On September 25, 2018, the Company entered into a \$700.0 million credit agreement (the “New Credit Agreement”), which replaces the Company’s existing senior secured credit facilities and provides for a five-year \$500.0 million revolving line of credit (the “Revolving Credit Facility”) and a seven-year \$200.0 million bank term loan facility (the “Term Loan Facility”). Subject to certain conditions, including the absence of a default or event of default under the New Credit Agreement, the Company may request incremental loans to be extended under the Revolving Credit Facility or the Term Loan Facility so long as the Company is in pro forma compliance with the financial covenants set forth in the New Credit Agreement and the aggregate of such increases does not exceed \$400.0 million.

Borrowings under the Revolving Credit Facility will initially bear interest, at the Company’s option, at either (i) 1.75% in excess of a reserve adjusted London Interbank Offered Rate (“LIBOR”) or (ii) 0.75% in excess of an alternative base rate. Borrowings under the Term Loan Facility will initially bear interest, at the Company’s option, at either (i) 2.00% in excess of a reserve adjusted LIBOR rate or (ii) 1.00% in excess of an alternative base rate. The Term Loan amortizes at the rate of 1.0% per year and will mature on September 25, 2025.

Under the terms of the New Credit Agreement, the Company will be required to maintain certain financial ratios and comply with certain financial covenants, including maintaining a net debt to EBITDA ratio, as defined in the New Credit Agreement, calculated on a trailing four fiscal quarter basis, not greater than 4.50 and an interest coverage ratio, also as defined in the New Credit Agreement, of not less than 3.00. In addition, borrowings and loans made under the New Credit Agreement are secured by substantially all of the Company’s and the guarantors’ personal property, excluding certain customary items of collateral, and will be guaranteed by the Company’s existing and future wholly-owned material domestic subsidiaries and by SWM Luxembourg. The Company was in compliance with all of its covenants under the New Credit Agreement at September 30, 2018.

Also on September 25, 2018, the Company borrowed approximately \$96.0 million under the Revolving Credit Facility and \$200.0 million under the Term Loan Facility. The Company utilized these borrowings under the New Credit

Agreement together with the net proceeds from the offering of the Notes to refinance all amounts outstanding under the Company's Prior Credit Agreement and to pay related fees and expenses.

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Indenture for 6.875% Senior Unsecured Notes Due 2026

On September 25, 2018, the Company closed a private offering of \$350.0 million of 6.875% senior unsecured notes due 2026 (the “Notes”). The Notes were sold in a private placement in reliance on Rule 144A and Regulation S under the Securities Act of 1933, as amended, pursuant to a purchase agreement between the Company, certain subsidiaries of the Company and J.P. Morgan Securities LLC, as representative of the initial purchasers. The Notes are guaranteed on a senior unsecured basis by each of the Company’s existing and future wholly-owned subsidiaries that is a borrower under or that guarantees obligations under the New Credit Agreement (as defined below) or that guarantees certain other indebtedness, subject to certain exceptions.

The Notes were issued pursuant to an Indenture (the “Indenture”), dated as of September 25, 2018, by and among the Company, the guarantors listed therein and Wilmington Trust, National Association, as trustee. The Indenture provides that interest on the Notes will accrue from September 25, 2018 and is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2019, and the Notes mature on October 1, 2026.

The Company may redeem some or all of the Notes at any time on or after October 1, 2021, at the redemption prices set forth in the Indenture, together with accrued and unpaid interest, if any, to, but excluding, the redemption date. Prior to October 1, 2021, the Company may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus a “make-whole” premium as set forth in the Indenture. The Company may redeem up to 35% of the original aggregate principal amount of the Notes on or prior to October 1, 2021 with the proceeds of certain equity offerings at a redemption price equal to 106.875% of the principal amount of the Notes. If the Company sells certain assets or consummates certain change of control transactions, the Company will be required to make an offer to repurchase the Notes, subject to certain conditions.

The Indenture contains certain covenants that, among other things, limit the Company’s ability and the ability of its restricted subsidiaries to incur additional indebtedness, make certain dividends, repurchase Company stock or make other distributions, make certain investments, create liens, transfer or sell assets, merge or consolidate and enter into transactions with the Company’s affiliates. Such covenants are subject to a number of exceptions and qualifications set forth in the Indenture. The Indenture also contains certain customary events of default, including failure to make payments in respect of the principal amount of the Notes, failure to make payments of interest on the Notes when due and payable, failure to comply with certain covenants and agreements and certain events of bankruptcy or insolvency. The Company was in compliance with all of its covenants under the Indenture at September 30, 2018.

As of September 30, 2018, the average interest rate was 4.00% on outstanding US Revolving Credit Facility borrowings, 1.75% on outstanding Euro Revolving Credit Facility borrowings and 4.25% on outstanding Term Loan Facility borrowings. The effective rate on the 6.875% senior unsecured notes due 2026 was 7.245%. The weighted average effective interest rate on the Company's debt facilities, including the impact of interest rate hedges, was approximately 4.01% and 3.12% for the nine months ended September 30, 2018 and 2017, respectively.

In conjunction with the Indenture and New Credit Agreement, the Company capitalized approximately \$3.4 million in deferred debt issuance costs during the third quarter of 2018 which will be amortized over the term of the related debt instruments. Additionally, the Company wrote-off \$0.5 million in deferred debt issuance costs related to the prior debt facilities. As of September 30, 2018 and December 31, 2017, the Company's total deferred debt issuance costs, net of accumulated amortization, were \$7.2 million and \$5.8 million, respectively. Amortization expense of \$1.4 million was recorded during each of the nine months ended September 30, 2018 and 2017, respectively, and has been included as a component of Interest expense in the accompanying consolidated statements of income.

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Principal Repayments

Under the New Credit Agreement, the Company selects an "interest period" for each of its borrowings from the Revolving Credit Facility. The Company can repay such borrowings and borrow again at a subsequent date if it chooses to do so, providing it flexibility and efficient use of any excess cash. The Company currently has the intent and ability to allow its debt balances to remain outstanding and expects to continue to file notices of continuation related to its borrowings outstanding at September 30, 2018 such that those amounts are not expected to be repaid prior to the September 2023 expiration of the Revolving Credit Facility. Following are the expected maturities for the Company's debt obligations as of September 30, 2018 (\$ in millions):

2018	\$0.5
2019	4.5
2020	3.2
2021	3.9
2022	3.7
Thereafter	640.0
Total	\$655.8

Prior Credit Agreement

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

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

The interest rate margins applicable to the Revolving Credit Facility and the Term Loans under the Amended Credit Agreement were 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 ranged from 0.25% to 1.50%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 0.50% to 1.75%, in the case of Term Loan A-2, or (ii) an adjusted London interbank offered rate (adjusted for maximum reserves), or LIBOR, plus an applicable margin, which ranged from 1.25% to 2.50%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 1.50% to 2.75%, in the case of

Term Loan A-2. The applicable margin, in each case, was adjusted from time to time based on the Company's ratio of net debt to EBITDA as defined in the Amended Credit Agreement.

