

SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-Q
May 04, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

1-13948

(Commission file number)

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

62-1612879

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

100 North Point Center East, Suite 600

Alpharetta, Georgia

(Address of principal executive offices)

30022

(Zip Code)

1-800-514-0186

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company

☐

(Do not check if a smaller reporting company)

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

The Company had 30,551,203 shares of common stock issued and outstanding as of May 4, 2016.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended March 31	
	2016	2015
Net Sales	\$214.6	\$ 188.0
Cost of products sold	151.1	136.6
Gross Profit	63.5	51.4
Selling expense	6.4	5.4
Research expense	4.3	3.3
General expense	19.4	16.2
Total nonmanufacturing expenses	30.1	24.9
Restructuring and impairment expense	1.8	4.0
Operating Profit	31.6	22.5
Interest expense	4.6	1.7
Other income, net	2.3	2.1
Income from Continuing Operations before Income Taxes and (Loss) income from Equity Affiliates	29.3	22.9
Provision for income taxes	8.1	5.5
(Loss) income from equity affiliates, net of income taxes	(0.1)	1.4
Income from Continuing Operations	21.1	18.8
Income (loss) from Discontinued Operations	—	—
Net Income	\$21.1	\$ 18.8
Net Income per Share - Basic:		
Income per share from continuing operations	\$0.69	\$ 0.62
Income (loss) per share from discontinued operations	—	—
Net income per share – basic	\$0.69	\$ 0.62
Net Income per Share – Diluted:		
Income per share from continuing operations	\$0.69	\$ 0.61
Income (loss) per share from discontinued operations	—	—
Net income per share – diluted	\$0.69	\$ 0.61
Weighted Average Shares Outstanding:		
Basic	30,294,900	30,178,300
Diluted	30,422,700	30,293,200

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

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Net Income	\$21.1	\$ 18.8
Other Comprehensive Income (Loss), net of tax:		
Foreign currency translation adjustments	14.0	(48.7)
Unrealized (losses) gains on derivative instruments	9.9	(7.0)
Less: Reclassification adjustment for losses (gains) on derivative instruments included in net income	2.0	(3.1)
Reclassification adjustment for amortization of postretirement benefit plans' gain included in net periodic benefit cost	(0.5)	(0.6)
Other Comprehensive Income (Loss)	25.4	(59.4)
Comprehensive Income (Loss)	\$46.5	\$ (40.6)

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)

	March 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 200.2	\$ 186.5
Accounts receivable, net	137.4	119.4
Inventories	111.0	112.4
Assets held for sale	22.3	21.9
Other current assets	6.2	4.6
Total Current Assets	477.1	444.8
Property, Plant and Equipment, net	312.7	308.1
Deferred Income Tax Benefits	4.1	0.1
Investment in Equity Affiliates	67.1	67.5
Goodwill	233.6	233.3
Intangible Assets	210.6	213.9
Other Assets	24.8	22.3
Total Assets	\$1,330.0	\$ 1,290.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current debt	\$ 3.5	\$ 3.3
Accounts payable	45.2	49.0
Income taxes payable	11.7	5.3
Accrued expenses	76.1	85.5
Total Current Liabilities	136.5	143.1
Long-Term Debt	578.8	568.2
Pension and Other Postretirement Benefits	36.2	33.5
Deferred Income Tax Liabilities	46.9	45.3
Other Liabilities	28.8	32.0
Total Liabilities	827.2	822.1
Stockholders' Equity:		
Preferred stock, \$0.10 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.10 par value; 100,000,000 shares authorized; 30,548,606 and 30,474,149 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	3.0	3.0
Additional paid-in-capital	54.9	53.7
Retained earnings	560.9	552.6
Accumulated other comprehensive loss, net of tax	(116.0)	(141.4)
Total Stockholders' Equity	502.8	467.9
Total Liabilities and Stockholders' Equity	\$1,330.0	\$ 1,290.0
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.		

