SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-K
March 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

o **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)	**30022-8246** (Zip Code)

1-800-514-0186

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common stock, par value $0.10 per share (together with associated preferred stock purchase rights)	New York Stock Exchange, Inc.

Securities Registered Pursuant to Section 12(g) of the Act: **None**

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

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

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 ý No o

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

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.

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the outstanding common stock, par value $0.10 per share (the "Common Stock"), held by non-affiliates of the registrant as of June 29, 2007 (the last business day of the registrant's most recently completed second fiscal quarter) was $480.7 million, based on the last sale price for the Common Stock of $31.00 per share as reported on the New York Stock Exchange on said date. For purposes of the foregoing sentence only, all directors and executive officers are assumed to be affiliates.

There were 15,491,609 shares of Common Stock issued and outstanding as of February 29, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to its 2008 Annual Meeting of Stockholders scheduled to be held on April 24, 2008 ("the 2008 Proxy Statement") and filed pursuant to Regulation 14A are incorporated by reference into Part III of this Form 10-K.

PART I.

Item 1. *Business*

As used in this 2007 Annual Report on Form 10-K, unless the context indicates otherwise, references to "we," "us," "our," "SWM," "Schweitzer-Mauduit" or similar terms include Schweitzer-Mauduit International, Inc. and its consolidated subsidiaries.

Our Securities and Exchange Commission, or SEC, filings, which include this Annual Report on Form 10-K, Definitive Proxy Statements on Form DEF-14A, quarterly reports on Form 10-Q, current reports on Form 8-K and all related amendments, are available, free of charge, on our Web site at www.schweitzer-mauduit.com, Investor Relations, SEC filings. Information from our Web site is not incorporated by reference into this Form 10-K. These reports are available soon after they are filed electronically with the SEC. The Web site also allows access to historical financial information, press releases and quarterly earnings conference calls, our Code of Conduct, corporate governance guidelines, Board of Directors' committee charters, as well as disclosure of any amendment to or waivers of our Code of Conduct granted to any of the principal executive officer, principal financial officer or principal accounting officer. Quarterly earnings press releases are posted immediately to our Web site, making them available to stockholders and other interested parties. The Web site provides additional background information about us including further information on our history, products and locations. Requests for information can be made in writing and sent to the Investor Relations Department at our principal executive office address listed below.

Our quarterly earnings conference calls are typically held on the same dates as our quarterly earnings releases and are likewise available through our Web site via a webcast. The tentative dates for our quarterly earnings conference calls related to 2008 financial results are April 24, 2008, July 31, 2008, October 30, 2008 and January 29, 2009. These dates are subject to change. Instructions on how to listen to the webcasts and updated information on times and actual dates are available through our Web site.

Our wholly-owned, majority-owned and controlled subsidiaries are Schweitzer-Mauduit Canada, Inc., or SM-Canada, Schweitzer-Mauduit Spain, S.L., or SM-Spain, a holding company organized under the Spanish holding company regime and the primary foreign investment holding company for SWM, and Schweitzer-Mauduit International China, Limited, or SM-China, a holding company incorporated in Hong Kong which owns 50 percent of the equity interest in China Tobacco Mauduit (Jiangmen) Paper Industry Company Ltd., a Sino-Foreign Equity Joint Venture with China National Tobacco Corporation, or CNTC, to manufacture and sell tobacco-related papers in China, our only unconsolidated subsidiary. We indirectly through SM-Spain have subsidiaries in France, the Philippines, Indonesia and Brazil. SM-Spain owns directly 100 percent of Schweitzer-Mauduit Holding S.A.R.L., a French holding company, or SMH, and together SM-Spain and SMH own 100 percent of 2 holding companies, Schweitzer-Mauduit Industries S.A.R.L., a French corporation, or SMI, which holds our investment in the French reconstituted tobacco operations, and Schweitzer-Mauduit France S.A.R.L., a French corporation, or SMF, which holds our French, Philippine and Indonesian paper operations. As of January 31, 2008, SMI owns 90 percent of the issued and outstanding shares of LTR Industries S.A., a French corporation, or LTRI, with LTRI owning the remaining 10 percent. SMF, directly or indirectly, owns 100 percent of 3 principal French operating subsidiaries, Papeteries de Mauduit S.A.S., or PdM, Papeteries de Malaucène S.A.S., or PdMal, and Papeteries de Saint-Girons S.A.S., or PdStG, 100 percent of PDM Philippines Industries, Inc., or PPI, and 100 percent of P.T. PDM Indonesia, or PT PDM. SM-Spain also owns directly 99.99 percent of the issued and outstanding shares of Schweitzer-Mauduit do Brasil S.A., our Brazilian paper operations, or SWM-B. We did not have any special purpose entities as of December 31, 2007.

Our principal executive office is located at 100 North Point Center East, Suite 600, Alpharetta, Georgia 30022-8246 and our telephone number at that address is 1-800-514-0186. Our stock is traded on the New York Stock Exchange, or NYSE, under the symbol "SWM."

We have provided a Glossary of Terms at the end of this Annual Report on Form 10-K.

GENERAL

We are a multinational diversified producer of premium specialty papers headquartered in the United States of America and are the world's largest supplier of fine papers to the tobacco industry. We manufacture and sell paper and reconstituted tobacco products to the tobacco industry as well as specialized paper products for use in other applications. Tobacco industry products comprised approximately 90 percent of our consolidated net sales in each of the years 2005 through 2007. The primary products in the group include cigarette, plug wrap and tipping papers, or Cigarette Papers, 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 and paper products used in cigarette packaging. These products are sold directly to the major tobacco companies or their designated converters in the Americas, Europe, Asia and elsewhere. Non-tobacco products are a diverse mix of products, certain of which represent commodity paper grades produced to maximize machine operations.

We are a manufacturer of high porosity papers, which are used in manufacturing ventilated cigarettes, banded papers for the production of lower ignition propensity, or LIP, cigarettes and the leading independent producer of RTL used in producing blended cigarettes. We conduct business in over 90 countries and currently operate 12 production locations worldwide, with mills in the United States, including our new production facility in Newberry, South Carolina, France, the Philippines, Indonesia and Brazil. We also have a 50 percent equity interest in a mill currently under construction in China.

Our manufacturing facilities have a long history of producing paper dating back to 1545. Our domestic mills led the development of the North American tobacco-related papers manufacturing industry, which was originated by Peter J. Schweitzer, Inc. that began as an importer of cigarette papers from France in 1908.

DESCRIPTION OF BUSINESS

Financial Information About Segments. We operate and manage 3 reportable segments: United States, or U.S., France and Brazil. These segments are based on the geographical location of our manufacturing operations. These business segments manufacture and sell Cigarette Papers, reconstituted tobacco products (France and U.S. only) and paper products used in cigarette packaging, as well as certain non-tobacco industry products. While the products are similar in each segment, they vary based on customer requirements and the manufacturing capabilities of each of the operations. The Philippine and Indonesian financial results are included in the French business segment because the results of these 2 units are not material for segment reporting purposes and since their products are coordinated with sales of our French operations in southeast Asia. Sales by a segment into markets primarily served by a different segment occur where specific product needs cannot be cost-effectively met by the manufacturing operations domiciled in that segment.

Additional information regarding "Segment Performance" is included in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation. In addition, selected financial data for our segments is available in Note 9, Segment Information, of the Notes to Consolidated Financial Statements. Reference is also made to Part I, Item 1A, Risk Factors, Market Risk, for a discussion regarding the risks associated with foreign operations.

Financial information about foreign and domestic operations, contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation" appearing in Part II, Item 7 herein and in Notes 3, 4, 5 and 9 ("Restructuring Activities," "Debt," "Income Taxes" and "Segment Information," respectively) to the Consolidated Financial Statements contained in "Financial Statements and Supplementary Data" appearing in Part II, Item 8 herein, are incorporated in this Item 1 by reference.

PRODUCTS

We manufacture and sell paper and reconstituted tobacco products to the tobacco industry as well as specialized paper products for use in other applications.

Tobacco industry products include Cigarette Papers and RTL used as a tobacco blend with virgin tobacco in cigarettes; reconstituted tobacco wrappers and binders for cigars; and paper products used in cigarette packaging. These products are sold directly to tobacco companies or their designated converters in the Americas, Europe, Asia and elsewhere.

Each of the 3 principal types of Cigarette Papers cigarette, plug wrap and tipping papers serves a distinct purpose in the function of a cigarette.

Cigarette paper wraps the column of tobacco in a cigarette. Certain properties of cigarette paper, such as basis weight, porosity, opacity, tensile strength, texture and burn rate must be controlled to tight tolerances. Many of these characteristics are critical to meet the requirements of high-speed production processes utilized by cigarette manufacturers as well as their desired attributes of finished cigarettes such as LIP or reduced deliveries of tobacco-related smoke constituents.

Plug wrap paper forms the outer layer of a cigarette filter and is used to hold the filter materials in a cylindrical form. Conventional plug wrap is manufactured on flat wire paper machines using wood pulp. Porous plug wrap, a highly air permeable paper, is manufactured on inclined wire paper machines using a furnish consisting of "long-fibers," such as abaca, and wood pulp. Porosity, a measure of air flow permeability, ranges from a typical level of less than 100 Coresta on conventional plug wrap to 35,000 Coresta on high porosity papers. High porosity plug wrap is sold under the registered trademark POROWRAP® and is used on filter-ventilated cigarettes.

Tipping paper, produced in white or tan/cork color, joins the filter element to the tobacco-filled column of the cigarette. The ability to produce tipping paper, which is both printable and glueable at high speeds, is critical to producing a cigarette with a distinctive finished appearance.

Reconstituted tobacco is used by manufacturers of cigarettes and other tobacco products. We currently produce reconstituted tobacco in 2 forms: leaf, or RTL, in France, which is manufactured by LTRI, and wrapper and binder in the United States. RTL is used by manufacturers of cigarettes primarily to blend with virgin tobacco as a design aid to achieve certain attributes of finished cigarettes, such as taste characteristics and reduced deliveries of tobacco-related smoke constituents, and to cost-effectively utilize tobacco leaf by-products. Wrapper and binder are reconstituted tobacco products used by manufacturers of machine-made cigars. Binder is used to hold the tobacco leaves in a cylindrical shape during the production process. Wrapper is used to cover the outside of the cigar, providing a uniform, finished appearance.

Commercial and industrial products include lightweight printing and writing papers, coated papers for packaging and labeling applications, battery separator paper, drinking straw wrap, filter papers and other specialized papers primarily for the North American, western European and Brazilian markets. Like porous plug wrap, certain of these non-tobacco industry products use a fiber blend consisting of long-fibers. These products are generally sold directly to converters and other end-users in North America and western Europe and through brokers in Brazil. The non-tobacco industry products are a diverse mix of products, certain of which represent commodity paper grades produced to maximize machine utilization.