In conjunction with the First Amendment, the Company capitalized approximately \$0.6 million in deferred debt issuance costs during the first quarter of 2017 which will be amortized over the term of the related debt instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Debt

At September 30, 2018, the fair market value of the Company's 6.875% senior unsecured notes was \$359.6 million. The fair market value for the senior unsecured notes was determined using quoted market prices, which are directly observable Level 1 inputs. The fair market value of all other debt as of September 30, 2018 approximated the respective carrying amounts as the interest rates are variable and based on current market indices. At December 31, 2017, 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 12. Derivatives

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

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

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

On January 20, 2017, the Company entered into an interest rate swap transaction with JPMorgan Chase Bank, N.A. for a three-year term on a notional amount of \$315 million. The interest rate swap is intended to manage the Company's interest rate risk by fixing the interest rate on a portion of the Company's debt currently outstanding under its credit facility that was previously subject to a floating interest rate equal to 1-month LIBOR plus a credit spread. The swap provides for the Company to pay a fixed rate of 1.65% per annum in addition to the credit spread on such portion of its outstanding debt in exchange for receiving a variable interest rate based on 1-month LIBOR. On September 25, 2018, in conjunction with the debt refinancing discussed in Note 11. Debt, the Company settled a notional amount of \$130 million which resulted in a gain of \$1.8 million as of the settlement date. This gain will be amortized on a ratable basis from Accumulated other comprehensive income into income as interest expense over the remaining term of the interest rate swap.

On January 20, 2017, the Company also entered into a three-year cross-currency swap with JPMorgan Chase Bank, N.A. designated as a hedge of a portion of the Company's net investment in certain Euro-denominated subsidiaries. The terms of the cross-currency swap provide for an exchange of principal on a notional amount of \$100 million swapped to €93.7 million at maturity. The Company will receive from our swap counterparty U.S. dollar interest at a

fixed rate of 1.65% per annum and pay to our swap counterparty Euro interest at a fixed rate of -0.18% per annum.

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The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at September 30, 2018 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	\$ 2.3	Accrued expenses	\$2.8
Foreign exchange contracts	Other assets	—	Other liabilities	11.3
Interest rate contracts	Other assets	2.6	Other liabilities	—
Total derivatives designated as hedges		4.9		14.1
Derivatives not designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	—	Accrued expenses	0.2
Total derivatives not designated as hedges		—		0.2
Total derivatives		\$ 4.9		\$ 14.3

The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at December 31, 2017 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	\$ 4.7	Accrued expenses	\$0.2
Foreign exchange contracts	Other assets	—	Other liabilities	14.2
Interest rate contracts	Other assets	2.0	Other liabilities	—
Total derivatives designated as hedges		6.7		14.4
Derivatives not designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	0.1	Accounts payable	—
Total derivatives not designated as hedges		0.1		—
Total derivatives		\$ 6.8		\$ 14.4

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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				Location of Gain (Loss) Reclassified from AOCI	Gain (Loss) Reclassified from AOCI			
	Three Months Ended		Nine Months Ended			Three Months Ended		Nine Months Ended	
	September 30,		September 30,			September 30,		September 30,	
	2018	2017	2018	2017		2018	2017	2018	2017
Foreign exchange contracts	\$(0.4)	\$0.6	\$(3.1)	\$2.1	Net sales	\$(0.1)	\$0.2	\$0.6	\$0.1
Foreign exchange contracts	(0.4)	(3.4)	(0.4)	(6.7)	Other income, net	0.1	(0.8)	0.1	0.4
Interest rate contracts	1.2	—	4.2	(0.8)	Interest expense	0.8	(0.3)	1.7	(1.0)
Total	\$0.4	\$(2.8)	\$0.7	\$(5.4)		\$0.8	\$(0.9)	\$2.4	\$(0.5)

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 and nine months ended September 30, 2018 or 2017, other than those related to the cross-currency swap, noted below.

In January 2018, the Company early adopted the guidance in ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." Upon adoption of this standard, the Company elected to de-designate the original hedging relationship of its pay-EUR, receive-USD cross currency swap and re-designate the cross currency swap with the terms based on the spot rate of the EUR. Prospectively, future changes in the components related to the spot change on the notional will be recorded in OCI and remain there until the hedged subsidiaries are substantially liquidated. Starting with the adoption date, all coupon payments will be recorded in earnings and the initial value of excluded components currently recorded in AOCI as an unrealized translation adjustment will be amortized into interest expense over the remaining 25 months of the swap, resulting in a positive impact to Net income. As of September 30, 2018, the loss, net of taxes, recognized in Other comprehensive income on the cross currency swap derivative was \$7.0 million. For the three months ended September 30, 2018, \$0.2 million was reclassified from Accumulated other comprehensive income into income as interest expense and \$0.5 million was recognized in income as derivative amounts excluded from effectiveness testing as Interest expense. For the nine months ended September 30, 2018, \$0.6 million was reclassified from Accumulated other comprehensive income into income as Interest expense and \$1.4 million was recognized in income as derivative amounts excluded from effectiveness testing as Interest expense.

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	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income			
		Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Foreign exchange contracts	Other income, net	\$—	4.6	\$(2.1)	\$ 3.2

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Note 13. Commitments and Contingencies

Litigation

Brazil

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. ("SWM-B") in December of 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 Assessment.

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. 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. The Federal Supreme Court decided the first Raw Materials Assessment in favor of SWM-B. SWM-B's appeal on the merits concerning Assessment 2 in the amount of approximately \$10.7 million was denied by a single justice in a different chamber of the Federal Supreme Court of Brazil on April 9, 2018, and SWM-B has appealed his decision to the full chamber of the Federal Supreme Court on May 11, 2018.

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 four sets of assessments against SWM-B, one for May 2006 - November 2007, a second for January 2008 - December 2010, a third for September 2011 - September 2013 which was replaced by a smaller assessment for January - June 2013, and a fourth for July 2013 - December 2017 (collectively the "Electricity Assessments"). SWM-B challenged all Electricity Assessments in administrative proceedings before the state tax council (in the first-level court Junta de Revisão Fiscal and, where appropriate, 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 2014, a majority of the Conselho de Contribuintes sitting en banc ruled against SWM-B in the first and second Electricity Assessments (\$5.0 million and \$7.5 million, respectively, based on the foreign currency exchange rate at September 30, 2018), and SWM-B is now pursuing challenges to these two assessments in the state judicial system. Different chambers of the judicial court granted SWM-B preliminary injunctions against enforcement of these two assessments. The appellate administrative court (Conselho de Contribuintes) unanimously upheld SWM-B's challenge to the third Electricity Assessment and dismissed this Electricity Assessment on technical grounds, after the State admitted the tax did not apply as it had asserted. Instead, in August 2018, the State filed a revised Electricity Assessment in the amount of \$0.5 million for ICMS on electricity purchased during part of 2013. In August 2018, the State filed a fourth Electricity Assessment in the amount of \$8.2 million pertaining to ICMS and FECP on electricity purchased from July 2013 to December 2017. SWM-B filed challenges to these recent assessments in the first-level administrative court based on the statute of limitations and on the same grounds as the older cases. Additionally, the State issued a new regulation effective January 1, 2018 that only specific industries are "electricity-intensive consumers," a list that excludes paper manufacturers. SWM-B contends this regulation shows that paper manufacturers were electricity-intensive consumers eligible to defer ICMS before 2018.

SWM-B believes that both the remaining Raw Materials Assessment and the remaining 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.

France

In December 2016, the Conseil de Prud'hommes d'Orange (a French court dealing with labor matters) rendered a decision by which the Company's wholly owned subsidiary, Schweitzer Mauduit France ("SWM France"), was ordered to pay approximately €1.3 million to 18 former employees of Malaucène Industries, another wholly owned subsidiary, on the grounds, among other things, that SWM France was a "co-employer" of the plaintiffs, and, as a result, liable for

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certain obligations of Malaucène Industries with respect to such employees. Malaucène Industries stopped production in 2009. The Company believes that SWM France, which is a corporate holding company and indirect corporate parent of Malaucène Industries, is not a “co-employer” of any person and that the other claims are also without merit. The Company has no liability recorded in the consolidated financial statements for this matter, believing that the chances of SWM France to reverse the decision on appeal are sufficient that no such reserve is warranted. There can be no assurance, however, that the court of appeals will decide in favor of SWM France on any of the questions pending before the court.