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

	Common Stock Issued		Additional Paid-In Capital		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance, December 31, 2014	30,465,522	\$ 3.0	\$ 49.8		\$ 512.7	\$ (76.5)	\$ 489.0
Net income					18.8		18.8
Other comprehensive loss, net of tax						(59.4)	(59.4)
Dividends declared (\$0.38 per share)					(11.6)		(11.6)
Restricted stock issuances, net	36,091	—	(0.6)				(0.6)
Stock-based employee compensation expense			1.0				1.0
Excess tax benefits of stock-based employee compensation			0.4				0.4
Stock issued to directors as compensation	886	—	—				—
Purchases and retirement of common stock	(63,220)				(2.9)		(2.9)
Balance, March 31, 2015	30,439,279	\$ 3.0	\$ 50.6		\$ 517.0	\$ (135.9)	\$ 434.7
Balance, December 31, 2015	30,474,149	\$ 3.0	\$ 53.7		\$ 552.6	\$ (141.4)	\$ 467.9
Net income					21.1		21.1
Other comprehensive income, net of tax						25.4	25.4
Dividends declared (\$0.40 per share)					(12.2)		(12.2)
Restricted stock issuances, net	91,408	—	—				—
Stock-based employee compensation expense			1.3				1.3
Excess tax expense of stock-based employee compensation			(0.2)				(0.2)
Stock issued to directors as compensation	1,428	—	0.1				0.1
Purchases and retirement of common stock	(18,379)	—			(0.6)		(0.6)
Balance, March 31, 2016	30,548,606	\$ 3.0	\$ 54.9		\$ 560.9	\$ (116.0)	\$ 502.8

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)

	Three Months Ended March 31,	
	2016	2015
Operating		
Net income	\$21.1	\$ 18.8
Less: Loss from discontinued operations	—	—
Income from continuing operations	21.1	18.8
Non-cash items included in net income:		
Depreciation and amortization	10.8	9.7
Restructuring-related impairment	0.5	0.7
Deferred income tax provision	0.1	0.9
Pension and other postretirement benefits	0.9	1.3
Stock-based compensation	1.4	1.0
Loss (income) from equity affiliates	0.1	(1.4)
Gain on sale of intangible assets	(1.8)	—
Excess tax expense (benefits) of stock-based awards	0.2	(0.4)
Other items	(1.7)	0.5
Changes in operating working capital:		
Accounts receivable	(13.6)	(25.9)
Inventories	4.9	0.2
Prepaid expenses	(1.4)	(0.2)
Accounts payable	(4.3)	4.3
Accrued expenses	(6.0)	(2.3)
Accrued income taxes	6.5	4.0
Net changes in operating working capital	(13.9)	(19.9)
Net cash provided by (used in) operating activities of:		
- Continuing operations	17.7	11.2
- Discontinued operations	(0.1)	—
Net Cash Provided by Operations	17.6	11.2
Investing		
Capital spending	(4.5)	(5.2)
Capitalized software costs	(0.2)	(0.2)
Other investing	(0.8)	1.5
Net Cash Used in Investing	(5.5)	(3.9)

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

	Three Months Ended March 31, 2016		March 31, 2015	
Financing				
Cash dividends paid to SWM stockholders	(12.2)	(11.6)
Changes in short-term debt	0.1		0.5	
Proceeds from issuances of long-term debt	27.1		15.1	
Payments on long-term debt	(19.8)	(3.1)
Purchases of common stock	(0.6)	(2.9)
Excess tax benefits of stock-based awards	(0.2)	0.4	
Net Cash Used in Financing	(5.6)	(1.6)
Effect of exchange rate changes on cash and cash equivalents	7.2		(28.7)
Increase (decrease) in cash and cash equivalents	13.7		(23.0)
Cash and cash equivalents at beginning of period	186.5		290.3	
Cash and cash equivalents at end of period	\$200.2		\$ 267.3	

Supplemental Cash Flow Disclosures

Cash paid for interest	\$3.6		\$ 1.9	
Cash paid (recovered) for taxes, net	\$1.3		\$ (1.0)
Capital Spending in accounts payable and accrued liabilities	\$1.4		\$ 2.0	