MARKETS AND CUSTOMERS

Our U.S. segment primarily supplies the major, and many of the smaller, cigarette manufacturers in North America, and also has significant sales in South America and Japan. The customer base for the U.S. operations consists of more than 190 customers in approximately 52 countries. Our French segment relies predominantly on worldwide exports, primarily to western Europe, Asia (in part through our Philippine and Indonesian manufacturing facilities), eastern Europe and, in lesser but substantial amounts, to Africa, the Middle East and Australia. The customer base for the French operations consists of a diverse group of approximately 200 customers in more than 80 countries. Our Brazilian segment primarily supplies customers in Latin and South American countries with expanding sales to North America and other export locations. The current customer base of the Brazilian operations consists of the cigarette manufacturers in Brazil, as well as approximately 35 customers in approximately 15 countries outside Brazil. Customers of all 3 business segments include international tobacco companies, regional tobacco manufacturers and government monopolies.

Altria Group, Inc., including Philip Morris USA Inc. and Philip Morris International Inc., or collectively Philip Morris, including its subsidiaries, and British American Tobacco p.l.c., or BAT, including its Brazilian subsidiary Souza Cruz S.A., or Souza Cruz, and its other subsidiaries, are our 2 largest customers. Philip Morris and BAT, together with their respective affiliates and designated converters, accounted for 41 percent, 40 percent and 49 percent of the Company's 2007, 2006 and 2005 consolidated net sales, respectively. Although the total loss of 1 or both of these large customers could have a material adverse effect on our results of operations, this is not considered likely given the significant share that our capacity represents of the total worldwide supply available to meet the demand for cigarette-related fine papers. A material variation in demand from 1 of these customers or due to external factors such as government legislation or changes in consumer behavior, however, could result in a significant decline in demand for our products.

SALES AND DISTRIBUTION

Essentially all tobacco-related products manufactured by the U.S., French and Brazilian segments are sold by our marketing, sales and customer service organizations directly to cigarette manufacturers or their designated converters. Most of our U.S. and French segments' non-tobacco related products, which represent approximately 5 to 7 percent of each of their respective net sales, are sold on a direct basis. The Brazilian segments' non-tobacco related products comprise approximately 40 percent of its net sales, substantially all of which are sold through agents.

The typical modes of transportation we utilize in the delivery of product to our customers include truck, rail and ocean-going vessels. As is typical in our industry, ownership of the product generally transfers to our customer upon shipment from our mills, except for certain export sales where ownership typically transfers at the foreign port or customer facility.

COMPETITION

We are the largest producer of Cigarette Papers in the world. LTRI is the leading independent producer of RTL for use in cigarettes. We do not sell our products directly to consumers or advertise our products in consumer media. The specialized nature of these tobacco-related papers requires unique research and development capability and special papermaking equipment and skills to meet exacting customer specifications. These factors have limited the number of competitors in each of the tobacco-related paper categories discussed separately below.

Cigarette Paper Our estimated worldwide share of the cigarette paper market is 28 percent, and excluding China which is largely self-sufficient, our estimated global market share is 39 percent. As the sole domestic producer of Cigarette Papers in North America, we believe that we have the majority supply position, estimated at 70 to 75 percent of the North American cigarette paper market. PdM and PdStG, indirect wholly-owned subsidiaries in France, sell 70 to 75 percent of their products in western Europe and Asia. SWM-B has over 90 percent of the cigarette paper market in Brazil and an estimated 85 to 90 percent share of the cigarette paper market in South America. Our principal competitors include European suppliers Delfort Group AG, or Delfort, an Austrian corporation, Miquel y Costas & Miquel S.A., or

Miquel y Costas, a Spanish corporation, and Julius Glatz GmbH, an independent German company. The principal competitors of our Indonesian cigarette paper business are PT Surya Zig Zag and PT Bukit Muria Jaya, or PT BMJ, which are owned by Indonesian cigarette production companies and account for 65 to 70 percent of the cigarette paper market in Indonesia. We believe that the bases of cigarette paper competition are price, consistent quality, security of supply, level of technical service and performance requirements of the customer's cigarette-making equipment.

We have developed individually or in conjunction with customers, technologies to address the emerging market for cigarette paper for LIP cigarettes in the United States and Canada. We are currently the leading producer of commercially proven cigarette paper for LIP cigarettes. We continue to actively develop these technologies for such products and we are in the process of forming a "Center of Excellence" platform to serve the world markets as the need expands. To date, the cigarette papers for LIP cigarettes offered by Schweitzer-Mauduit's competitors, have not achieved broad commercial success. No other cigarette paper manufacturer's product for LIP cigarettes is used commercially on any major cigarette manufacturer's brands in North America and at least one cigarette manufacturer that had used a competitor's product now obtains all of its requirements for papers used on its LIP cigarettes from Schweitzer-Mauduit.

Plug Wrap Paper We believe that our U.S. segment has an estimated 75 to 80 percent share of the North American market for plug wrap papers. The remainder of the North American market is shared by 2 competitors: Miquel y Costas and Delfort. Our French businesses hold an estimated 65 to 70 percent of the western European high porosity plug wrap market. Delfort is our principal competitor in that market. Through the Brazilian business' supply of conventional plug wrap papers and the U.S. business' supply of porous plug wrap papers, we have an estimated 65 to 70 percent share of the South American market for plug wrap papers. Miquel y Costas and Delfort are our principal competitors in that market. As part of our 3-part restructuring plan announced on October 1, 2007, we plan to transfer porous plug wrap production from the Lee Mills to our facilities in Ancram, New York and to PdM by the end of 2008.

Tipping Paper We believe that our U.S. segment has an estimated 75 to 80 percent share of the North American market for base tipping paper, which is subsequently printed by converters. Our principal competitor in this market is Delfort. Our Brazilian segment has an estimated 75 to 80 percent share of the South American market for base tipping paper, which is subsequently printed by converters. Our principal competitor in Latin America is Miquel y Costas. We believe that the bases for competition are consistent quality, price and, most importantly, the ability to meet the runnability and printability requirements of converting equipment and high-speed cigarette-making machines.

PdMal currently holds an estimated 10 to 15 percent market share in western Europe. PdMal's principal European competitors are Tann-Papier, subsidiaries of Trierenberg Holdings, Benkert GmbH and Miquel y Costas. We believe that the bases of competition for perforated tipping paper in Europe are perforation technology, consistent quality and price. As a component of the 3-part restructuring plan, we plan to transfer base tipping paper production from PdMal and the Lee Mills to our Santanesia, Brazil facility by the end of 2008.

Reconstituted Tobacco LTRI is the leading independent producer of RTL in the world. We believe that the basis of competition in this market is primarily quality. However, sales volumes are influenced by worldwide virgin tobacco prices and cigarette producers' various in-house tobacco reconstitution processes, as lower prices of virgin tobacco or other RTL forms may compete against reconstituted tobacco sales volumes.

LTRI's principal competitors are cigarette companies such as Philip Morris, BAT, Elets, an affiliate of Japan Tobacco Inc. which operates in Russia and STMA (China), which produce RTL primarily for internal use.

We estimate that approximately 50 percent of reconstituted cigar wrapper and binder used in the U.S. market are produced internally by domestic cigar manufacturers. Our U.S. segment's Ancram mill and Nuway Tobacco, a privately-held cast process manufacturer, produce the balance.

Other Products As noted above, we produce papers for lightweight printing and writing, coated papers for packaging and labeling applications, battery separator papers, wrapping paper for drinking straws, filter papers and other specialized papers. We believe that price is the primary basis of competition for drinking straw wrap, printing and writing and filter papers, while consistent quality and customer service are believed to be the primary competitive factors for battery separator paper, business forms and overlay papers. In accordance with the 3-part restructuring plan, we plan to discontinue the sale of the majority of our commercial and industrial papers currently produced at the Lee Mills in the United States and in Brazil.

RAW MATERIALS AND ENERGY

Wood pulp is the primary fiber used in our operations. Our operations consumed 104,000 and 105,000 metric tons of wood pulp in 2007 and 2006, respectively, all of which was purchased. Our operations also use other cellulose fibers, the most significant of which are in the form of flax fiber and tobacco leaf by-products, as the primary raw materials for Cigarette Papers and reconstituted tobacco products, respectively. While tobacco leaf by-products are generally the property of the cigarette manufacturer for whom the reconstitution is contracted, we purchase some tobacco leaf by-products for use in the production of RTL and wrapper and binder products.

Flax straw is purchased and subsequently processed into flax tow at processing facilities in Canada and France. The flax tow is then converted into flax pulp at pulping facilities in the United States and France. Certain specialty papers are manufactured by our operations in France, requiring small amounts of other cellulose fibers, all of which are purchased.

In addition to cellulose fibers, our operations use calcium carbonate as another significant raw material in the production of many of our paper products. Calcium carbonate, or chalk, is used in the production of Cigarette Papers, as well as in certain of our other paper products, to provide desired qualities and characteristics, such as opacity, as well as end-product performance attributes. All of our needs for calcium carbonate are purchased. Our Quimperlé mill in France and Pirahy mill in Brazil have on-site, vendor-operated calcium carbonate plants which supply significant quantities toward the needs of those mills. For the balance of their needs, our mills also purchase calcium carbonate manufactured elsewhere. Our calcium carbonate purchase commitments are discussed in Note 8, Commitments and Contingencies, of the Notes to Consolidated Financial Statements.

We believe that our purchased raw materials are readily available from several sources and that the loss of a single supplier would not have a material adverse effect on our ability to procure needed raw materials from other suppliers.

The papermaking processes use significant amounts of energy, primarily electricity, natural gas and fuel oil to run the paper machines and other equipment used in the manufacture of pulp and paper. In France and in the United States, availability of energy is generally not expected to be an issue, although prices can fluctuate significantly. We enter into agreements to procure a portion of our energy requirements for future periods in order to reduce the uncertainty of future energy costs.

In France, we have entered into agreements with an energy cogeneration supplier whereby the supplier constructed and operates cogeneration facilities at our Spay and Quimperlé Mills and supply steam that is used in the operation of our mills. The Spay cogeneration facility was completed in late 2005 and the Quimperlé cogeneration facility was placed in service during the fourth quarter 2007. These cogeneration facilities are expected to provide energy cost savings and improved security of supply.

In Brazil, where that country's production of electricity is heavily reliant upon hydroelectric plants, availability of electricity has been affected in the past by weather and rain variations. Our Brazilian business currently has a sufficient supply of energy to continue its current level of operation.

Additional information regarding agreements for the supply of energy is included in Note 8, Commitments and Contingencies, of the Notes to Consolidated Financial Statements.

BACKLOG AND SEASONALITY

We have historically experienced a steady flow of orders. Our mills typically receive and ship orders within a 30-day period, except in the case of RTL where orders are generally placed well in advance of delivery. We plan our manufacturing schedules and raw material purchases based on our evaluation of customer forecasts and current market conditions.

The U.S. segment does not calculate or maintain records of order backlogs. Philip Morris, our largest customer, provides forecasts of future demand, but actual orders for Cigarette Papers are typically placed 2 weeks in advance of shipment.

Our French segment does maintain records of order backlogs. For Cigarette Papers, the order backlog was approximately $37 million and $35 million on December 31, 2007 and 2006, respectively. This represented approximately 50 and 48 days of Cigarette Paper sales for the French segment in 2007 and 2006, respectively. LTRI's RTL business operates under a number of annual supply agreements. The order backlog for RTL was approximately $98 million and $83 million on December 31, 2007 and 2006, respectively.