Environmental Matters

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

General Matters

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

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Note 14. 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 or nine months ended September 30, 2018 and 2017 were as follows (\$ in millions):

	Three Months Ended September 30,					
	U.S. Pension Benefits		French Pension Benefits		U.S. OPEB Benefits	
	2018	2017	2018	2017	2018	2017
Service cost	\$—	\$—	\$0.2	\$0.3	\$—	\$—
Interest cost	1.0	1.2	0.1	0.1	—	—
Expected return on plan assets	(1.5)	(1.6)	—	—	—	—
Amortizations and other	0.7	0.6	0.2	0.3	0.1	0.1
Net periodic benefit cost	\$0.2	\$0.2	\$0.5	\$0.7	\$0.1	\$0.1

	Nine Months Ended September 30,					
	U.S. Pension Benefits		French Pension Benefits		U.S. OPEB Benefits	
	2018	2017	2018	2017	2018	2017
Service cost	\$—	\$—	\$0.8	\$0.8	\$—	\$—
Interest cost	3.2	3.6	0.3	0.3	—	—
Expected return on plan assets	(4.4)	(4.8)	(0.1)	(0.1)	—	—
Amortizations and other	2.4	2.4	0.6	0.9	0.2	0.2
Net periodic benefit cost	\$1.2	\$1.2	\$1.6	\$1.9	\$0.2	\$0.2

The components of net periodic benefit cost other than the service cost component are included in Other income (expense), net in the Condensed Consolidated Statements of Income. During the fiscal year ending December 31, 2018, the Company expects to recognize approximately \$3.4 million for amortization of accumulated other comprehensive loss related to its U.S. pension and OPEB plans and approximately \$0.8 million for its French pension plans.

Note 15. 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 the ability of the Company to accurately forecast 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 versus annual projections.

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the "Tax Act") was enacted into law and the new legislation contains several key tax provisions that require recognition of the effect of the tax law changes in the period of enactment. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company is applying the guidance in SAB 118 when

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accounting for the enactment date effects of the Tax Act. The Company determined that the remeasurement of its deferred tax assets and liabilities, transition tax liability and the related foreign currency implications, state taxes, and tax liability associated with investments in non-US subsidiaries where book basis exceeds tax basis were provisional amounts and reasonable estimates as of December 31, 2017. At September 30, 2018, the Company has not completed its accounting for the tax effects of the Tax Act.

As of September 30, 2018, the Company has updated its provisional estimates for transition tax and its indefinite reinvestment assertion. During the three months ended September 30, 2018, the Company recorded a \$13.0 million benefit as an update to its provisional estimate for its transition tax liability based on analyses of its accumulated earnings and foreign taxes paid. Due to the transition tax, the Company will incur U.S. tax on substantially all of its prior accumulated earnings of its foreign subsidiaries. This will increase the Company's previously taxed earnings and generally allows for the repatriation of earnings without additional U.S. federal tax. However, any repatriation of its foreign earnings could still be subjected to withholding taxes, state taxes, foreign currency gain or loss or other income taxes that might be incurred. While the Company's analysis is incomplete at this time with respect to its investment intentions for its accumulated foreign earnings, the Company has repatriated \$24.5 million of foreign earnings and recorded withholding taxes on such distributions. As of September 30, 2018, the Company does not intend to be permanently reinvested with respect to certain of its non-US earnings, but in connection with the finalization of its transition tax calculation the Company will further evaluate, among other factors, the need for cash within and outside the United States, legal entity capitalization requirements, cash controls imposed in foreign jurisdictions, withholding taxes and the availability to offset with foreign tax credits in determining its investment assertion on its accumulated foreign earnings.

The impact of the Tax Act may differ from provisional estimates, possibly materially, during the one-year measurement period due to further refinement of the Company's calculations. Further, additional guidance may be issued to address questions that arise because of the Tax Act, which may affect actions the Company may take as a result of the Tax Act.

The Tax Act subjects a U.S. shareholder to tax on the Global Intangible Low Tax Income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Due to the complexity of the new GILTI tax rules, the Company is continuing to evaluate this provision of the Tax Act and the accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred or (2) factoring such amounts into the Company's measurement of its deferred taxes. Since the future impacts on taxable income depends on a number of different aspects of estimated future results of global operations, the policy decision has not yet been made.

All unrecognized tax positions could impact the Company's effective tax rate if recognized. With respect to penalties and interest incurred from income tax assessments or related to unrecognized tax benefits, the Company's policy is to classify penalties as provision for income taxes and interest as interest expense in its consolidated statement of income. There were no material income tax penalties or interest accrued during the three or nine months ended September 30, 2018 or 2017.

The Company's effective tax rate from continuing operations was (16.0)% and 27.0% for the three months ended September 30, 2018 and 2017, respectively. The decrease was materially due to the favorable US tax rate reduction and mix of earnings by jurisdiction, partially offset by other unfavorable US tax reform adjustments. The Company's effective tax rate from continuing operations was 10.6% and 30.2% for the nine months ended September 30, 2018 and 2017, respectively. The decrease was materially due to the favorable US tax rate reduction and mix of earnings by jurisdiction, partially offset by other unfavorable US tax reform adjustments.

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Note 16. Segment Information

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

Information about Net Sales and Operating Profit

The accounting policies of these segments are the same as those described in Note 2. Summary of Significant Accounting Policies in the notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The Company primarily evaluates segment performance and allocates resources based on operating profit. Expense amounts not associated with segments are referred to as unallocated expenses. In conjunction with the Company's adoption of ASU 2017-07, the Company recorded a reclassification of the components of net periodic pension cost, other than service cost, from Cost of products sold and General expense to Other income (expense), net, in the Consolidated Statements of Income. The reclassification of these costs effects only the EP segment, as there are no pension costs associated with the AMS segment. For the three and nine months ended September 30, 2017, \$0.8 million and \$2.6 million, respectively, in pension expense was reclassified from Operating profit to Other expense in the condensed consolidated statement of income for the 2017 comparative period. The adoption of this guidance had no effect on Net income in the Consolidated Statements of Income and no effect on the other condensed consolidated financial statements.