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

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

Note 1. General

Nature of Business

Schweitzer-Mauduit International, Inc., or SWM or the Company, headquartered in Alpharetta, Georgia in the United States of America, is a multinational diversified producer of highly engineered solutions and advanced materials for a variety of industries. Historically, through its Engineered Papers, or EP, segment, the Company has primarily served the tobacco industry via the manufacture and sale of paper and reconstituted tobacco products, which remains a key focus. The EP segment is also a manufacturer of lightweight specialty papers used in manufacturing ventilated cigarettes, reconstituted tobacco used in producing blended cigarettes, and banded papers used in the production of lower ignition propensity, or LIP, cigarettes. The Company produces premium specialized papers for other applications and, through our Advanced Materials & Structures, or AMS, segment, is a specialty producer of resin-based plastic netting through an extrusion process, as well as certain meltblown products, machined plastic core tubes, urethane films, and resin-based rolled products for use in other end segments, such as filtration, surface protection, medical and other industrials.

The primary products we sell to the tobacco industry include cigarette, plug wrap and base tipping papers, or Cigarette Papers, which are used to wrap various parts of a cigarette, and reconstituted tobacco leaf, or RTL, which is used as a blend with virgin tobacco in cigarettes, reconstituted tobacco wrappers and binders for cigars. We sell these products directly to tobacco companies or their designated converters in the Americas, Europe, Asia and elsewhere. We also sell a diverse mix of products to non-tobacco industries, including low volume, high-value engineered papers and commodity paper grades produced, among other reasons, to maximize our machine utilization. In December 2013, we acquired DelStar, Inc., or DelStar, a manufacturer of plastic netting and other resin-based products mainly focused on the filtration, industrial and medical market segments. The acquisition of DelStar diversified SWM's global presence in advanced materials, particularly in filtration. In December 2014, we acquired in two separate transactions certain assets from Pronamic Industries, Inc. and Smith & Nephew's Advanced Wound Management Division, which complement the DelStar acquisition and which have been incorporated into our AMS segment. As discussed more fully in Note 3. Business Acquisitions, in October 2015, the Company completed the acquisition of Argotec LLC, or Argotec, a manufacturer of urethane films for use in high-performance niche applications such as surface and automotive paint protection, glass lamination, medical woundcare and other industrial uses. This acquisition has been incorporated into the AMS segment.

We conduct business in over 90 countries and operate 18 production locations worldwide, with locations in the United States, United Kingdom, Canada, France, Luxembourg, Russia, Brazil, China and Poland. We also have a 50% equity interest in two joint ventures in China: China Tobacco Mauduit (Jiangmen) Paper Industry Ltd., or CTM, which produces cigarette and porous plug wrap papers, and China Tobacco Schweitzer (Yunnan) Reconstituted Tobacco Co. Ltd., or CTS, which produces RTL.

Basis of Presentation

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

operation which is more fully described in Note 4. Discontinued Operations.

The results of operations are not necessarily indicative of the results to be expected for the full year. The unaudited condensed consolidated financial statements and these notes thereto included herein should be read in conjunction with the audited consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016.

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

Principles of Consolidation

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

Use of Estimates

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606). This guidance specifies how and when an entity will recognize revenue arising from contracts with customers and requires entities to disclose information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). The Company is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity." The update requires an entity to determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of the relevant facts and circumstances (commonly referred to as the whole-instrument approach). This guidance is effective for annual reporting periods beginning after December 15, 2015, and interim periods thereafter. Early adoption is permitted. The Company adopted this guidance as of January 1, 2016. Adoption of ASU 2014-16 did not have an impact on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This guidance is effective for annual reporting periods beginning after December 15, 2015, and interim periods thereafter, and requires either a retrospective approach to adoption or a modified retrospective approach, by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. Early adoption is permitted. The Company adopted this guidance as of January 1, 2016. Adoption of ASU 2015-02 did not have an impact on our consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Currently, investments valued using

the practical expedient are categorized within the fair value hierarchy. There is diversity in how certain investments measured at net asset value with future redemption dates should be categorized within the fair value hierarchy which this update addresses. If an investment has its fair value measured at net asset value per share (or its equivalent) using the practical expedient, it should not be categorized in the fair value hierarchy. Removing these types of investments from the fair value hierarchy chart eliminates the diversity in classification of these investments and ensures that all investments categorized in the fair value hierarchy are classified consistently. Investments that calculate net asset value per share (or its equivalent) without the use of the practical expedient will continue to be included in the fair value hierarchy. This guidance is effective for annual reporting periods beginning after December 15, 2015, and interim periods thereafter.