The Brazilian segment does not calculate or maintain records of order backlogs. Souza Cruz, its largest customer, provides forecasts of its future demand, typically 8 weeks in advance, in order for the Brazilian operations to manage production and ensure a sufficient supply to meet this customer's anticipated requirements.

Sales of our products are not subject to significant seasonal fluctuations, except in the United States where customer shutdowns of 1 to 2 weeks in duration typically occur in July and December, and in Brazil where customer orders are typically lower in December due to a January and February holiday season.

RESEARCH AND DEVELOPMENT

We have research and laboratory facilities in Spay, France, Santanésia, Brazil and Alpharetta, Georgia and employ approximately 50 research personnel. We are dedicated to developing Cigarette Papers, reconstituted tobacco and non-tobacco paper product innovations and improvements to meet the needs of individual customers. The development of new components for tobacco products and the development of new non-tobacco paper products are the primary focuses of these research and development functions, including several development projects for our major customers. We expensed $8.0 million in 2007, $7.3 million in 2006 and $9.0 million in 2005 on research and development. We believe that our research and product development capabilities are unsurpassed in the industry and have played an important role in establishing our reputation for high quality, superior products.

Our commitment to research and development has enabled us, for example, to (i) produce high-performance papers designed to run on the high-speed manufacturing machines of our customers, (ii) produce papers to exacting specifications with very high uniformity, (iii) produce cigarette paper with extremely low basis weights, (iv) develop cigarette paper for LIP cigarettes, (v) produce highly porous cigarette and plug wrap papers, (vi) produce wrapper and binder tobacco reconstituted products, in a paper process, matching the specifications of machine-made cigars and (vii) produce papers and reconstituted tobacco products with other specifically engineered properties required for end-product performance attributes. We believe we are in the forefront of the specialty paper manufacturing process, having invested heavily in modern technology, including on-line banding and off-line printing capabilities for LIP cigarette papers, laser technology and modern paper-slitting equipment. We believe that our commitment to research and development, coupled with our investment in new technology and equipment, has positioned us to take advantage of growth opportunities all around the world.

PATENTS AND TRADEMARKS

As of December 31, 2007, we owned 132 patents and had pending 66 patent applications covering a variety of Cigarette Papers, RTL and cigar wrapper and binder products and processes in the United States, western Europe and several other countries. We believe that such patents, together with our papermaking expertise and technical sales support, have been instrumental in establishing us as the leading worldwide supplier of Cigarette Papers, RTL and reconstituted wrapper and binder made by the papermaking process. Patents have played a central role in establishing us as the world's leading independent producer of papers used for LIP cigarettes.

Management believes that our "ALGINEX " water based technology trademark for use in banded papers for the production of LIP cigarettes, "POROWRAP®" trademark for highly porous plug wrap paper, the "PDM" and "SWM" logos and the "JOB PAPIER A CIGARETTES", "PAPETERIES DE MAUDUIT" and "SCHWEITZER" trade names also have been important contributors to the marketing of our products.

EMPLOYEES

As of December 31, 2007, we had 3,465 regular full-time active employees of whom 498 hourly employees and 218 salaried employees were located in the United States and Canada, 1,055 hourly employees and 647 salaried employees were located in France, 130 hourly and 65 salaried employees were located in the Philippines, 150 hourly employees and 56 salaried employees were located in Indonesia and 604 hourly employees and 42 salaried employees were located in Brazil.

Due to previously announced restructuring activities, we expect our worldwide employment will decrease by approximately 300 employees to a total of near 3,200 by December 31, 2008.

North American Operations Hourly employees at the Lee, Massachusetts, Spotswood, New Jersey and Ancram, New York mills are represented by locals of the United Steel Workers Union. The collective bargaining agreement at our Spotswood mill, which was scheduled to expire on July 28, 2007, was renewed with a 3-year agreement through July 26, 2010. As part of the renewed agreement, benefits related to the defined benefit pension plan for hourly employees at the Spotswood mill will be frozen as of December 31, 2007. As a result, no further service credits will be earned under that plan subsequent to December 31, 2007. This action is expected to reduce our annual pension expense and pension fund contribution requirements. The plan will not be terminated, and benefits accrued as of December 31, 2007 will continue to be paid in accordance with the plan terms. The collective bargaining agreement at our Ancram, New York mill is a 4-year agreement effective through September 2008. The Lee Mills collective bargaining agreement will continue until May 2008. We believe employee and union relations continue to be positive at the Spotswood, Lee and Ancram mills.

The fiber operations of our Canadian subsidiary are non-union. We believe that employee relations are positive.

French Operations Hourly employees at our mills in Quimperlé, Malaucène, Saint-Girons and Spay, France are union represented. Collective bargaining agreements at both our Quimperlé and Malaucène mills expired December 31, 2007, and the collective bargaining agreements for our Spay and Saint-Girons mills expire February 28, 2008 and June 30, 2008, respectively. New negotiations with the unions began in February 2008 for Quimperlé, Malaucène and Spay and will begin in May 2008 for Saint-Girons. We believe that, overall, employee relations are comparable to similar French manufacturing operations.

Employees of our Philippine operations are non-union. We believe that employee relations are positive.

On May 1, 2006, we entered into a new collective bargaining agreement at our mill in Medan, Indonesia. This agreement has a term of 2 years, ending on April 30, 2008. We believe that employee relations are positive.

Brazilian Operations Hourly employees at the Pirahy mill are represented by a union. The 1-year collective bargaining agreement at SWM-B was renewed through May 31, 2008. We believe that employee relations are positive and comparable to similar Brazilian manufacturing operations.

ENVIRONMENTAL MATTERS

Capital expenditures for environmental controls to meet legal requirements and otherwise relating to the protection of the environment at our facilities in the United States, France, the Philippines, Indonesia, Brazil and Canada were $0.2 million in 2007 and are expected to total approximately $1 million in each of 2008 and 2009, of which no material amounts were or are expected to be the result of environmental fines or settlements. These expenditures are not expected to have a material adverse effect on our financial condition, results of operations or competitive position; however, these estimates could be modified as a result of changes in our plans, changes in legal requirements or other factors.

WORKING CAPITAL

We normally maintain approximately 30 to 60 days of inventories to support our operations. Our sales terms average between 15 and 60 days for payment by our customers, dependent upon the products and markets served. For a portion of our business, particularly our French segment export sales, extended terms are provided. With respect to our accounts payable, we typically carry approximately a 30 to 60 day level, in accordance with our purchasing terms, which vary by business segment. The accounts payable balance varies in relationship to changes in our manufacturing operations, particularly due to changes in prices of wood pulp and purchased energy and the level and timing of capital expenditures related to projects in progress.

EXECUTIVE OFFICERS

The names and ages of the executive officers as of February 29, 2008, together with certain biographical information, are as follows:

Name	Age	Position
Wayne H. Deitrich	64	Chairman of the Board and Chief Executive Officer
Frédéric P. Villoutreix	43	Board Member and Chief Operating Officer
Michel Fievez	50	President European Operations
Otto R. Herbst	48	President the Americas
Widjaja Jiemy	49	President Southeast Asian Operations
Peter J. Thompson	45	Chief Financial Officer and Treasurer
John W. Rumely, Jr.	54	General Counsel and Secretary
Wayne L. Grunewald	56	Controller

Mr. Paul Roberts, formerly Vice President Strategic Planning and Implementation, retired on December 31, 2007.

There are no family relationships between any of the directors, or any of our executive officers. None of our officers were selected pursuant to any arrangement or understanding between the officer and any person other than the Company. Our executive officers serve at the discretion of the Board of Directors and are elected annually by the Board. Detailed information about our executive officers is provided below.

Wayne H. Deitrich has served as our Chief Executive Officer since August 1995 and was elected Chairman of the Board of Directors immediately after our spin-off from Kimberly-Clark Corporation, or Kimberly-Clark, on November 30, 1995, and has served continuously in that capacity since that date. From June 1995 through August 1995, Mr. Deitrich served as President Specialty Products Sector of Kimberly-Clark. From 1993 through May 1995, Mr. Deitrich was the President Paper and Specialty Products Sector of Kimberly-Clark, and from 1992 to 1993, he was President Paper Sector of Kimberly-Clark. From 1988 through 1992, Mr. Deitrich served as the President of Neenah Paper, a business unit of Kimberly-Clark.

Frédéric P. Villoutreix was elected to serve as a Class III director of the Company effective June 1, 2007. Mr. Villoutreix has served as our Chief Operating Officer since February 2006 and as interim President French Operations from December 2006 to June 2007. Mr. Villoutreix joined us in December 2005 from Compagnie de Saint-Gobain, a leading French multi-national manufacturer of engineered materials and products, where he worked since 1990. From 2001 to 2005, Mr. Villoutreix held key manufacturing positions in Europe and the United States with Saint-Gobain, including General Manager, World Construction Products and Stone, Luxemburg and Vice President, Abrasives Europe and Coated Abrasives World with 33 operating locations.

Michel Fievez has served as our President French Operations since June 2007. From 2003 to May 2007, Mr. Fievez served as General Manager "One Side Coated Papers" and then Vice President and General Manager "Packaging, Metalizing and Office and Graphic" with Ahlstrom Corporation. From 1998 to 2003, he held key manufacturing positions, including Managing Director, with Chesapeake Display and Packaging in Europe, and from 1994 to 1998, held the position of Vice President Manufacturing and Technology with Mead Packaging Europe.

Otto R. Herbst became President of the Americas in August 2006 with responsibility for the U.S. and Brazilian business units. Mr. Herbst served as our President Brazilian Operations from April 1999 to July 2006. Prior to April 1999, he served as General Manager for New Business and Services from 1997 through March 1999 for Interprint, a manufacturer of security documents, telephone cards and business forms. From 1990 through 1997, Mr. Herbst served as Director of Agaprint, a manufacturer of packaging materials, business forms, commercial printing papers, personalized documents and envelopes.

Widjaja Jiemy has served as our President Southeast Asian Operations since May 2005 and is the General Manager of China Tobacco Mauduit (Jiangman) Paper Industry Company, Ltd. Prior to May 2005, Mr. Jiemy served as General Manager of business development of April Fine Paper (Guang Dong) Co., Ltd., in China to build a greenfield paper mill in Jiangmen, Guangdong province. Previously, Mr. Jiemy served as General Manager of P.T. Riau Andalan Kertas, a pan-Asian paper company, and as General Manager of P.T. Sampoerna Percetakan Nusantara, an Indonesian corrugated box making and printing company. From 1990 to 1997, Mr. Jiemy was the General Manager of P.T. Kimsari Paper Indonesia, the predecessor company of P.T. PDM Indonesia.

Peter J. Thompson became our Chief Financial Officer and Treasurer in August 2006. Mr. Thompson served as our President U.S. Operations from November 1998 to July 2006. From April 1998 through November 1998, Mr. Thompson was Director Sales and Marketing for the U.S. Operations. Mr. Thompson joined us in January 1997 as a Marketing Manager in the U.S. Operations. Prior to joining us, he was employed by Tape, Inc. from May 1995 through January 1997, where he held several senior management positions in marketing, sales and finance. Mr. Thompson was employed by Kimberly-Clark from June 1984 through May 1995 in a variety of financial positions.