(\$ in millions)	Net Sales							
	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2018		2017		2018		2017	
Advanced Materials & Structures	\$120.8	46.4 %	\$116.2	45.1 %	\$360.1	45.4 %	\$334.0	44.7 %
Engineered Papers	139.5	53.6	141.6	54.9	432.5	54.6	412.4	55.3
Total Consolidated	\$260.3	100.0%	\$257.8	100.0%	\$792.6	100.0%	\$746.4	100.0%

(\$ in millions)	Operating Profit							
	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2018		2017		2018		2017	
Advanced Materials & Structures	\$11.9	38.3 %	\$15.4	39.2 %	\$39.5	36.5 %	\$40.9	38.2 %
Engineered Papers	27.5	88.4	33.1	84.2	94.7	87.5	92.6	86.4
Unallocated	(8.3)	(26.7)	(9.2)	(23.4)	(26.0)	(24.0)	(26.3)	(24.6)
Total Consolidated	\$31.1	100.0 %	\$39.3	100.0 %	\$108.2	100.0 %	\$107.2	100.0 %

(\$ in millions)	Segment Assets	
	September 30,	December 31,
	2018	2017
Advanced Materials & Structures	\$808.6	\$ 811.7
Engineered Papers	511.8	537.6

Unallocated	166.9	193.2
Total Consolidated	\$1,487.3	\$ 1,542.5

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Note 17. Subsequent Event

On October 22, 2018, the Company entered into a three-year cross-currency swap with Bank of America Merrill Lynch designated as a hedge of a portion of the Company's net investment in certain Euro-denominated subsidiaries. The terms of the cross-currency swap provide for an exchange of principal on a notional amount of \$75.0 million swapped to €65.4 million at maturity. The Company will receive from our swap counterparty U.S. dollar interest at a fixed rate of 6.875% per annum and pay to our swap counterparty Euro interest at a fixed rate of 3.6725% per annum. As the terms of the swap are based on the forward contract rate of the EUR, the swap will be considered a net investment hedge to which hedge accounting will be applied under ASC 815-20, Derivatives and Hedging and ASC 830-20, Foreign Currency Matters.

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, 2017. 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, 2017 and the sections entitled "Forward-Looking Statements" at the end of this Item 2 and "Risk Factors" in Part II, Item 1A of this report. Unless the context indicates otherwise, references to "SWM", "we", "us", "our", the "Company" or similar terms include Schweitzer-Mauduit International, Inc. and our consolidated subsidiaries.

Summary

(\$ in millions, except per share amounts)	Three Months Ended				Nine Months Ended			
	September 30,		Percent of Net		September 30,		Percent of Net	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	\$260.3	\$257.8	100.0%	100.0%	\$792.6	\$746.4	100.0%	100.0%
Gross profit	65.3	76.0	25.1	29.5	214.7	216.3	27.1	29.0
Restructuring & impairment expense	0.4	1.5	0.2	0.6	1.4	4.2	0.2	0.6
Operating profit	31.1	39.3	11.9	15.2	108.2	107.2	13.7	14.4
Interest expense	7.3	7.4	2.8	2.9	20.1	20.0	2.5	2.7
Income from continuing operations	40.9	25.7	15.7	10.0	87.6	61.7	11.1	8.3
Income (loss) from discontinued operations	0.1	0.1	—	—	(0.3)	0.1	—	—
Net income	\$41.0	\$25.8	15.8%	10.0%	\$87.3	\$61.8	11.0%	8.3%
Diluted earnings per share from continuing operations	\$1.33	\$0.84			\$2.84	\$2.01		
Diluted earnings per share	\$1.33	\$0.84			\$2.83	\$2.01		
Cash provided by operations	\$37.1	\$48.4			\$93.2	\$93.3		
Capital spending	\$6.1	\$8.2			\$19.8	\$27.5		

Three Months Ended September 30, 2018 Compared with the Three Months Ended September 30, 2017

Net Sales

(\$ in millions)

	Three Months Ended		Change	Percent Change	
	September 30, 2018	September 30, 2017			
Advanced Materials & Structures	\$120.8	\$ 116.2	\$ 4.6	4.0	%
Engineered Papers	139.5	141.6	(2.1)	(1.5)	
Total	\$260.3	\$ 257.8	\$ 2.5	1.0	%

Net sales were \$260.3 million in the three months ended September 30, 2018 compared with \$257.8 million in the prior-year period. The increase in net sales consisted of the following (\$ in millions):

	Amount	Percent
Changes in volume, product mix and selling prices	\$ 3.1	1.2 %
Changes due to net foreign currency impacts	(0.6)	(0.2)
Total	\$ 2.5	1.0 %

AMS segment net sales were \$120.8 million for the three months ended September 30, 2018 compared to \$116.2 million during the prior-year period. The increase of \$4.6 million or 4.0% was primarily due to strong growth in filtration, as well as increases in transportation, medical and infrastructure and construction.

EP segment net sales during the three months ended September 30, 2018 of \$139.5 million decreased by \$2.1 million, or 1.5%, versus net sales of \$141.6 million in the prior-year quarter. Compared to the prior-year period, the decrease in net sales was primarily the result of lower sales volume, partially offset by improved average selling prices and mix of products sold.

Gross Profit

(\$ in millions)

	Three Months Ended		Change	Percent Change	Percent of Net Sales	
	September 30, 2018	September 30, 2017			2018	2017
Net sales	\$260.3	\$ 257.8	\$2.5	1.0 %	100.0%	100.0%
Cost of products sold	195.0	181.8	13.2	7.3	74.9	70.5
Gross profit	\$65.3	\$ 76.0	\$(10.7)	(14.1)%	25.1 %	29.5 %

Gross profit decreased by \$10.7 million during the three months ended September 30, 2018 to \$65.3 million versus the prior-year period of \$76.0 million. AMS gross profit decreased by \$5.1 million, primarily due to higher input costs and manufacturing inefficiencies and expenses related to the October 2018 Austin site closure, partially offset by organic sales growth. In the EP segment, gross profit decreased by \$5.6 million, primarily due to higher input costs.

Nonmanufacturing Expenses
(\$ in millions)

	Three Months Ended			Percent Change	Percent of Net Sales	
	September 2018	September 2017	Change		2018	2017
Selling expense	\$ 8.9	\$ 8.1	\$ 0.8	9.9 %	3.4 %	3.1 %
Research expense	3.6	3.9	(0.3)	(7.7)	1.4	1.5
General expense	21.3	23.2	(1.9)	(8.2)	8.2	9.1
Nonmanufacturing expenses	\$ 33.8	\$ 35.2	\$ (1.4)	(4.0)%	13.0%	13.7%

Nonmanufacturing expenses in the three months ended September 30, 2018 decreased by \$1.4 million to \$33.8 million from \$35.2 million in the prior-year period. The decrease is primarily the result of lower deferred compensation expense and lower accrued bonuses, partially offset by higher IT expenses.

Restructuring and Impairment Expense
(\$ in millions)

	Three Months Ended			Percent Change	Percent of Net Sales	
	September 2018	September 2017	Change		2018	2017
Advanced Materials & Structures	\$ 0.4	\$ 1.2	\$ (0.8)	(66.7)%	0.3%	1.0%
Engineered Papers	—	0.4	(0.4)	(100.0)	—	0.3
Unallocated expenses	—	(0.1)	0.1	(100.0)		
Total	\$ 0.4	\$ 1.5	\$ (1.1)	(73.3)%	0.2%	0.6%

The Company incurred total restructuring and impairment expense of \$0.4 million and \$1.5 million in the three months ended September 30, 2018 and 2017, respectively. In the 2018 period, the restructuring expense primarily related to \$0.3 million in severance accruals for employees at our AMS manufacturing operations in the U.S.

In the 2017 period, the restructuring expense primarily related to \$1.3 million in severance accruals for employees at our AMS and EP manufacturing operations in the U.S. and France, as well as an asset impairment charge of \$0.2 million on held for sale equipment at our Philippines RTL location.

Operating Profit
(\$ in millions)

	Three Months Ended			Percent Change	Return on Net Sales	
	September 2018	September 30, 2017	Change		2018	2017
Advanced Materials & Structures	\$11.9	\$ 15.4	\$ (3.5)	(22.7)%	9.9 %	13.3%
Engineered Papers	27.5	33.1	(5.6)	(16.9)	19.7	23.4
Unallocated expenses	(8.3)	(9.2)	0.9	9.8		
Total	\$31.1	\$ 39.3	\$ (8.2)	(20.9)%	11.9%	15.2%

Operating profit was \$31.1 million in the three months ended September 30, 2018 compared with \$39.3 million during the prior-year period.