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

Early adoption is permitted. The Company adopted this guidance as of January 1, 2016. Adoption of ASU 2015-07 did not have a material impact on our consolidated financial statements.

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

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." The provisions in this Update require an entity that acquires a business to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The entity is also required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This guidance is effective for annual reporting periods beginning after December 15, 2015, and interim periods thereafter. The Company adopted this guidance as of January 1, 2016. During the first quarter of 2016, the Company recognized \$0.1 million in net adjustments to the goodwill acquired from the October 2015 purchase of Argotec. This adjustment was reflected in the consolidated balance sheet as of March 31, 2016. No adjustment was made for prior periods.

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

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." The amendments in this guidance are intended to clarify how an entity should identify the unit of accounting (i.e., the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The effective date for this ASU is the same as the effective date for ASU 2014-09. The Company is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This standard makes several modifications to existing guidance related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. This guidance is effective for annual reporting periods beginning after

December 15, 2016, and interim periods thereafter. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the amendments on the consolidated financial statements.

Note 2. Other Comprehensive Income

Comprehensive income includes net income, as well as items charged and credited directly to stockholders' equity, which are excluded from net income. The Company has presented comprehensive income in the condensed consolidated statements of comprehensive income (loss). Reclassification adjustments of derivative instruments are presented in Net Sales in the condensed consolidated statements of income. See Note 11. Derivatives for additional information. Amortization of accumulated pension and other post-employment benefit, or OPEB, liabilities are included in the

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

computation of net periodic pension and OPEB costs, which are more fully discussed in Note 13. Postretirement and Other Benefits.

Components of accumulated other comprehensive loss were as follows (\$ in millions):

	March 31, 2016	December 31, 2015
Accumulated pension and OPEB liability adjustments, net of income tax of \$22.1 million and \$21.9 million at March 31, 2016 and December 31, 2015, respectively	\$(36.1)	\$(35.6)
Accumulated unrealized loss on derivative instruments, net of income tax of \$4.2 million and \$0.3 million at March 31, 2016 and December 31, 2015, respectively	(9.7)	(21.6)
Accumulated unrealized foreign currency translation adjustments	(70.2)	(84.2)
Accumulated other comprehensive loss	\$(116.0)	\$(141.4)

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

	Three Months Ended					
	March 31, 2016			March 31, 2015		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Pension and OPEB liability adjustments	\$(0.7)	\$0.2	\$(0.5)	\$(0.9)	\$0.3	\$(0.6)
Unrealized (loss) gain on derivative instruments	8.0	3.9	11.9	(10.5)	0.4	(10.1)
Unrealized foreign currency translation adjustments	14.0	—	14.0	(48.7)	—	(48.7)
Total	\$21.3	\$4.1	\$25.4	\$(60.1)	\$0.7	\$(59.4)

Note 3. Business Acquisitions

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

As of March 31, 2016, the fair values of the assets acquired and liabilities assumed are provisional because final appraisals have not yet been completed. As consideration, the Company paid \$282.7 million in cash, subject to certain customary post-closing adjustments, primarily for the adjusted value of working capital at the acquisition date. The acquisition was financed using borrowings under the Company's Amended Credit Agreement, see Note 10. Debt, for additional information.