John W. Rumely, Jr. has served as our General Counsel and Secretary since January 2000. From March 1998 through December 1999, he served as Associate General Counsel. From May 1989 through February 1998, Mr. Rumely was Assistant General Counsel of Alumax Inc., an international integrated producer of aluminum products that was subsequently acquired by Alcoa Inc.

Wayne L. Grunewald has served as our Controller since August 1995. From July 1995 through August 1995, Mr. Grunewald served as Controller Specialty Products Sector of Kimberly-Clark. From December 1989 through June 1995, he was Controller U.S. Pulp and Newsprint, a business unit of Kimberly-Clark.

Item 1A. ***Risk Factors***

Factors That May Affect Future Results

Many factors outside of our control could impact future financial results. While not an exhaustive list, the following important factors could cause our actual results for 2007 and beyond to differ materially from those expressed in any forward-looking statements we have made.

International Business Risks

We have manufacturing facilities in 6 countries spread across 4 hemispheres and we market and sell products in over 90 countries, many of which are third-world markets. Both our manufacturing operations and our sales, depending on their location, are subject to 1 or more of the following international business risks, including unsettled political and economic conditions; expropriation; import and export tariffs; regulatory controls and restrictions; monetary exchange controls; inflationary economies; changes in currency value; changes in business and income tax regulations and risks related to restrictions on repatriation of earnings or proceeds from liquidated assets of foreign subsidiaries.

Tax and Repatriation Matters

We are subject to various business and income tax laws in each of the countries in which we do business through wholly-owned subsidiaries and through affiliates. Although we believe we comply with the many business and income tax requirements of each of our operations, we are exposed to the possibility of changes in enacted laws and interpretations of laws which could have a material adverse impact on our financial condition or results of operations. Also, we evaluate our overall financing plans in the various jurisdictions in which we operate and manage international movements of cash from and amongst our foreign subsidiaries in a tax-efficient manner; however, an unanticipated international movement of funds due to unexpected changes in our business or in needs of the business could result in a material adverse impact on our financial condition or results of operations.

Market Risk

As a multinational entity, we are exposed to changes in foreign currency exchange rates, interest rates and commodity prices. We utilize a variety of practices to manage these market risks, including operating and financing activities and, where considered appropriate, utilizes derivative instruments. We use derivative instruments only for risk management purposes and not for trading or speculation. All derivative instruments we use 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.

Foreign Currency Risk

Changes in foreign currency exchange rates may have an impact on our operating profit. Since we transact business in many countries, some of our sale and purchase transactions are denominated in a currency other than the local currency of our operations. As a result, changes in exchange rates between the currencies in which the transaction is denominated versus the local currency of our operation into which the transaction is being recorded can impact the amount of local currency recorded for such transaction. This can result in more or less local currency revenue or cost related to such transaction, and thus have an effect on our operating profit. This "currency transaction risk" is mitigated partially in France since some of the revenue and expense transactions of our French subsidiaries are denominated in U.S. dollars, providing a degree of natural hedging. Our Brazilian operations are more fully exposed to this "currency transaction risk."

Additionally, changes in foreign currency exchange rates may have an impact on the amount reported in other income (expense), net. Once the above-indicated receivables and payables from the sale and purchase transactions have been recorded, to the extent currency exchange rates change prior to settlement of the balance, a gain or loss on the non-local currency denominated asset or liability balance may be experienced, in which case such gain or loss is included in other income (expense), net.

We utilize forward and swap contracts and, to a lesser extent, option contracts to selectively hedge our exposure to foreign currency transaction risk when it is practical and economical to do so. The use of these contracts minimizes transactional exposure to exchange rate changes because the gains or losses incurred on the derivative instrument will offset, in whole or in part, the loss or gain on the underlying foreign currency exposure. These instruments are entered into with well-known money center banks, insurance companies or government agencies, collectively known as counterparties. Usually, these contracts extend for no more than 12 months. We believe that the foreign currency risks that would not be hedged were the counterparties to fail to fulfill their obligations under the contracts are minimal in view of the financial strength of the counterparties. Management of foreign currency transactional exposures changed during 2007 relative to management of Brazilian real to U.S. dollar transactions and we expect to continue to apply forward currency hedging in our Brazilian operations through 2008. As of December 31, 2007, a 10 percent unfavorable change in the exchange rate of our functional currencies and those of our subsidiaries against the prevailing market rates of non-local currencies involving our transactional exposures would have resulted in a net pre-tax loss of approximately $2.5 million. These hypothetical gains or losses on foreign currency contracts and transactional exposures are defined as the difference between the contract rates and the hypothetical exchange rates. While we believe the above loss resulting from the hypothetical unfavorable changes in foreign currency exchange rates would be material to our results of operations, we reduce this risk by selectively hedging our exposure when it is practical and economical to do so.

In addition to currency transaction risks, we are also exposed to "currency translation risk." Since the financial results of our foreign subsidiaries are determined in the local currency of each foreign subsidiary, these financial results are translated into U.S. dollars on a monthly basis in order to determine our consolidated financial results. A weakening of the U.S. dollar versus the local currency of the foreign subsidiary will have a favorable currency translation impact when positive financial results of that foreign subsidiary are translated to U.S. dollars. Our foreign currency translation effects typically offset to a significant degree the foreign currency transaction impacts in our operating results.

Interest Rate Risk

We hold a combination of variable- and fixed-rate debt consisting of short- and long-term instruments. We selectively hedge our exposure to interest rate increases on our variable rate long-term debt when it is practical and economical to do so. We utilize various forms of interest rate hedge agreements, including interest rate swap agreements and forward rate agreements. We utilize variable-to-fixed interest rate swap agreements, typically with contractual terms no longer than 24 months. Our strategy to manage exposure to interest rate changes did not change during 2007, and we do not expect any significant changes in our exposure to interest rate changes or in how such exposure is managed in the near future. Various outstanding interest-bearing instruments are sensitive to changes in interest rates. Interest rate changes would result in gains or losses in fair market value of fixed-rate debt due to differences between current market interest rates and the rates governing these instruments. With respect to our fixed-rate debt outstanding at December 31, 2007, a 10 percent change in interest rates would not result in a material change in the fair market value of such debt and with respect to our variable-rate debt outstanding at December 31, 2007, a 10 percent change in interest rates would result in a $0.4 million impact to our future annual pre-tax earnings.

Commodity Price Risk

We are subject to commodity price risks, the most significant of which relates to the price of wood pulp, which is our largest single component of raw material cost. The per ton cost of wood pulp is cyclical in nature and more volatile than general inflation. During the period from January 2005 through December 2007, the U.S. list price of northern bleached softwood kraft pulp, or NBSK, a representative pulp grade that we use, ranged from a low of $580 per metric ton in January 2004 to a high of $870 per metric ton in December 2007. We normally maintain approximately 30 to 60 days of inventories to support our operations. As a result, there is a lag in the impact of changes in the per ton list price of wood pulp on our cost of products sold. Selling prices of our paper products are influenced, in part, by the market price for wood pulp, which is determined by worldwide industry supply and demand. Generally, over time, we have been able to increase our selling prices in response to increased per ton wood pulp costs and have generally reduced our selling prices when wood pulp costs have significantly declined. Increases in prices of wood pulp could adversely impact our earnings if selling prices are not increased or if such increases do not fully compensate for or trail the increases in wood pulp prices. We have not utilized derivative instruments to manage this risk. With respect to our commodity price risk, a hypothetical 10 percent change in per ton wood pulp prices would impact our future annual pre-tax earnings by approximately $8 million, assuming no compensating change in our selling prices. We believe that, while our exposure to commodity price risk is material to our results of operations, our customers understand such risk and over time changes in the price of wood pulp are typically reflected in selling prices.

Energy Supply and Cost Volatility

In France and in the United States, availability of energy is generally not expected to be an issue, although prices can fluctuate significantly based on variations in demand. In Brazil, where that country's production of electricity is heavily reliant upon hydroelectric plants, availability of electricity has been affected in the past by weather and rain variations. Our Brazilian business currently has a sufficient supply of energy to continue its current level of operation.

Due to the competitive pricing in the markets for most of our products, we are typically unable to fully pass through higher energy costs to our customers. With respect to our purchased energy price risk, a hypothetical 10 percent change in per unit prices would impact our future annual pre-tax earnings by approximately $8 million, assuming no compensating change in our selling prices.

Periodically, when we believe it is appropriate to do so, we enter into agreements to procure a portion of our energy for future periods in order to reduce the uncertainty of future energy costs. However, in recent years this has only marginally slowed the increase in energy costs due to the volatile changes in energy prices we have experienced.

General Inflation and Selling Prices

In addition to changes in wood pulp and energy costs discussed above, costs of our operations are also impacted by general inflation. Our main costs impacted by general inflation are wages and salaries, chemicals, employee benefit costs, primarily medical and pension expenses, and costs of insurance. Due to competitive pressures, we are not always able to pass along our cost increases through increased selling prices.

Seasonality

Sales of our products are not subject to seasonal fluctuations, except in the United States and Brazil. In the United States, customer shutdowns typically occur in July and December and typically have resulted in reduced net sales and operating profit during those 2 months. Additionally, the U.S. mills shut down equipment to perform additional maintenance during these months, resulting in higher product costs and reduced operating profit. In Brazil, customer orders are typically lower in December due to a holiday season during much of January and February.

Environmental Matters

We are subject to federal, state, local and foreign environmental protection laws and regulations with respect to the environmental impact of air, water and other emissions from our mills as well as the disposal of solid waste generated by our operations. We believe we are operating in compliance with, or are taking action aimed at ensuring compliance with, such laws and regulations. While we have incurred in the past several years, and will continue to incur, capital and operating expenditures in order to comply with these laws and regulations, such costs are not expected to materially affect our business or results of operations. However, there can be no assurance that a material adverse effect on our financial statements will not occur at some future time as a result of environmental matters. Additional information concerning environmental matters is disclosed in Note 8, Commitments and Contingencies, of the Notes to Consolidated Financial Statements and in Part I, Item 3 "Legal Proceedings Environmental Matters."

Legal Proceedings

Information concerning legal proceedings is disclosed in Note 8, Commitments and Contingencies, of the Notes to Consolidated Financial Statements and in Part I, Item 3 "Legal Proceedings." In addition, we are involved in legal actions and claims arising in the ordinary course of business. Litigation is subject to many uncertainties and, while it is not possible to predict the outcome of the litigation pending against us, management believes that such actions and claims will be resolved without a material adverse effect on our financial statements.

Reliance on Significant Customers

Most of our customers are manufacturers of tobacco products located in more than 90 countries around the world. Two such customers have accounted for a significant portion of our net sales in each of the last several years, and the loss of 1 or both such customers, or a significant reduction in 1 or both of these customers' purchases, could have a material adverse effect on our results of operations. During periods of excess supply in our industry, a significant loss of business is an increased risk. Our largest customer, Philip Morris, is currently undergoing a restructuring, which effectively separated its domestic and international cigarette businesses.