The AMS segment's operating profit in the three months ended September 30, 2018 was \$11.9 million compared to \$15.4 million in the prior-year period. The decrease of \$3.5 million, or 22.7%, was primarily due to higher raw materials costs and certain expenses associated with the October 2018 Austin site closure, partially offset by higher organic net sales.

The EP segment's operating profit in the three months ended September 30, 2018 was \$27.5 million, a decrease of \$5.6 million, or 16.9%, from \$33.1 million in the prior-year period. The decrease was primarily due to higher input costs and manufacturing inefficiencies associated with lower sales volumes.

Unallocated expenses in the three months ended September 30, 2018 were \$8.3 million compared to \$9.2 million in the prior-year period, a decrease of \$0.9 million, or 9.8%. The decrease is primarily the result of lower deferred compensation expense and lower accrued bonuses, partially offset by higher IT expenses.

Non-Operating Expenses

Interest expense was \$7.3 million in the three months ended September 30, 2018, a decrease from \$7.4 million in the prior-year period. The weighted average effective interest rate on our debt facilities was approximately 5.01% and 3.24% for the three months ended September 30, 2018 and 2017, respectively. A lower total debt balance as of September 30, 2018 compared to the prior-year period, was offset by a higher average interest rate compared to the prior-year period as a result of rising market interest rates and the addition of the senior unsecured notes.

Other income, net, was \$11.2 million during the three months ended September 30, 2018. The \$7.9 million increase compared to Other income, net, of \$3.3 million during the three months ended September 30, 2017 was due primarily to the \$10.2 million decrease in the fair value of the contingent consideration liability related to the Conwed acquisition, partially offset by an asset sale gain in the prior period.

Income Taxes

A \$5.6 million benefit from income taxes in the three months ended September 30, 2018 resulted in an effective tax rate of (16.0)% compared with 27.0% in the prior-year period. The decrease was materially due to a \$13.0 million favorable adjustment related to the 2017 Tax Act in the U.S.; adjusting for this item, the tax rate was 21.1%, due primarily to the impact of new tax legislation in the U.S.

Income from Equity Affiliates

Income from equity affiliates, which reflects the results of operations of CTM and CTS, was \$0.3 million in the three months ended September 30, 2018 compared with income of \$0.0 million during the prior-year period. The increase in earnings was driven primarily by higher net income from CTM.

Discontinued Operations

Because we closed our Philippines paper mill as previously reported, the results of this mill were reported as discontinued operations for all periods presented. Consequently, this mill's results have been removed from each line of the statements of income and the operating activities section of the statements of cash flow. In each case, a separate line has been added for the net results of the discontinued operation. Income from discontinued operations was \$0.1 million for each of the three months ended September 30, 2018 and 2017.

Net Income and Income per Share

Net income in the three months ended September 30, 2018 was \$41.0 million, or \$1.33 per diluted share, compared with \$25.8 million, or \$0.84 per diluted share, during the prior-year period. The increase in net income was primarily due to the \$10.2 million decrease in the fair value of the contingent consideration liability in connection with the Conwed acquisition and the \$13.0 million reduction in transition tax liability, partially offset by higher input costs in both the AMS and EP segments.

Nine Months Ended September 30, 2018 Compared with the Nine Months Ended September 30, 2017

Net Sales

(\$ in millions)

	Nine Months Ended		Change	Percent Change
	September 30, 2018	September 30, 2017		
Advanced Materials & Structures	\$360.1	\$ 334.0	\$ 26.1	7.8 %
Engineered Papers	432.5	412.4	20.1	4.9
Total	\$792.6	\$ 746.4	\$ 46.2	6.2 %

Net sales were \$792.6 million in the nine months ended September 30, 2018 compared with \$746.4 million in the prior-year period. The increase in net sales consisted of the following (\$ in millions):

	Amount	Percent
Changes in volume, product mix and selling prices	\$ 26.9	3.6 %
Changes due to net foreign currency impacts	19.4	2.6
Changes due to royalties	(0.1)	—
Total	\$ 46.2	6.2 %

AMS segment net sales were \$360.1 million for the nine months ended September 30, 2018 compared to \$334.0 million during the prior-year period. The increase of \$26.1 million or 7.8% was due primarily to organic growth driven by sales increases in filtration, medical and transportation products, compared to the prior-year period and \$7.7 million in incremental partial period net sales from the acquired Conwed operations.

EP segment net sales during the nine months ended September 30, 2018 of \$432.5 million increased by \$20.1 million versus net sales of \$412.4 million in the prior-year period. The increase in net sales was primarily the result of \$16.5 million in favorable net foreign currency translation impacts, primarily from the Euro, and the \$3.7 million net combined favorable impact of changes in volumes, mix of products sold and average selling prices, compared to the prior-year period.

Gross Profit
(\$ in millions)

	Nine Months Ended			Percent Change	Percent of Net Sales	
	September 2018	September 30, 2017	Change		2018	2017
Net sales	\$792.6	\$ 746.4	\$46.2	6.2 %	100.0%	100.0%
Cost of products sold	577.9	530.1	47.8	9.0	72.9	71.0
Gross profit	\$214.7	\$ 216.3	\$(1.6)	(0.7)%	27.1 %	29.0 %

Gross profit decreased by \$1.6 million during the nine months ended September 30, 2018 to \$214.7 million versus the prior-year period of \$216.3 million. AMS gross profit decreased by \$3.5 million, primarily due to planned site closure expenses and higher input costs, partially offset by organic sales growth. In the EP segment, gross profit increased by \$1.9 million, primarily due to higher sales, manufacturing efficiencies and the favorable impact of foreign currency effects, partially offset by higher input costs.

Nonmanufacturing Expenses
(\$ in millions)

	Nine Months Ended			Percent Change	Percent of Net Sales	
	September 2018	September 30, 2017	Change		2018	2017
Selling expense	\$27.2	\$ 24.6	\$ 2.6	10.6 %	3.4 %	3.3 %
Research expense	11.8	12.9	(1.1)	(8.5)	1.5	1.7
General expense	66.1	67.4	(1.3)	(1.9)	8.4	9.1
Nonmanufacturing expenses	\$105.1	\$ 104.9	\$ 0.2	0.2 %	13.3%	14.1%

Nonmanufacturing expenses in the nine months ended September 30, 2018 increased by \$0.2 million to \$105.1 million from \$104.9 million in the prior-year period.

Restructuring and Impairment Expense
(\$ in millions)

	Nine Months Ended			Percent Change	Percent of Net Sales	
	September 2018	September 30, 2017	Change		2018	2017
Advanced Materials & Structures	\$ 1.2	\$ 2.4	\$(1.2)	(50.0)%	0.3%	0.7%
Engineered Papers	0.2	1.7	(1.5)	(88.2)	—	0.4
Unallocated expenses	—	0.1	(0.1)	(100.0)		
Total	\$ 1.4	\$ 4.2	\$(2.8)	(66.7)%	0.2%	0.6%

The Company incurred total restructuring and impairment expense of \$1.4 million in the nine months ended September 30, 2018 compared with \$4.2 million in the nine months ended September 30, 2017. In the 2018 period, the restructuring expense primarily related to \$1.1 million in severance accruals for employees at our EP and AMS manufacturing operations in the U.S. and France, as well as an asset impairment charge of \$0.3 million on equipment in our AMS manufacturing operations.