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

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

	Preliminary Fair Value as of October 28, 2015
Cash and cash equivalents	\$ 2.7
Accounts receivable	16.1
Inventory	16.3
Other current assets	0.1
Property, plant and equipment	15.9
Other noncurrent assets	0.1
Identifiable intangible assets	131.0
Total Assets	182.2
Accounts payable	4.6
Accrued expenses	4.5
Net assets acquired	173.1
Goodwill	109.6
Cash paid	\$ 282.7

The Company used the income, market, or cost approach (or a combination thereof) for the valuation as appropriate, and used valuation inputs in these models and analyses that were based on market participant assumptions. Market participants are considered to be buyers and sellers in the principal or most advantageous market for the asset or liability. For certain items, the carrying amount was determined to be a reasonable approximation of fair value based on information available to SWM management. The fair value of receivables acquired from Argotec on October 28, 2015 was \$16.1 million, with gross contractual amounts receivable of \$16.8 million. Acquired inventories and property, plant and equipment were recorded at their fair values. Acquired intangible assets are primarily trade names, customer relationships and non-competition agreements.

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

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Intangible assets acquired included a trade name that is both business-to-business and business-to-consumer. In addition to this intangible asset, the Company acquired a number of customer relationships in the aeronautical, transportation, graphics, medical and industrial markets. Management valued intangible assets using the relief from royalty and multi-period excess earnings methods, both forms of the income approach supported by observable market data for peer companies. The following table shows the fair values assigned to intangible assets (\$ in millions):

	Preliminary Fair Value as of October 28, 2015	Weighted-Average Amortization Period (Years)
Amortizable intangible assets:		
Customer relationships	\$ 115.3	15
Non-competition agreements	1.7	4
Indefinite-lived intangible assets:		
Trade names	14.0	Indefinite
Total	\$ 131.0	15

In connection with the acquisition, the Company recorded goodwill, which represents the excess of the consideration transferred over the preliminary fair value of tangible and intangible assets acquired, net of liabilities assumed. The goodwill is attributed primarily to Argotec's revenue growth from combining the SWM and Argotec businesses and workforces as well as the benefits of access to different markets and customers. Goodwill from the Argotec acquisition was assigned to the AMS reportable segment. The goodwill from this acquisition is expected to be deductible for tax purposes. The goodwill was determined on the basis of the preliminary fair values of the assets and liabilities identified as part of the transaction.

In the first quarter of 2016, the Company recognized \$0.2 million in direct and indirect acquisition-related costs related to the acquisition. In 2015, the Company recognized \$1.8 million in direct and indirect acquisition-related costs and incurred \$7.4 million in financing costs related to the acquisition. Direct and indirect acquisition-related costs were expensed as incurred and are included in the General expense line item in the consolidated statements of income. Financing costs related to expanding the Credit Agreement have been capitalized and will be amortized in Interest expense over the life of the Amended Credit Agreement.

The amounts of the unaudited pro forma Net Sales and Income from Continuing Operations of the combined entity had the acquisition date been January 1, 2015 are as follows (\$ in millions):

	Net Sales	Income from Continuing Operations
2015 Supplemental Pro Forma from January 1, 2015 - March 31, 2015	\$217.5	\$ 19.1

Note 4. Discontinued Operations

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

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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):

	March 31, December 31,	
	2016	2015
Assets of discontinued operations:		
Current assets	\$ 1.2	\$ 1.1
Other assets	2.7	2.6
Liabilities of discontinued operations:		
Current liabilities	0.1	0.2

The financial results of discontinued operations had no impact on the consolidated financial statements for the three months ended March 31, 2016 or 2015.

Note 5. Net Income Per Share

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

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

	Three Months Ended March 31, 2016 2015	
Numerator (basic and diluted):		
Net income	\$21.1	\$ 18.8
Less: Dividends paid to participating securities	(0.1)	(0.2)
Less: Undistributed earnings available to participating securities	—	—
Undistributed and distributed earnings available to common stockholders	\$21.0	\$ 18.6
Denominator:		
Average number of common shares outstanding	30,294.9	30,178.3
Effect of dilutive stock-based compensation	127.8	114.9
Average number of common and potential common shares outstanding	30,422.7	30,293.2

There were no anti-dilutive stock options during the three months ended March 31, 2016 or 2015.