Philip Morris. During December 2006, we provided Philip Morris USA with a notice of phase-out of the Second Amended and Restated Agreement for Fine Paper Supply, or SSA, between the 2 companies, effective December 31, 2006. Under the phase-out terms of the SSA, we are obligated to supply up to 100 percent of Philip Morris USA's annual cigarette, base tipping and plug wrap paper requirements for 2008 at current selling prices, which are subject to potential increases. Philip Morris USA is obligated to purchase from us at least 50 percent of its annual cigarette and plug wrap paper requirements for 2008. Negotiations regarding ongoing supply continue. The phase-out currently expires on December 31, 2008, at which time neither company has any further obligation under the SSA.

We also have an exclusive supply arrangement with Philip Morris USA for a jointly-developed banded cigarette paper that is used in LIP cigarettes. We produce banded cigarette paper in sufficient quantities to support Philip Morris USA's commercial sales of LIP cigarettes. The notification of phase-out of the SSA does not affect the supply agreement between us and Philip Morris USA concerning banded cigarette paper used to produce lower LIP cigarettes. Under this agreement, Philip Morris USA is obligated to purchase 100 percent of its requirements for banded cigarette papers for a minimum period of 7 years, and we are obligated to supply such product for a minimum of 13 years. Our Spotswood mill is presently the only facility in the world that is capable of producing these banded cigarette papers.

British American Tobacco. During the fourth quarter of 2007, we concluded negotiations with British American Tobacco Company, or BAT, concerning global supply of cigarette-related fine papers for the years 2008 through 2010. As a result of these negotiations, we expect to increase the volume of cigarette paper and tipping paper, both base and finished, sold to BAT during the next 3 years at pricing commensurate with current market conditions.

Tobacco Products and Governmental Actions

In recent years, governmental entities around the world, particularly in the United States and western Europe, have taken or have proposed actions that may have the effect of reducing consumption of tobacco products. Reports and speculation with respect to the possible harmful physical effects of cigarette smoking and use of tobacco products have been publicized for many years and, together with actions to restrict or prohibit advertising and promotion of cigarettes or other tobacco products, to limit smoking in public places and to increase taxes on such products, are intended to discourage the consumption of cigarettes and other such products. Domestic and western European cigarette consumption has declined, in part due to these actions, which, in turn, decreases demand for our products. In addition, litigation is pending against the major manufacturers of consumer tobacco products seeking damages for health problems allegedly resulting from the use of tobacco in various forms. It is not possible to predict the outcome of such litigation or what effect adverse developments in pending or future litigation may have on the tobacco industry, our financial liquidity or relationships with our suppliers.

Proposed U.S. healthcare legislation, the U.S. State Children's Health Insurance Program, known as SCHIP legislation, could significantly raise federal excise taxes on all tobacco products if passed. Our sales volumes of cigarette papers and cigar wrapper and binder papers could be negatively impacted by increased federal excise taxes.

In each of the years 2005 through 2007, approximately 90 percent of our net sales were from products used by the tobacco industry in the making and packaging of cigarettes or other tobacco products. We are unable to predict the effects that the above-described legal and governmental actions might have on our results of operations and financial condition.

Restructuring Activities

We began restructuring activities in 2006 in France and the United States that have become part of an overall effort to improve an imbalance between demand for our products and our paper production capacity as well as improve our profitability and the quality of our products. Restructuring of our existing operations involves issues that are complex, time-consuming and expensive and could significantly disrupt our business.

The challenges involved in executing these restructuring plans include:

- demonstrating to customers that the restructuring activities will not result in adverse changes in service standards or business focus;
- consolidating administrative infrastructure and manufacturing operations and maintaining adequate controls throughout the execution of the restructuring;
- preserving distribution, sales and other important relationships and resolving potential conflicts that may arise;
- minimizing the diversion of management attention from ongoing business activities;
- maintaining employee morale and retaining key employees while implementing restructuring programs;
- coordinating and combining operations, which may be subject to additional constraints imposed by collective bargaining agreements and local law and regulations; and
- achieving the anticipated levels of cost savings and efficiency as a result of the restructuring.

Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

As of December 31, 2007, we operated 12 production facilities (which include 4 fiber pulping operations) on 4 continents.

We have approximately 185,000 metric tons of annual paper production capacity and approximately 80,000 metric tons of annual reconstituted tobacco products production capacity, dependent upon the production mix. These capacity amounts have not changed significantly from the values reported for 2006 as capacity reductions resulting from our restructuring activities were not yet fully implemented by the end of 2007. Capacity utilization increased in 2007 to 90 percent for paper products and 80 percent for reconstituted tobacco products compared with 85 percent and 70 percent, respectively, in 2006. We also operate flax fiber processing operations in France and Canada. We own each of these facilities and the associated operating equipment except for a flax tow storage facility in Winkler, Manitoba, which is leased.

We maintain administrative and sales offices in Alpharetta, Georgia, in Quimperlé and Spay, France, in Hong Kong and Shanghai, China, in Piraí and Rio de Janeiro, Brazil, in Madrid, Spain, in San Pedro, Philippines, in Medan, Indonesia and in Moscow, Russia. Our world headquarters are also located in Alpharetta. All of these offices are owned except for those located in Alpharetta, Hong Kong, Shanghai, Rio de Janeiro, Madrid and Moscow.

We consider all of our facilities to be well-maintained, suitable for conducting our operations and business, and adequately insured.

During the third quarter of 2007, we initiated operations at our new production facility in Newberry, South Carolina dedicated to expanding our processing capacity and capabilities to meet the growing demand for cigarette paper used in LIP cigarettes.

As part of our 3-part restructuring plan, we plan to shutdown of our entire operation at Lee, Massachusetts beginning in May 2008.

The following are locations of our principal production facilities, all of which are owned as of December 31, 2007:

French Segment	**U.S. Segment**	**Brazil Segment**
Production Locations	**Production Locations**	**Production Locations**
Papeteries de Mauduit Mill Quimperlé, France	Lee Mills Lee, Massachusetts	Pirahy Mill Piraí, Brazil
Papeteries de Malaucène Mill Malaucène, France	Spotswood Mill Spotswood, New Jersey	
Papeteries de Saint-Girons Mill Saint-Girons, France	Ancram Mill Ancram, New York	
LTR Industries Mill Spay, France	Newberry Operation Newberry, South Carolina	
PDM Philippines Industries San Pedro, Philippines	Fiber Operation Manitoba, Canada	
P.T. PDM Indonesia Medan, Indonesia		

Item 3. ***Legal Proceedings***

General

We are involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims, product liability and other matters. We periodically review the status of these proceedings with both inside and outside counsel. We believe that the ultimate disposition of these matters will not have a material adverse effect on the results of operations in a given quarter or year. Below is a summary of our major outstanding litigation.

Imposto sobre Circulação de Mercadorias e Serviços, or ICMS, a form of value-added tax in Brazil, was assessed to SWM-B in December of 2000. SWM-B received 2 assessments from the tax authorities of the State of Rio de Janeiro for unpaid ICMS taxes from January 1995 through November 2000, which together with interest and penalties totaled approximately $14 million based on the foreign currency exchange rate at December 31, 2000, collectively the Assessment.

The Assessment 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. One of the 2 assessments related in part to tax periods that predated our acquisition of Pirahy and is covered in part by an indemnification from the sellers of Pirahy, or Assessment 1 (case number 2001.001.115144-5). The second assessment pertains exclusively to periods that SWM-B owned the Pirahy mill, or Assessment 2 (case number 2001.001.064544-6). While SWM-B is primarily responsible for the full payment of the Assessment in the event of an ultimate unfavorable outcome, SWM-B is not aware of any difficulties that would be encountered in obtaining reimbursement of that portion of any payment resulting from Assessment 1 from the previous owner under the indemnification.

SWM-B has contested the Assessment based on Article 150, VI of the Brazilian Federal Constitution of 1988, which grants immunity from ICMS taxes to papers used in the production of books, newspapers and periodicals, or immune papers, and the raw material inputs used to produce immune papers.

Presently, part of the Assessment, for which we have received favorable lower court rulings, is pending on appeal before the Federal Supreme Court under case number A1588187 and another part of the Assessment, for which we have primarily received unfavorable lower court rulings, is pending on appeal before the Third Vice Presidency under case no. 2005.134.05319.

SWM-B continues to vigorously contest the Assessment and believes that the Assessment will ultimately be resolved in its favor. However, since the final resolution involves presentation of the matter to the Supreme Court of Brazil, it is not likely to be finally resolved in the near future. Based on the foreign currency exchange rate at December 31, 2007, the Assessment totaled approximately $25 to $26 million as of December 31, 2007, of which approximately $12 million is covered by the above-discussed indemnification. No liability has been recorded in our consolidated financial statements for the Assessment based on our evaluation that SWM-B is more likely than not to prevail in its challenge of the Assessment under the facts and law as presently understood.

In February 2004, SWM-B filed suit against the State of Rio de Janeiro in the 11th Court of Public sitting in Rio de Janeiro, case number 2004.001.022063-6, to recover ICMS credits previously reversed in 2000 following receipt of the Assessment. After the Assessment was filed against us, SWM-B changed its procedures and did not utilize ICMS tax credits through the end of production and sale of immune papers during 2001. As a result of having received favorable lower court rulings to the Assessment, SWM-B petitioned the court for permission to offset overpaid ICMS taxes against current tax liabilities. The amount of the claim totals approximately $2 million, based on the foreign currency exchange rate at December 31, 2007. In August 2006, SWM-B filed an interlocutory appeal, which has not yet been ruled upon. As of December 31, 2007, no asset has been recorded for this potential recovery.

Imposto sobre Produtos Industrializados, or IPI, a form of federal value-added tax in Brazil. Schweitzer-Mauduit do Brasil v. Federal Union, Federal Regional Tribunal sitting in Rio de Janeiro, case number 2004.51.04.000502-4 (March 5, 2004).

SWM-B instituted action in March 2004 to recover credits on past and future purchases of raw materials that are exempt from IPI taxes or that carry an IPI tax rate of zero, for which a favorable ruling was received at the first court level. The recovery would be in the form of presumed credits that could be applied to offset other IPI tax liabilities. The action for recovery is based on the principle in Brazilian law of non-cumulative taxes. The potential recovery of IPI credits, depending upon several contested factors, could be in the range of $10 to $20 million, which amounts we consider a gain contingency and have not recorded in the Company's consolidated financial statements. During March 2007, we received an unfavorable ruling on appeal in the Second Degree and we have appealed that ruling to the Supreme Court of Justice where the matter is still pending. The final resolution of this matter will likely entail judicial proceedings up to and including presentation of the matter to the Supreme Court of Brazil and is not likely to be resolved for several years.

Indemnification Matters

In connection with our spin-off from Kimberly-Clark in 1995, we undertook to indemnify and hold Kimberly-Clark harmless from claims and liabilities related to the businesses transferred to us that were not identified as excluded liabilities in the related agreements. As of December 31, 2007, there are no claims pending under this indemnification that we deem to be material.

Environmental Matters

While we have incurred in the past several years, and will continue to incur, capital and operating expenditures in order to comply with environmental laws and regulations, we believe that our future cost of compliance with environmental laws, regulations and ordinances, and our exposure to liability for environmental claims and our obligation to participate in the remediation and monitoring of certain hazardous waste disposal sites, will not have a material adverse effect on our financial condition or results of operations. However, future events, such as changes in existing laws and regulations, or unknown contamination of sites owned, operated or used for waste disposal by us (including contamination caused by prior owners and operators of such sites or other waste generators) may give rise to additional costs which could have a material adverse effect on our financial condition or results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders*

Not applicable. There were no matters submitted to a vote of our security holders during the fourth quarter of 2007.