In the comparable 2017 period, the restructuring expense primarily related to \$3.4 million in severance accruals for employees at our EP and AMS manufacturing operations in the U.S., France and Belgium and \$0.8 million of an asset

impairment charge recognized on held for sale equipment at our Philippines RTL facility.

Operating Profit
(\$ in millions)

	Nine Months Ended		Change	Percent Change	Return on Net Sales	
	September 30, 2018	September 30, 2017			2018	2017
Advanced Materials & Structures	\$39.5	\$ 40.9	\$ (1.4)	(3.4)%	11.0%	12.2%
Engineered Papers	94.7	92.6	2.1	2.3	21.9	22.5
Unallocated expenses	(26.0)	(26.3)	0.3	1.1		
Total	\$108.2	\$ 107.2	\$ 1.0	0.9 %	13.7%	14.4%

Operating profit was \$108.2 million in the nine months ended September 30, 2018 compared with \$107.2 million during the prior-year period.

The AMS segment's operating profit in the nine months ended September 30, 2018 was \$39.5 million compared to \$40.9 million in the prior-year period. The decrease of \$1.4 million, or 3.4%, was negatively impacted by manufacturing inefficiencies associated with the planned Austin site closure and higher raw materials costs, partially offset by organic net sales growth and associated gross profits.

The EP segment's operating profit in the nine months ended September 30, 2018 was \$94.7 million, an increase of \$2.1 million, or 2.3%, from \$92.6 million in the prior-year period. The increase was primarily due to improved manufacturing efficiencies and the favorable impact of foreign currency effects, partially offset by higher raw materials costs.

Unallocated expenses in the nine months ended September 30, 2018 were \$26.0 million compared to \$26.3 million in the prior-year period, a decrease of \$0.3 million, or 1.1%.

Non-Operating Expenses

Interest expense was \$20.1 million in the nine months ended September 30, 2018, an increase from \$20.0 million in the prior-year period. The weighted average effective interest rate on our debt facilities was approximately 4.01% and 3.12% for the nine months ended September 30, 2018 and 2017, respectively. A higher average interest rate compared to the prior-year period as a result of increases in market rates and the addition of the senior unsecured notes, was partially offset by a lower total debt balance as of September 30, 2018 compared to the prior-year period.

Other income, net, was \$10.4 million during the nine months ended September 30, 2018. The \$9.8 million increase compared to \$0.6 million in Other income, net, during the nine months ended September 30, 2017 was due primarily to the \$10.2 million decrease in the fair value of the contingent consideration liability related to the Conwed acquisition.

Income Taxes

A \$10.4 million provision for income taxes in the nine months ended September 30, 2018 resulted in an effective tax rate of 10.6% compared with 30.2% in the prior-year period. The decrease was materially due to a \$13.0 million favorable adjustment related to the 2017 Tax Act in the U.S.; adjusting for this item, the effective tax rate was 23.8%, due primarily to the impact of new tax legislation in the U.S.

(Loss) Income from Equity Affiliates

Loss from equity affiliates was \$0.5 million in the nine months ended September 30, 2018 compared with income of \$0.4 million during the prior-year period. The decrease in earnings was driven primarily by lower reconstituted tobacco sales volume at CTS in 2018 compared to the prior-year period.

Discontinued Operations

Because we closed our Philippines paper mill as previously reported, the results of this mill were reported as discontinued operations for all periods presented. Consequently, this mill's results have been removed from each line of the statements of income and the operating activities section of the statements of cash flow. In each case, a separate line has been added for the net results of the discontinued operation. Loss from discontinued operations was \$0.3 million versus income of \$0.1 million for the nine months ended September 30, 2018 and 2017, respectively. The 2018 loss is primarily the result of the Company's efforts to dispose of the remaining assets and liabilities of the discontinued operations.

Net Income and Income per Share

Net income in the nine months ended September 30, 2018 was \$87.3 million, or \$2.83 per diluted share, compared with \$61.8 million, or \$2.01 per diluted share, during the prior-year period. The increase in net income was primarily due to the \$10.2 million decrease in the fair value of the contingent consideration liability related to the Conwed acquisition, higher operating profits in the EP segment, including currency benefits, and the \$13.0 million reduction in transition tax liability, partially offset by lower operating profits in the AMS segment due to higher input costs and site closure expenses.

Liquidity and Capital Resources

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

As of September 30, 2018, \$64.5 million of the Company's \$90.5 million of cash and cash equivalents was held by foreign subsidiaries. On December 22, 2017, the Tax Act was enacted into law. The Tax Act imposes a mandatory transition tax on accumulated foreign earnings and eliminates U.S. taxes on foreign subsidiary distributions. At December 31, 2017, we recorded a provisional tax liability of \$48.7 million relating to the one-time mandatory transition tax on our accumulated foreign earnings, which we intend to pay over an eight-year payment schedule, as prescribed by the Tax Act. In the quarter ended September 30, 2018, we reduced the provisional tax liability by \$13.0 million. We do not expect the payment of the transition taxes over the next eight years to adversely effect our liquidity and resource planning. Additionally, the Tax Act is not expected to adversely impact our debt covenant compliance. We believe that we are able to maintain a sufficient level of liquidity for our domestic operations and commitments without repatriation of the cash held by these other foreign subsidiaries. We believe that our sources of liquidity and capital, including cash on-hand, cash generated from operations and our existing credit facilities, will be sufficient to finance our continued operations and growth strategy.

Cash Requirements

As of September 30, 2018, we had net operating working capital of \$198.1 million and cash and cash equivalents of \$90.5 million, compared with net operating working capital of \$184.2 million and cash and cash equivalents of \$106.9 million as of December 31, 2017. These changes primarily reflect the impacts of changes in currency exchange rates, net repayments of debt and changes in operating working capital presented on the unaudited condensed consolidated statements of cash flow contained in this report.

Cash Flows from Operating Activities (\$ in millions)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net income	\$87.3	\$ 61.8
Less: Loss from discontinued operations	(0.3)	0.1
Income from continuing operations	87.6	61.7
Non-cash items included in net income:		
Depreciation and amortization	46.8	46.7
Restructuring-related impairment	0.2	0.8
Deferred income tax provision	3.0	2.4
Pension and other postretirement benefits	2.8	2.5
Stock-based compensation	3.7	4.5
Loss (income) from equity affiliates	0.5	(0.4)
Long-term income tax payable	(12.0)	—
Gain on sale of assets	—	(4.8)
Change in fair value of contingent consideration	(10.2)	—
Cash dividends received from equity affiliates	2.0	1.8
Other items	(0.1)	(0.2)
Net changes in operating working capital	(31.3)	(21.8)
Net cash provided by (used in) operating activities of:		
Continuing operations	93.0	93.2
Discontinued operations	0.2	0.1
Net cash provided by operations	\$93.2	\$ 93.3

Net cash provided by operations was \$93.2 million in the nine months ended September 30, 2018 compared with \$93.3 million in the prior-year period. Net cash provided by operations increased primarily due to a \$25.5 million year-over-year increase in Net income; however, the positive net income effects of \$10.2 million decrease in the fair value of the contingent consideration liability and the reversal of \$12.0 million in long-term income tax payable were non-cash.