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Note 6. Inventories

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

	March 31, December 31,	
	2016	2015
Raw materials	\$ 43.5	\$ 45.2
Work in process	18.8	17.3
Finished goods	39.2	36.1
Supplies and other	9.5	13.8
Total	\$ 111.0	\$ 112.4

Note 7. Goodwill

The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2016 were as follows (\$ in millions):

	Engineered Papers	Advanced Materials & Structures	Total
Goodwill as of December 31, 2015	\$ 4.8	\$ 228.5	\$233.3
Goodwill acquired during the period	—	0.1	0.1
Foreign currency translation adjustments	0.1	0.1	0.2
Goodwill as of March 31, 2016	\$ 4.9	\$ 228.7	\$233.6

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Note 8. Intangible Assets

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

	March 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount
Amortized intangible assets						
Engineered Papers						
Customer-related intangibles	\$ 10.0	\$ 10.0	\$ —	\$ 10.0	\$ 10.0	\$ —
Advanced Materials & Structures						
Customer Relationships	167.7	9.1	158.6	167.7	6.4	161.3
Developed Technology	16.0	2.8	13.2	16.0	2.4	13.6
Customer Contracts	0.9	0.6	0.3	0.9	0.5	0.4
Non-Compete Agreements	1.7	0.2	1.5	1.7	0.1	1.6
Patents	1.5	0.1	1.4	1.5	0.1	1.4
Total	\$ 197.8	\$ 22.8	\$ 175.0	\$ 197.8	\$ 19.5	\$ 178.3

Unamortized intangible assets (Advanced Materials & Structures)

Trade names \$35.6 \$35.6

* Accumulated amortization also includes adjustments for foreign currency translation.

Amortization expense of intangible assets was \$3.1 million and \$1.1 million for the three months ended March 31, 2016 and 2015, respectively. Finite-lived intangibles in the AMS segment are expensed using the straight-line amortization method. The estimated average aggregate amortization expense is \$11.7 million in each of the next five years.

Note 9. Restructuring and Impairment Activities

The Company incurred restructuring and impairment expenses of \$1.8 million and \$4.0 million in the three months ended March 31, 2016 and 2015, respectively.

In the EP segment, restructuring and impairment expenses were \$0.9 million and \$3.8 million for the three months ended March 31, 2016 and 2015, respectively. Restructuring and impairment expenses for the three months ended March 31, 2016 consisted of \$0.4 million in severance accruals for employees at our manufacturing facilities in the U.S., France and Brazil and \$0.5 million of impairment expense recognized on equipment at our Poland manufacturing facility. During the three months ended March 31, 2015, restructuring and impairment expenses were composed of \$3.1 million in severance accruals for employees at our Quimperlé and Spay, France facilities as well as \$0.7 million in loss recognized on the sale of equipment from our RTL Philippines location.

In the AMS segment, restructuring and impairment expenses for the three months ended March 31, 2016 consisted of \$0.6 million in severance accruals for employees at our U.S. manufacturing operations.

Additionally, the Company incurred \$0.3 million and \$0.2 million in restructuring expenses during the three months ended March 31, 2016 and 2015, respectively, 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 consolidated balance sheets as of March 31, 2016 and December 31, 2015. Changes in the restructuring liabilities, substantially all of which are employee-related, during the periods ended March 31, 2016 and December 31, 2015 are summarized as follows (\$ in millions):

	Three Months Ended March 31, 2016	Year Ended December 31, 2015
Balance at beginning of year	\$ 7.7	\$ 8.7
Accruals for announced programs	1.3	8.0
Cash payments	(2.4)	(8.3)
Exchange rate impacts	0.2	(0.7)
Balance at end of period	\$ 6.8	\$ 7.7

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

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

In early 2015, the Company made the decision to dispose of the Company's mothballed RTL facility and related equipment in the Philippines. These assets are included in the EP segment. During 2015, the Company reclassified the balance of the equipment, along with the land and building associated with the property, at this location from Property, Plant and Equipment, net, to Assets held for sale on the consolidated balance sheets. The reclassifications were made for all assets that are expected to be sold within one year of the balance sheet date and, as of March 31, 2016, all of the physical assets of this entity are classified as Assets held for sale. There were no impairment charges recognized on these assets during the three months ended March 31, 2016.