PART II.

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Since November 30, 1995, our common stock, $0.10 par value, or Common Stock, has been listed on the New York Stock Exchange, trading under the symbol "SWM." On February 29, 2008, our stock closed at $22.97 per share.

The table below presents the high, low and close sales prices of our Common Stock on the New York Stock Exchange Composite Transactions reporting system for the periods indicated.

	High	Low	Close
2008			
First Quarter (through February 29, 2008)	$ 26.07	$ 22.97	$ 22.97

	High	Low	Close
2007			
Fourth Quarter	$ 28.76	$ 23.59	$ 25.91
Third Quarter	31.74	20.57	23.30
Second Quarter	31.92	25.65	31.00
First Quarter	27.13	22.85	24.85

	High	Low	Close
2006			
Fourth Quarter	$ 27.50	$ 18.75	$ 26.05
Third Quarter	23.40	16.56	18.98
Second Quarter	26.14	21.59	21.65
First Quarter	27.73	23.40	24.00

Performance Graph

The following graph compares the total cumulative stockholder return on our Common Stock during the period from December 31, 2002 through December 31, 2007, with the comparable cumulative total returns of the Dow Jones Wilshire 5000 Index and a self-constructed peer group, or Peer Group, which reflects, but is not exactly comparable to, the Dow Jones Paper Products Index. The graph assumes that the value of the investments in the Common Stock and each index were $100 on December 31, 2002 and that all dividends were reinvested. The Peer Group is comprised of the following companies:

Abitibi Bowater Incorporated

Domtar, Inc. (Included through December 31, 2006. Acquired by Weyerhaeuser in March 2007.)

International Paper Company

P.H. Glatfelter Company

Wausau-Mosinee Paper Corporation

The stock price performance shown on the graph below is not necessarily indicative of future price performance.

Holders

As of February 29, 2008, there were 3,281 stockholders of record.

Dividends

We have declared and paid cash dividends of $0.15 per share of our Common Stock every fiscal quarter since the second quarter of 1996. We currently expect to continue this level of quarterly dividend. We have Credit Agreement covenants that require us to maintain certain financial ratios, as disclosed in Note 4, Debt, of the Notes to Consolidated Financial Statements, none of which under normal business conditions materially limit our ability to pay such dividends, and we do not currently anticipate any change in business conditions of a nature that would cause future restrictions on dividend payments as a result of our need to maintain these financial ratios.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information, as of December 31, 2007, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans:

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding securities reflected in the first column)
Equity Compensation Plans approved by stockholders:			
Equity Participation Plan(1)	821,085	$26.68	
Total approved by stockholders			
Equity Compensation Plans not approved by stockholders:			
Outside Directors Stock Plan(2)	N/A	N/A	
Restricted Stock Plan(3)	N/A	N/A	80,806
Total not approved by stockholders			817,665
			898,471
Grand Total	N/A	N/A	898,471

N/A Not applicable.

(1) The Equity Participation Plan is described in Note 7, Stockholders' Equity, of the Notes to Consolidated Financial Statements appearing in Part II, Item 8 herein.

(2) The Outside Directors Stock Plan consists of shares registered for the purpose of issuance to our outside Directors for payment of their retainer fees quarterly in advance. Director's retainer fees in 2007 were $9,250 quarterly (increasing to $11,750 quarterly in 2008) which are payable in our Common Stock. The number of shares issued each quarter is determined based on the then fair market value of the shares, which is determined in accordance with the plan as the average of the high and low price of our Common Stock on the last business day preceding the date of issuance. Certain Directors have elected to defer receipt of quarterly retainer fees under the terms of our Deferred Compensation Plan for Non-Employee Directors, resulting in an accumulation of stock unit credits. The Director has the option, upon retirement or earlier termination from the Board of Directors, to have these stock unit credits distributed in the form of our Common Stock or in the form of cash. While held in the deferred compensation plan account, these stock unit credits carry no voting rights

and cannot be traded as Common Stock, although declared dividends create additional stock unit credits. As of December 31, 2007, deferred retainer fees have resulted in 27,238 accumulated stock unit credits, excluding credited dividends (29,802 accumulated stock unit credits including credited dividends).

(3) The Restricted Stock Plan is described in Note 7, Stockholders' Equity, of the Notes to Consolidated Financial Statements appearing in Part II, Item 8 herein. Shares awarded under the terms of this plan are both subject to forfeiture and cannot be sold or otherwise transferred until fully vested or such restrictions are otherwise lifted. Such shares are deemed by us to be issued and outstanding and are subject to all other financial interests, including our declared dividends. As of December 31, 2007, 77,572 shares issued under this plan remained restricted.

Recent Sales of Unregistered Securities

We have had no unregistered sales of equity securities during the fiscal year ended December 31, 2007.

Repurchases of Equity Securities

The following table indicates the number of shares and amount of our Common Stock repurchased during 2007 and the remaining number of shares and amount of share repurchases currently authorized by our Board of Directors as of December 31, 2007:

	Total Number Of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased As Part of Publicly Announced Programs		Maximum Amount Of Shares that May Yet be Repurchased Under the Program
			(# shares)	($ in millions)	($ in millions)
First Quarter	4,340	$ 23.00	4,340	$ 0.1	
Second Quarter					
Third Quarter	174,593	22.53	174,593	3.9	
October	12,900	24.26	12,900	0.3	
November	43,983	26.08	43,983	1.2	
December	13,200	24.78	13,200	0.3	
Fourth Quarter	70,083	25.46	70,083	1.8	
Full Year 2007	249,016	$ 23.34	249,016	$ 5.8	$ 14.2*

* On December 7, 2006, our Board of Directors authorized the repurchase of shares of our Common Stock during the period January 1, 2007 to December 31, 2008 in an amount not to exceed $20.0 million.

Corporate 10b5-1 plans have been used by us so that share repurchases can be made at predetermined stock price levels, without restricting such repurchases to specific windows of time. Future Common Stock repurchases will be dependent upon various factors, including the stock price, strategic opportunities and cash availability.

Item 6. ***Selected Financial Data***

The following selected financial data should be read in conjunction with Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operation*," and the consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This selected financial data was derived from the consolidated financial statements of the Company. Such statements for 2005 through 2007 appear elsewhere in this Annual Report on Form 10-K. As described in "Prior Period Restatement" within Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements, we have restated our 2003 through 2006 consolidated balance sheets and our 2003 consolidated income statement for an immaterial adjustment originating in 2003. All dollar amounts are in millions except per share amounts, statistical data and ratios.

	For the Years Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Results of Operations					
Net Sales	$ 714.8	$ 655.2	$ 669.8	$ 657.5	$ 566.9
Cost of products sold	606.7	571.1	572.5	535.4	456.5
Gross Profit	108.1	84.1	97.3	122.1	107.4
Nonmanufacturing expenses	66.2	57.7	58.0	64.4	55.0
Restructuring expense(1)	24.0	21.1			
Operating Profit(1)	17.9	5.3	39.3	57.7	52.4
Net Income (Loss)(1)	3.4	(0.8)	19.4	36.4	33.5
Net Income (Loss) Per Share:					
Basic(1)	$ 0.22	$ (0.05)	$ 1.28	$ 2.45	$ 2.27
Diluted(1)	$ 0.22	$ (0.05)	$ 1.26	$ 2.36	$ 2.21
Cash Dividends Declared and Paid Per Share	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60
Percent of Net Sales					
Gross Profit	15.1%	12.8%	14.5%	18.6%	19.2%
Nonmanufacturing expenses	9.3%	8.8%	8.7%	9.8%	9.7%
Financial Position					
Capital spending	$ 47.7	$ 9.6	$ 18.8	$ 46.7	$ 92.0
Depreciation	39.9	40.7	35.9	32.4	27.1
Total Assets	775.0	697.1	691.3	717.6	636.4
Total Debt	100.9	97.3	113.7	113.9	96.9
Total debt to capital ratio	21.5%	23.4%	27.1%	27.1%	27.2%

(1) 2007 and 2006 operating profit included $24.0 million and $21.1 million, respectively, for pre-tax restructuring charges incurred in the United States, France and Brazil. These restructuring charges reduced 2007 and 2006 net income by $15.5 million, or $0.98 per share, and $13.7 million, or $0.88 per share, respectively.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operation***

The following is a discussion of our results of operations and financial condition. This discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report and the selected financial data included in Item 6. The discussion of our results of operations and financial condition includes various forward-looking statements about our markets, the demand for our products and our future prospects. These statements are based on certain assumptions that we consider reasonable. For information about risks and exposures relating to us and our business, you should read the section entitled "Factors That May Affect Future Results," in Part I, Item 1A of this Form 10-K.

The Management's Discussion and Analysis of Financial Condition and Results of Operation is designed to provide a reader of our financial statements with an understanding of our recent performance, our financial condition and our prospects. The following will be discussed and analyzed:

- Chief Executive Officer's Summary
- Recent Developments
- Critical Accounting Policies and Estimates
- Prior Period Restatement
- Recent Accounting Pronouncements
- Results of Operations
- Liquidity and Capital Resources
- Other Factors Affecting Liquidity and Capital Resources
- Outlook
- Forward-Looking Statements

Chief Executive Officer's Summary

2007 Financial Results

Our net sales totaled $714.8 million, a 9 percent increase compared with 2006. The increase was the result of higher average selling prices from an improved sales mix and changes in currency exchange rates, primarily a stronger euro, Brazilian real and Philippine peso versus the U.S. dollar.

Compared with 2006, sales volumes increased about one-half percent. Sales volumes increased in France by 4 percent reflecting increased reconstituted tobacco leaf product sales. Brazilian unit sales volumes increased 2 percent and U.S. unit sales volumes declined 10 percent with declines in both tobacco-related and commercial and industrial sales volumes.

Operating profit was $17.9 million, a $12.6 million increase from 2006. An improved product sales mix plus improved operating schedules and cost reductions significantly benefited 2007 results.

Net income for 2007 was $3.4 million compared with a net loss of $0.8 million in 2006.

Following disappointing financial results in 2006, we made substantial progress during 2007 to overcome the continuing impact of inflationary cost increases and reduced production schedules that decreased earnings in the prior two years. We look forward to accomplishing our goal of delivering continued improved financial results in 2008 and beyond.

As we continue to assess the need to trim operations where sales demand declines, we also are aggressively pursuing opportunities to expand our presence and sales in regions of the world where tobacco-related sales continue to grow.

2008 Opportunities and Challenges

We are encouraged by our business outlook. A number of projects are progressing at a satisfactory pace that will reduce costs and increase sales and earnings in 2008 and beyond.

Completion of restructuring of our U.S. and French operations will provide a reduced manufacturing cost base and improved earnings in 2008 and beyond. The rebuild of the cigarette paper machine at Papeteries de Mauduit is completed and start-up is in progress.