Operating Working Capital (\$ in millions)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Changes in operating working capital		
Accounts receivable	\$(23.7)	\$(16.7)
Inventories	(3.2)	1.4
Prepaid expenses	(0.3)	(0.6)
Accounts payable	1.7	1.2
Accrued expenses	(4.3)	(0.2)
Accrued income taxes	(1.5)	(6.9)
Net changes in operating working capital	\$(31.3)	\$(21.8)

In the nine months ended September 30, 2018, net changes in operating working capital used cash of \$31.3 million compared to the prior-year period, in which net changes in operating working capital used cash of \$21.8 million. This change in working capital outflows compared to the nine months ended September 30, 2017 was primarily driven by reduced cash flows related to higher accounts receivable, inventories and accrued expenses, partially offset by increased cash flows related to accounts payable and accrued income taxes.

Cash Flows from Investing Activities (\$ in millions)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Capital spending	\$(19.8)	\$(27.5)
Capitalized software costs	(1.1)	(2.6)
Acquisitions, net of cash acquired	—	(291.7)
Proceeds from sale of assets	—	7.0
Other	2.6	5.6
Cash used for investing	\$(18.3)	\$(309.2)

Cash used for investing activities during the nine months ended September 30, 2018 was \$18.3 million, consisting primarily of capital spending, compared to \$309.2 million in the prior-year period, which included \$291.7 million related to the acquisition of Conwed.

Cash Flows from Financing Activities (\$ in millions)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Cash dividends paid to SWM stockholders	\$(39.7)	\$ (38.7)
Net (repayments of) proceeds from short-term and long-term debt	(42.2)	244.2
Purchases of common stock	(2.8)	(1.1)
Payments for debt issuance costs	(3.4)	(0.6)
Cash (used in) provided by financing	\$(88.1)	\$ 203.8

During the nine months ended September 30, 2018, financing activities consisted of \$39.7 million in cash paid for dividends declared to SWM stockholders in the first nine months of 2018, \$42.2 million in net repayments on short-term and long-term debt, \$3.4 million in payments for debt issuance costs and share repurchases of \$2.8 million. In the prior-year period, the Company acquired Conwed, accounting for most of the \$244.2 million in net proceeds from borrowings.

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

Dividend Payments

We have declared and paid cash dividends on our common stock every fiscal quarter since the second quarter of 1996. On November 7, 2018, we announced a cash dividend of \$0.44 per share payable on December 21, 2018 to stockholders of record as of November 30, 2018. The covenants contained in our Indenture and New Credit Agreement (as defined below) require that we maintain certain financial ratios, as disclosed in Note 11. Debt, of the notes to the unaudited condensed consolidated financial statements, none of which under normal business conditions we would expect to materially limit our ability to pay such dividends. We plan to continue to assess our dividend policy in light of our capital allocation strategy, cash generation, debt levels and ongoing requirements for cash to fund operations and to pursue possible strategic opportunities.

Share Repurchases

In the nine months ended September 30, 2018, we repurchased and retired 69,758 shares of our common stock at a cost of \$2.8 million for the value of employees' stock-based compensation share awards surrendered to satisfy their personal statutory income tax withholding obligations. See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In the nine months ended September 30, 2017, we repurchased and retired 25,176 shares of our common stock for \$1.1 million for the value of employees' stock-based compensation share awards surrendered to satisfy their personal statutory income tax withholding obligations.

Debt Instruments and Related Covenants

Debt Instruments (\$ in millions)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Changes in short-term debt	\$(1.4)	\$ —
Proceeds from issuances of long-term debt	636.1	440.4
Payments on long-term debt	(676.9)	(196.2)
Net (repayments of) proceeds from borrowings	\$(42.2)	\$ 244.2

Net repayments on borrowings were \$42.2 million during the nine months ended September 30, 2018.

On September 25, 2018, the Company closed a private offering of \$350.0 million of 6.875% senior unsecured notes due 2026 (the “Notes”). The Notes were sold in a private placement in reliance on Rule 144A and Regulation S under the Securities Act of 1933, as amended, pursuant to a purchase agreement between the Company, certain subsidiaries of the Company and J.P. Morgan Securities LLC, as representative of the initial purchasers. The Notes are guaranteed on a senior unsecured basis by each of the Company’s existing and future wholly-owned subsidiaries that is a borrower under or that guarantees obligations under the New Credit Agreement (as defined below) or that guarantees certain other indebtedness, subject to certain exceptions.

The Notes were issued pursuant to an Indenture (the “Indenture”), dated as of September 25, 2018, by and among the Company, the guarantors listed therein and Wilmington Trust, National Association, as trustee. The Indenture provides that interest on the Notes will accrue from September 25, 2018 and is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2019, and the Notes mature on October 1, 2026.

The Company may redeem some or all of the Notes at any time on or after October 1, 2021, at the redemption prices set forth in the Indenture, together with accrued and unpaid interest, if any, to, but excluding, the redemption date. Prior to October 1, 2021, the Company may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus a “make-whole” premium as set forth in the Indenture. The Company may redeem up to 35% of the original aggregate principal amount of the Notes on or prior to October 1, 2021 with the proceeds of certain equity offerings at a redemption price equal to 106.875% of the principal amount of the Notes. If the Company sells certain assets or consummates certain change of control transactions, the Company will be required to make an offer to repurchase the Notes, subject to certain conditions.

On September 25, 2018, the Company entered into a \$700.0 million credit agreement (the “New Credit Agreement”), which replaces the Company’s existing senior secured credit facilities and provides for a five-year \$500.0 million revolving line of credit (the “Revolving Credit Facility”) and a seven-year \$200.0 million bank term loan facility (the “Term Loan Facility”). Subject to certain conditions, including the absence of a default or event of default under the New Credit Agreement, the Company may request incremental loans to be extended under the Revolving Credit Facility or the Term Loan Facility so long as the Company is in pro forma compliance with the financial covenants set forth in the New Credit Agreement and the aggregate of such increases does not exceed \$400.0 million.

Borrowings under the Revolving Credit Facility will initially bear interest, at the Company’s option, at either (i) 1.75% in excess of a reserve adjusted London Interbank Offered Rate (“LIBOR”) or (ii) 0.75% in excess of an alternative base rate. Borrowings under the Term Loan Facility will initially bear interest, at the Company’s option, at either (i) 2.00% in excess of a reserve adjusted LIBOR rate or (ii) 1.00% in excess of an alternative base rate. The Term Loan amortizes at the rate of 1.0% per year and will mature on September 25, 2025. Unused borrowing capacity under the New Credit Agreement was \$405.1 million as of September 30, 2018. We also had availability under our bank overdraft facilities of \$6.1 million as of September 30, 2018.

The Company was in compliance with all of its covenants under the Indenture and New Credit Agreement at September 30, 2018. With the current level of borrowing and forecasted results, we expect to remain in compliance with our credit agreement financial covenants.

Our total debt to capital ratios, as calculated under the New Credit Agreement, at September 30, 2018 and December 31, 2017 were 53.0% and 55.6%, respectively.

Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Other Factors Affecting Liquidity and Capital Resources

Our pension obligations are funded by our separate pension trusts, which held \$131.9 million in assets at December 31, 2017. The combined projected benefit obligation of our U.S. and French pension plans was underfunded by \$22.7 million as of December 31, 2017. We make contributions to our pension trusts based on many factors, including regulatory guidelines, investment returns of the trusts and availability of cash for pension contributions compared to other priorities. The Company is not required to contribute during 2018 to its U.S. and French pension plans although, it may make discretionary contributions dependent on market conditions to remain aligned with its investment policy statement.

The EP segment's PDM Industries plant has a minimum annual commitment of approximately \$1.6 million per year for calcium carbonate purchases, a raw material used in the manufacturing of some paper products, which totals approximately \$10.9 million through 2024. Future purchases are expected to be at levels that exceed such minimum levels under these contracts.