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Note 10. Debt

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

	March 31, December 31,	
	2016	2015
Term Loan A-1	\$ 60.0	\$ 60.0
Term Loan A-2	248.8	249.4
Revolving Credit Agreement - U.S. dollar borrowings	205.0	197.0
Revolving Credit Agreement - euro borrowings	65.0	62.4
French Employee Profit Sharing	11.7	11.4
Bank Overdrafts	0.1	—
Total Debt	590.6	580.2
Less: Debt issuance costs	(8.3)	(8.7)
Less: Current debt	(3.5)	(3.3)
Long-Term Debt	\$ 578.8	\$ 568.2

Credit Agreement

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

The Amended Credit Agreement amended and restated the Company's Amended and Restated Credit Agreement, dated as of December 11, 2013, which provided for a \$500 million unsecured revolving credit facility which was scheduled to mature on December 11, 2018.

The interest rate margins applicable to the Revolving Credit Facility and the Term Loans under the Amended Credit Agreement are based on a fluctuating rate of interest measured by reference to either, at the Company's option, (i) a base rate, plus an applicable margin, which ranges from 0.25% to 1.25%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 0.50% to 1.50%, in the case of Term Loan A-2, or (ii) an adjusted London interbank offered rate (adjusted for maximum reserves) (LIBOR), plus an applicable margin, which ranges from 1.25% to 2.25%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 1.50% to 2.50%, in the case of Term Loan A-2. The applicable margin, in each case, will be adjusted from time to time based on the Company's ratio of net debt to EBITDA as defined in the Amended Credit Agreement. As of March 31, 2016, the average interest rate on outstanding Amended Credit Agreement borrowings was 2.26% on US Revolving Credit Facility borrowings, 2.00% on Euro Revolving Credit Facility borrowings, 2.25% on Term Loan A-1 borrowings and 2.44% on Term Loan A-2 borrowings.

The Amended Credit Agreement also contains representations and warranties which are customary for facilities of this type and covenants and provisions that, among other things, require the Company to maintain (a) a maximum net debt to EBITDA ratio of 3.50, reducing to 3.00 after September 30, 2016 and (b) minimum interest coverage of 3.00. The Amended Credit Agreement contains provisions allowing the Company to increase the leverage ratio upon the incurrence of certain unsecured indebtedness or temporarily upon the occurrence of a material acquisition. The Company was in compliance with all of its covenants under the Amended Credit Agreement at March 31, 2016.

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In conjunction with the Amended Credit Agreement, the Company capitalized approximately \$7.4 million in deferred debt issuance costs associated with the new facility which will be amortized over the term of the related debt instrument. As of March 31, 2016 and December 31, 2015, the Company's total deferred debt issuance costs, net of accumulated amortization, were \$8.3 million and \$8.7 million, respectively. Amortization expense of \$0.4 million and \$0.1 million was recorded during the three months ended March 31, 2016 and 2015, respectively, and has been included as a component of Interest Expense in the accompanying consolidated statements of income.

Fair Value of Debt

At March 31, 2016 and December 31, 2015, the estimated fair values of the Company's current and long-term debt approximated the respective carrying amounts as the interest rates were variable and based on current market indices.

Note 11. Derivatives

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

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

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

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

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts Receivable	\$ 1.3	Accrued Expenses	\$ 6.0
Foreign exchange contracts	Other Assets	0.6	Other Liabilities	3.6
Interest rate contracts	Other Assets	—	Other Liabilities	1.2
Total derivatives designated as hedges		\$ 1.9		\$ 10.8

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The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at December 31, 2015 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts Receivable	\$ 0.7	Accrued Expenses	\$ 10.8
Foreign exchange contracts	Other Assets	—	Other Liabilities	7.0
Interest rate contracts	Other Assets	—	Other Liabilities	0.6
Total derivatives designated as hedges		\$ 0.7		\$ 18.4