Sales of cigarette paper used in the production of lower ignition propensity, or LIP, cigarettes continue to grow and exceed our expectations. By the end of 2007, LIP cigarettes accounted for about 18 percent of cigarettes sold in North America, with expanded consumption expected to reach more than 40 percent by the third quarter of 2008. It is becoming more likely that national distribution of LIP cigarettes in the U.S. will occur by early 2010. Internationally, interest in LIP cigarettes is spreading to Europe, Australia and South Africa with planned introduction of LIP cigarettes in South Africa or Australia as early as 2009.

Sales volume of reconstituted tobacco leaf products increased 11 percent in 2007, and continued sales volume growth is expected in 2008. A modest 10 percent capacity increase of the largest production line in our Spay, France facility is planned in 2008 in order to meet expected growth in sales demand in 2009 and beyond.

In January 2008, we completed the acquisition of the 28 percent minority interest in LTR Industries, our French reconstituted tobacco leaf business, for approximately $50 million. Sole ownership of this business will provide enhanced strategic flexibility and improved earnings and cash flow.

The construction of our joint venture with the China State Tobacco Monopoly Administration, a 2-machine mill in Jiangmen to manufacture cigarette paper and long-fiber tobacco papers, is near completion. Both paper machines will be operational in the first half of 2008. Orders of cigarette paper for the first machine are being taken prior to its startup.

Discussions are nearly completed on an agreement to form a joint venture in China to manufacture reconstituted tobacco leaf for cigarettes. In 2008, we expect to sign an agreement and receive government approval to begin construction.

Recent Developments

LTRI Minority Interest Acquisition

In December 2007, 2 of our French subsidiaries entered into an agreement to purchase the 28 percent minority interest in LTRI, our reconstituted tobacco operation in France, owned by Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes, S.A., a subsidiary of Altadis, S.A. The transaction was completed in January 2008. We now collectively own 100 percent of the outstanding shares of LTRI. The purchase price of 35 million euros, or approximately $50 million, was funded through our existing credit facility.

Lower Ignition Propensity Cigarettes

A total of 22 states, representing approximately 40 percent of U.S. cigarette consumption, have now enacted LIP regulations that will progressively become effective through January 2009. Three states' regulations became effective on January 1, 2008, thus raising to 18 percent the portion of North American cigarette consumption covered by this requirement. By August 2008, LIP cigarette laws will cover an estimated 44 percent of North American consumption. Five states have introduced or reintroduced LIP proposals so far in 2008, supporting the likelihood that LIP cigarettes will be sold nationwide by late 2009 or early 2010.

International LIP efforts are accelerating, especially in the European Union. On November 29, 2007, the European Union's, or EU, 27 member states approved its Product Safety Commission to mandate the CEN (Standardization European Committee) to define standards for reduced ignition propensity for cigarettes. The Commission mandated that CEN, the standards setting board, develop an ignition propensity standard in 2008 for use in the EU, with any implementation of the legislation likely to occur within 2 to 3 years thereafter. On January 8, 2008, a motion presented by 25 British Ministers of Parliament called for the British government to require reduced ignition propensity cigarettes ahead of the rest of the EU. Both of these actions indicate that it is increasingly likely LIP cigarette regulations outside of North America will become effective in the next 2 years and increase demand for cigarette paper used in these cigarettes. This is a positive development for us given our leadership position in this technology.

Operational Changes France, the United States and Brazil

We initiated restructuring activities during 2006 and 2007 in France and the United States and in 2007 in Brazil. In accordance with Generally Accepted Accounting Principles, or GAAP, restructuring expenses of $24.0 and $21.1 million were recorded for the years ended December 31, 2007 and 2006, respectively.

In October 2007, we announced a 3-part restructuring plan to reduce production capacity for tobacco-related papers in both France and the United States as well as to reduce employment levels in Brazil. The 3-part plan includes the expected idling of a base tipping paper machine at PdMal in Malaucène, France by the end of 2008 and the shutdown of our entire operation located at Lee, Massachusetts beginning in May 2008. We plan to transfer production from PdMal and the Lee Mills to other of our facilities, primarily in Santanesia, Brazil and discontinue the sale of the majority of commercial and industrial papers currently produced at the Lee Mills. In January 2008, agreement was reached with the unions and Work's Council at the PdMal facility regarding terms of the restructuring plan.

Progress continues to be made in implementing our strategy, originally announced in 2006, to become a low cost and the highest quality cigarette and long fiber paper manufacturer in western Europe. This plan includes capital investments of approximately $26 million as well as workforce and paper machine restructuring activities at PdM, the largest of our 3 French paper operations. The PdM restructuring plan resulted in the shutdown of 1 cigarette paper machine in 2007 and a second machine is expected to cease operation upon completion of the capital investments during the first quarter of 2008.

As a result of these restructuring actions, employment at the affected locations is expected to decrease by approximately 600 people from 2006 levels. Reductions totaling approximately 380 employees have been achieved to-date at these locations, with decreases of nearly 240 people occurring during 2007. The announced restructuring activities are expected to be completed during 2008.

We currently project pre-tax expenses from 2006 through 2008 for all announced restructuring activities to be in the range of $51 to $54 million, comprised of $29 to $31 million in severance and other cash costs and $22 to $23 million in asset impairment charges, accelerated depreciation and other non-cash costs. Restructuring expenses of $45.1 million, or approximately 85 percent of the total projected, have been recognized through 2006 and 2007.

Management continues to evaluate how to optimize the efficiency and cost competitiveness of our worldwide production facilities as demand for our tobacco-related papers continues to undergo volume and geographic changes.

China Joint Venture

The construction of a new state-of-the-art paper mill by our joint venture with the China National Tobacco Corporation, or CNTC, to produce tobacco-related papers in China continues to progress. The project is advancing on schedule, with mill operations currently expected to commence as planned in the first half of 2008.

At its April 2007 meeting, our Board of Directors authorized us to enter into a Sino-Foreign Equity joint venture with CNTC through which the parties would construct and have equal ownership in a facility in China's Yunnan Province that would produce RTL. Implementation of the project is still subject to the consummation and execution of definitive agreements, arrangement of project financing and various government approvals. We anticipate that it will take some months to finalize the material agreements, apply for and obtain government approval to form the joint venture and then finalize the project financing. We continue to make progress towards an agreement on the RTL joint venture.

Extension of Credit Agreement

In July 2007, the Company and SMF received a 1-year extension under the current terms and conditions of its existing unsecured credit agreement. The credit agreement provided for a 5-year term with 2 1-year extension options including the extension exercised by us in 2007, with the extensions at the discretion of the participating banks. The maturity date of the credit agreement was originally July 31, 2011 and has now been extended to July 31, 2012. All other provisions of the credit agreement remain unchanged.

Critical Accounting Policies and Estimates

Our accompanying financial statements have been prepared in conformity with GAAP, which require management to make estimates that affect the amounts of revenues, expenses, assets and liabilities reported and disclosure of contingencies. Following are 3 critical accounting matters, which are very important to the portrayal of our financial condition and results and required management's most difficult, subjective or complex judgments. We discussed with the Audit Committee of the Board of Directors the estimates and judgments made for each of these items and our accounting for and presentation of these items in the accompanying financial statements. The accounting for these matters was based on current facts and circumstances which, in our judgment, hold potential for change which could affect our future estimates such that future financial results could differ materially from financial results based on management's current estimates.

Our critical accounting policies and estimates arise in conjunction with the following:

- income tax expense and accruals
- litigation contingencies
- property, plant and equipment valuation

Accounting for Income Taxes

We must make assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred income tax assets and liabilities and any valuation allowance to be recorded against a deferred income tax asset. Our judgments, assumptions and estimates take into account our interpretation of current tax laws. Changes in tax law or our interpretation of tax laws could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account projections of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

We record and maintain income tax valuation allowances as necessary to reduce deferred tax assets to an amount which is estimated more likely than not to be realizable in accordance with Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards, or SFAS, No. 109, "*Accounting for Income Taxes*." We have available net operating loss carryforwards, excess foreign tax credit carryforwards, alternative minimum tax credit carryforwards and other various tax credits in the jurisdictions in which we operate, for which we have recorded deferred tax assets totaling $56.9 million as of December 31, 2007. Certain of these potential future benefits are not expected to be utilized in a manner beneficial to our financial results prior to their expiration. As a result, as of December 31, 2007, we have $6.4 million of valuation allowances against certain of the deferred tax assets, as follows (dollars in millions):

	Total Asset	Valuation Allowance	Net Asset
Net operating loss carryforwards	$ 50.4	$ (3.9)	$ 46.5
Foreign tax credit carryforwards	1.4	(0.6)	0.8
Federal research and U.S. states tax credit carryforwards	2.8	(1.9)	0.9
Federal AMT credit carryforwards	2.3		2.3
	$ 56.9	$ (6.4)	$ 50.5

Under current tax laws governing jurisdictions in which we have net operating loss carryforwards, or NOLs, remaining NOLs in France and Brazil carry forward indefinitely, NOLs in the Philippines expire 3 years subsequent to the year generated and NOLs in Spain expire 10 years subsequent to the year generated. We expect sufficient future taxable income in France and Brazil to fully utilize the respective French and Brazilian NOLs, which carry forward indefinitely and for which no valuation allowances have been recorded as of December 31, 2007. We also expect sufficient future taxable income in the Philippines to fully utilize the Philippine NOLs, which carry forward for 3 years and for which no valuation allowances have been recorded as of December 31, 2007. Valuation allowances related to NOLs in Spain totaled $3.9 million as of December 31, 2007, fully reserving the related deferred tax asset in Spain, since we believe that it is reasonably likely that we will not generate taxable income in Spain prior to the expiration of these NOLs, as SM-Spain only functions as the primary foreign investment holding company for us. The remaining NOLs at December 31, 2007 in Spain will fully expire in 2017 if not utilized against taxable income in Spain.

We receive credits in our U.S. federal income tax return for income taxes paid in foreign jurisdictions. Income from foreign sources, including dividend income from foreign subsidiaries, is included in taxable income of the U.S. parent. In some cases, the amount of credits realized in the tax return is more or less than the tax owed on the foreign source income. When the amount of credits exceeds the amount of taxes owed on that foreign source income, foreign tax credit carryforwards are generated. When the credits are less than the tax owed, unexpired credit carryforwards from prior years can be utilized in certain circumstances. These circumstances are dependent upon both foreign source and domestic taxable income. Due to the low level of the U.S. business unit's profitability in recent years, we implemented certain income tax elections to accelerate taxable income or to delay deductions in order to maintain positive domestic taxable income or to minimize a domestic taxable loss (e.g., our election for U.S. income tax purposes to capitalize research costs in the year incurred and amortize over a 10 year life, as opposed to taking the income tax deduction in the year incurred). However, many such actions cannot be repeated in future years and certain of those elections may make it more difficult to have positive domestic taxable income in future periods. The profitability of our U.S. business operations must continue to improve to provide us an opportunity to utilize foreign tax credit carryforwards in the future in a manner that will be beneficial to our financial results. However, the American Jobs Creation Act of 2004 increased the carryforward period of foreign tax credits from 5 to 10 years. Based on the 10 year carryforward period, together with the current and forecasted profitability of our U.S. business operations and the requirements of the foreign source income and credit calculations, we currently believe that we will partially utilize the foreign tax credit carryforwards in an earnings beneficial manner prior to their expiration and, therefore, we have partially reserved these deferred tax assets as of December 31, 2007 with $0.6 million of valuation allowances, reducing the net deferred tax asset to an amount that we estimate we will be able to realize. We regularly update our estimates of domestic taxable income in order to evaluate whether the facts and circumstances have changed such that we must change our valuation allowances on these deferred tax assets.