The Company has agreements with an energy co-generation supplier in France whereby the supplier constructed and operates a co-generation facility at certain plants and supplies steam that is used in the operation of these plants. The Company is committed to purchasing minimum annual amounts of steam generated by these facilities under the agreements through 2020. These minimum annual commitments total approximately \$1.6 million. The Company's current and expected requirements for steam at these facilities are at levels that exceed the minimum levels under the contracts.

The EP segment's Brazilian plant, SWM-B, has an agreement for the transmission and distribution of energy that covers all of the plant's consumption of electrical energy valued at approximately \$3.4 million annually through 2020. The French plants have contracts for natural gas to be distributed to and consumed at PdM, LTRI and St. Girons. The value of the natural gas and distribution to be provided under these contracts is estimated at approximately \$3.0 million in 2018. The Spay, France plant has a contract to consume biomass at approximately \$2.1 million for each of the next two years. Future purchases are expected to be at levels that exceed such minimum levels under these contracts.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995 that are subject to the safe harbor created by that Act and other legal protections. Forward-looking statements, include, without limitation, those regarding 2018 outlook and future performance, mergers and acquisitions, future market trends, future RTL sales and volume trends, smoking attrition rates, synergies or growth from acquisitions, incurrence of additional debt, adoption of LIP standards in new regions, reverse osmosis water filtration and global drinking water demands, integration, and growth prospects (including international growth), the deductibility of goodwill associated with the Conwed acquisition, impact of our restructuring actions, post-retirement healthcare and life insurance payments, impact of the LIP intellectual property litigation and opposition proceedings, the amount of capital spending and/or common stock repurchases, the profitability of CTS, pricing pressures (including related to LIP), future cash flows, benefits associated with our global asset realignment (including possible non-recurrence of

one-time tax benefits, lower or higher effective tax rates), purchase accounting impacts, impacts of our ongoing operational excellence and other cost-reduction initiatives, increasing revenues coming from our non-tobacco operations, and other statements generally identified by words such as "believe," "expect," "intend," "plan," "potential," "anticipate," "project," "appear," "should," "could," "may," "will," "typically" and similar words. These statements are not guarantees of future performance and involve certain risks and uncertainties that may cause actual results to differ materially from our expectations as of the date of this report. These risks include, among other things, those set forth

in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2017, as well as the following factors:

Recent changes to U.S. federal income tax law, the overall impact and interpretation of which remain uncertain and could be material, in addition to the extent to which states may conform to the newly enacted federal tax law as well as the impact of the tax reform on holders of our common stock;

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

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

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

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

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

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

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

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

Increases in operating costs due to inflation or otherwise, such as labor expense, compensation and benefits costs;

Employee retention and labor shortages;

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

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

The impact of recently enacted tariffs, and the imposition of any future tariffs and other trade barriers, and the effects of retaliatory trade measures;

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

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

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

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

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

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

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

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

• Compliance with the FCPA and other anti-corruption laws or trade control laws, as well as other laws governing our operations;

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

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

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

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

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

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

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

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

- Increased taxation on tobacco-related products;

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

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk exposure at September 30, 2018 is consistent with, and not materially different than, the market risk and discussion of exposure presented under the caption “Quantitative and Qualitative Disclosures about Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We currently have in place systems relating to disclosure controls and procedures designed to ensure the timely recording, processing, summarizing and reporting of information required to be disclosed in periodic reports under the Securities Exchange Act of 1934, as amended. These disclosure controls and procedures include those designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions about required disclosure. Upon completing our review and evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2018, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of September 30, 2018.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting were identified as having occurred in the fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal proceedings and disputes. See Note 19. Commitments and Contingencies of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017 and Note 13. Commitments and Contingencies of the notes to the unaudited condensed consolidated financial statements included in this report. Except as may have been referenced elsewhere in this report, there have been no material developments with regard to these matters.

Item 1A. Risk Factors

Except as noted below, as of September 30, 2018, there were no material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

New tariffs and other trade measures could adversely affect our consolidated results of operations, financial position and cash flows.

Recently, the Trump Administration imposed tariffs on steel and aluminum and a broad range of other products imported into the U.S. In response to the tariffs imposed by the U.S., the European Union, Canada, Mexico and China have announced tariffs on U.S. goods and services. The new tariffs, along with any additional tariffs or trade restrictions that may be implemented by the U.S. or retaliatory trade measures or tariffs implemented by other countries, could result in higher manufacturing costs and increased prices for our products, and we may not be able to pass price increases on to our customers. Through our joint venture partners, we also manufacture certain EP products in China. While sales of our products manufactured in China are currently sold only in local markets, any exports of our products manufactured in China to the U.S. may also be impacted by the tariffs and other restrictions on trade between the U.S. and China. While tariffs and other retaliatory trade measures imposed by other countries on U.S. goods have not yet had a significant impact on our business or results of operations, we cannot predict further developments, and such existing or future tariffs could have a material adverse effect on our consolidated results of operations, financial position and cash flows.

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

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table indicates the cost of and number of shares of the Company's common stock it repurchased during 2018:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs		Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs (\$ in millions)	
			(# shares)	(\$ in millions)		
January 1 - March 31, 2018	62,634	\$ 40.57	—	\$	—\$	—
April 1 - June 30, 2018	4,703	40.27	—	—	—	—
July 1-31, 2018	—	—	—	—	—	—
August 1-31, 2018	2,421	40.73	—	—	—	—
September 1-30, 2018	—	—	—	—	—	—
Total Year-to-Date 2018	69,758	\$ 40.56	—	\$	—\$	—

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

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit
Number Exhibit

- 3.1 Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 10-Q for the quarter ended September 30, 2009).
- 3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 16, 2014).
- 4.1 Indenture, dated as of September 25, 2018, by and among Schweitzer-Mauduit International, Inc., the guarantors listed therein and Wilmington Trust, National Association (including the form of Note attached as an exhibit thereto) (incorporated by reference to Exhibit 4.1 to the Company's Current report on Form 8-K filed on September 25, 2018).
- 10.1 Credit Agreement, dated September 25, 2018, between Schweitzer-Mauduit International, Inc., certain subsidiaries of the borrower from time to time party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, Merrill Lynch, Pierce, Fenner & Smith, Incorporated, SunTrust Robinson Humphrey, Inc. and AgFirst Farm Credit Bank as joint lead arrangers and Barclays Bank PLC, Merrill Lynch, Pierce, Fenner & Smith, Incorporated, SunTrust Robinson Humphrey, Inc. and AgFirst Farm Credit Bank as co-syndication agents (incorporated by reference to Exhibit 10.1 to the Company's Current report on Form 8-K filed on September 25, 2018).
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended.
- 32 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flow, and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

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

Schweitzer-Mauduit International, Inc.
(Registrant)

By: /s/ Andrew Wamser
Andrew Wamser
Executive Vice President and
Chief Financial Officer
(duly authorized officer and principal financial officer)

November 7, 2018

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

November 7, 2018

GLOSSARY OF TERMS

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

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

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

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

"Net debt to EBITDA ratio" is a financial measurement used in bank covenants where "Net Debt" is defined as consolidated total debt minus unrestricted cash and cash equivalents up to a maximum of \$200 million and "EBITDA" is defined as net income from continuing operations plus the sum of interest expense, income tax expense, depreciation and amortization, non-cash restructuring and impairment charges less amortization of deferred revenue and interest in the earnings of equity affiliates to the extent such earnings are not distributed to the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