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

Derivatives Designated as Cash Flow Hedging Relationships	Unrealized Gain (Loss) Recognized in AOCI on Derivatives, Net of Tax		Loss Reclassified from AOCI	
	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Foreign exchange contracts	\$10.4	\$(6.7)	\$(1.8)	\$(3.1)
Interest rate contracts	(0.5)	(0.3)	(0.2)	—
Total	\$9.9	\$(7.0)	\$(2.0)	\$(3.1)

The Company's designated derivative instruments are highly effective. As such, related to the hedge ineffectiveness or amounts excluded from hedge effectiveness testing, there were no gains or losses recognized immediately in income for the three months ended March 31, 2016 and 2015.

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

Derivatives Not Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in Other Income / Expense	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Foreign exchange contracts		\$ 1.8	\$(1.1)

Note 12. Commitments and Contingencies

Litigation

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

The Raw Materials Assessments concerned the accrual and use by SWM-B of ICMS tax credits generated from the production and sale of certain non-tobacco related grades of paper sold domestically that are immune from the tax to offset ICMS taxes otherwise owed on the sale of products that are not immune. SWM-B has contested the Raw Materials Assessments based on Article 150, VI of the Brazilian Federal Constitution of 1988, which grants immunity from ICMS

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taxes to papers intended for printing books, newspapers and periodicals, or immune papers, and thus to the raw material inputs used to produce immune papers. One of the two assessments, or Assessment 1 (case number 2001.001.115144-5), related in part to tax periods that predated our acquisition of the Pirahy mill in Pirai, Brazil. In October 2015, the Federal Supreme Court of Brazil denied the State's appeal of Assessment 1, in the amount of approximately \$16.0 million, a decision which is now final. The second assessment, or Assessment 2 (case number 2001.001.064544-6), pertains exclusively to periods during which SWM-B owned the Pirahy mill. Assessment 2 in the amount of approximately \$12.0 million remains pending before the Federal Supreme Court of Brazil on SWM-B's appeal on the merits and is likely to be finally decided by the action of the chamber of the court hearing the matter. No docket entry has been made yet regarding argument on Assessment 2.

SWM-B received assessments from the tax authorities of the State of Rio de Janeiro for unpaid ICMS and Fundo Estadual de Combate à Pobreza (FECP, a value-added tax similar to ICMS) taxes on interstate purchases of electricity. The State issued three sets of assessments against SWM-B, one for May 2006 - November 2007, a second for January 2008 - December 2010, and a third for September 2011 - September 2013, collectively the Electricity Assessments. SWM-B has challenged all three Electricity Assessments in administrative proceedings before the State tax council (in the first-level court Junta de Revisão Fiscal and the appellate court Conselho de Contribuintes) based on Resolution 1.610/89, which defers these taxes on electricity purchased by an "electricity-intensive consumer." In October and November 2014, a majority of the Conselho de Contribuintes sitting en banc ruled against SWM-B in each of the first and second Electricity Assessments. The State issued notices to SWM-B to pay approximately \$4.4 million in the first Electricity Assessment and \$7.6 million in the second Electricity Assessment, based on the foreign currency exchange rate at March 31, 2016. SWM-B filed separate challenges to these Electricity Assessments in further court proceedings in the State judicial system, and different chambers of the judicial court granted SWM-B preliminary injunctions against enforcement. On the State's appeal, the court required SWM-B to post security for the injunction concerning the Electricity Assessment for May 2006 - November 2007. SWM-B's challenge to the third Electricity Assessment (approximately \$3.4 million as of March 31, 2016) remains pending at the first administrative level (Junta de Revisão Fiscal).

SWM-B believes that both the remaining Raw Materials Assessment and the Electricity Assessments will ultimately be resolved in its favor. No liability has been recorded in our consolidated financial statements for these assessments based on our evaluation of these matters under the facts and law as presently understood. The Company can give no assurance as to the ultimate outcome of such proceedings.

Environmental Matters

The Company's operations are subject to various nations' federal, state and local laws, regulations and ordinances relating to environmental matters. The