Likewise, our carryforwards of federal research credits and U.S. state tax credits require applicable taxable income in the respective tax returns in order to be utilized prior to their expirations. We expect that we will be able to fully utilize our federal research credits, which have a 20 year carryforward period, prior to their expiration. However, we do not currently expect sufficient future taxable income in our U.S. state income tax returns to be able to utilize all of our state tax credits prior to their expiration, primarily in Massachusetts where we have initiated plant shut-down activities, New York and New Jersey, where the carryforward periods are 15, 15 and 7 years, respectively, and credit utilization is limited to 50 percent of the income tax liability. As a result at December 31, 2007, we have $1.9 million of valuation allowances reducing our deferred tax assets to amounts that we estimate we will be able to realize. We regularly update these estimates in order to evaluate whether the facts and circumstances have changed such that we must change our valuation allowances on these deferred tax assets.

Under current U.S. tax law, federal alternative minimum tax, or AMT, credit carryforwards have no expiration. We believe that profitability will continue to improve in our U.S. operations in future years. Since the federal AMT credit carryforwards have no expiration, we believe it is more likely than not that we will be able to realize the full benefit of these credits in future years, and thus we do not believe any valuation allowance against these deferred tax assets is appropriate as of December 31, 2007.

In summary, of our valuation allowances at December 31, 2007, $3.9 million relates to NOLs in Spain, $0.6 million relates to foreign tax credit carryforwards for purposes of U.S. federal income taxes and $1.9 million relates to U.S. state credits. We do not expect to generate taxable income in Spain prior to expiration of NOLs in that jurisdiction. The $0.6 million related to foreign tax credits and the $1.9 million related to state tax credits are dependent upon future taxable income in the United States. We do anticipate continued profitability in the United States in the future, but not in sufficient enough amounts to fully realize these deferred tax assets in a beneficial manner prior to the expiration of the underlying credits. It is possible that our estimates of future profitability in the United States could change from our current estimates based on business results or actions taken by us which effect taxable income. While we do not currently believe it is likely that a material change will occur, it is possible that changes in these factors, changes in the level of foreign source income or a change in the likelihood of foreign tax credit utilization in an earnings beneficial manner, could result in an adjustment of our valuation allowances in future periods. Due to the number of uncertain factors and the complexities of the calculations, it is not possible to reasonably estimate what future impact could occur.

While we believe it is more likely than not that we will be able to realize the $50.5 million of estimated net deferred income tax benefits, it is possible that the facts and circumstances on which our estimates and judgments are based could change, which could result in additional income tax expense in the future to increase the associated valuation allowances. We continue to evaluate possible methods to favorably utilize those assets that are reserved and, therefore, it is also possible that changes in the facts and circumstances on which our estimates and judgments are based could benefit us in the future by some of the $6.4 million of valuation allowances as of December 31, 2007.

We adopted the provisions of FASB Interpretation No. 48, or FIN 48, "*Accounting for Uncertainty in Income Taxes"* effective January 1, 2007. FIN 48 is an interpretation of SFAS No. 109, which seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. Adoption of FIN 48 had no cumulative effect on our consolidated financial position at January 1, 2007. At December 31, 2007, we had no significant unrecognized tax benefits related to income taxes at January 1, 2007 and December 31, 2007. Changes in tax laws or interpretations of tax laws, as well as outcomes of current and future audits conducted by foreign and domestic tax authorities, could also materially impact the amounts provided for income taxes in our consolidated financial statements.

For additional information regarding income taxes and valuation allowances, see Note 5, Income Taxes, of the Notes to Consolidated Financial Statements.

Litigation Contingencies

We evaluate contingencies in accordance with SFAS No. 5, "*Accounting for Contingencies*." Accordingly, when a material loss contingency exists, we accrue an estimated loss when the likelihood that the future event or events will result in a loss or impairment of an asset or the incurrence of a liability is probable and the amount of loss can be reasonably estimated. If no accrual is made for a material loss contingency because both of the above conditions are not met, or if an exposure to loss exists materially in excess of an accrual that is made, disclosure regarding the contingency is made when there is at least a reasonable possibility that a loss or additional loss may have been incurred. Gains that might result from resolution of contingencies are not recorded until all contingencies have been resolved, although disclosure is generally made regarding material gain contingencies.

Imposto sobre Circulação de Mercadorias e Serviços, or ICMS, a form of value-added tax in Brazil, was assessed to SWM-B in December of 2000 by the tax authorities of the State of Rio de Janeiro for unpaid ICMS taxes from January 1995 through November 2000. The Assessment 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 Assessment based on Article 150, VI of the Brazilian Federal Constitution of 1988, which grants immunity from ICMS taxes to papers used in the production of books, newspapers and periodicals, or immune papers, and the raw material inputs used to produce immune papers. Presently, part of the Assessment, for which we have received favorable court rulings, is pending on appeal before the Federal Supreme Court under case number A1588187 and another part of the Assessment, for which we have primarily received unfavorable lower court rulings, is pending on appeal before the Third Vice Presidency under case no. 2005.134.05319.

SWM-B continues to vigorously contest the Assessment and believes that the Assessment will ultimately be resolved in its favor. However, since the final resolution involves presentation of the matter to the Supreme Court of Brazil, it is not likely to be finally resolved in the near future. Based on the foreign currency exchange rate at December 31, 2007, the Assessment totaled approximately $25 million as of December 31, 2007, of which approximately $12 million is covered by an indemnification. No liability has been recorded in our consolidated financial statements for the Assessment based on our evaluation that SWM-B is more likely than not to prevail in its challenge of the Assessment under the facts and law as presently understood.

Imposto sobre Produtos Industrializados, or IPI, a form of federal value-added tax in Brazil.

SWM-B instituted action in March 2004 to recover credits on past and future purchases of raw materials that are exempt from IPI taxes or that carry an IPI tax rate of zero, for which a favorable ruling was received at the first court level. The recovery would be in the form of presumed credits that could be applied to offset other IPI tax liabilities. The action for recovery is based on the principle in Brazilian law of non-cumulative taxes. The potential recovery of IPI credits, depending upon several contested factors, could be in the range of $10 to $20 million, which amounts we consider a gain contingency and have not recorded in our consolidated financial statements. During March 2007, we received an unfavorable ruling on appeal in the Second Degree and we have appealed that ruling to the Supreme Court of Justice where the matter is still pending. The final resolution of this matter will likely entail judicial proceedings up to and including presentation of the matter to the Supreme Court of Brazil and is not likely to be resolved for several years.

For further information please see "Litigation" in Part I, Item 3, "Legal Proceedings."

Property, Plant and Equipment Valuation

Paper manufacturing, which is our primary manufacturing process, is a capital intensive process. As a result, we make substantial investments in property, plant and equipment which are recorded at cost. Net property, plant and equipment comprised 58.8 percent of our total assets as of December 31, 2007. The cost of depreciable property, plant and equipment is depreciated on the straight-line method for financial reporting purposes over the depreciable lives of the assets. Depreciable lives are based on estimates of the useful lives of the assets, which is the period over which we expect to benefit from the use of the asset. Paper machines and related equipment are not readily obsoleted and are generally depreciated over estimated useful lives of 20 years. We periodically assess the likelihood of recovering the cost of long-lived assets based on our expectation of future profitability and undiscounted cash flow of the related operations. These factors, along with management's plans with respect to the operations, are considered in assessing the recoverability of property, plant and equipment. Facts and circumstances upon which management's estimates and plans are based could change, thus the possibility exists of a material adjustment to our financial statements in the future.

As a result of excess capacity in the tobacco-related papers industry and increased purchased material and operating costs experienced in the last several years, competitive levels of selling prices for certain of our products are not sufficient to cover those costs with a margin that we consider reasonable. Such competitive pressures have resulted in downtime of certain paper machines and, in some cases, accelerated depreciation or impairment of certain equipment. We initiated restructuring activities during 2006 in France and the United States and during 2007 in Brazil which are expected to improve our competitiveness and profitability as well as an imbalance between sales demand and paper production capacity. Restructuring activities at the Lee Mills facility resulted in $11.3 million of asset impairment charges and accelerated depreciation in 2007 and $4.2 million of accelerated depreciation in 2006. In France, we are incurring capital expenditures of approximately $26 million to improve the cost competitiveness in our paper operations and quality of our products manufactured at PdM, along with the shutdown of certain older equipment at PdM and PdMal, which resulted in accelerated depreciation of $2.1 million and $1.0 million in 2007 and 2006, respectively.

Management continues to evaluate how to operate our production facilities more effectively with reduced tobacco-related papers volumes. Further restructuring actions are possible that might require additional write-offs or accelerated depreciation of some equipment.

In the United States, banded cigarette paper production assets at the Spotswood Mill are generally depreciated over estimated useful lives of 10 years. Certain of these assets remain underutilized and likely would otherwise be shut down except that we have a contractual commitment to stand ready to produce commercial quantities of that product for our customer. Partially offsetting the net book value of these assets is unamortized deferred revenue which is being amortized to revenue as product is being purchased by that customer. Further, certain of the infrastructure improvements and other assets installed to be able to produce commercial quantities of banded cigarette paper would still be used by a scaled down operation even if we stopped manufacture of that product. As of December 31, 2007, the net book value of Spotswood Mill property, plant and equipment was $72.3 million, of which $12.1 million related to 10 year life banded cigarette paper specific assets and $9.5 million related to 3 paper machines capable of producing banded cigarette paper, but not currently in operation. As of December 31, 2007, unamortized deferred revenue was $24.1 million.

Prior Period Restatement

For a discussion regarding our prior period restatement, see "Prior Period Restatement" within Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

For a discussion regarding recent accounting pronouncements, see "Recent Accounting Pronouncements" included in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements.

Results of Operations

	For the Years Ended December 31,		
	2007	**2006**	**2005**
	(dollars in millions, except per share amounts)		
Net Sales	$ 714.8	$ 655.2	$ 669.8
Cost of products sold	606.7	571.1	572.5
Gross Profit	108.1	84.1	97.3
Selling expense	22.8	22.7	24.4
Research expense	8.0	7.3	9.0
General expense	35.4	27.7	24.6
Total nonmanufacturing expenses	66.2	57.7	58.0
Restructuring expense	24.0	21.1	
Operating Profit	17.9	5.3	39.3
Interest expense	5.9	5.5	6.2
Other income (expense), net	(0.1)	(0.5)	2.5
Income (Loss) Before Income Taxes, Minority Interest and Loss from Equity Affiliates	11.9	(0.7)	35.6
Provision (benefit) for income taxes	0.5	(4.2)	10.4
Minority interest in earnings of subsidiaries	8.0	4.1	5.8
Loss from equity affiliates		0.2	
Net Income (Loss)	$ 3.4	$ (0.8	