SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-Q
August 04, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from __________________to __________________

1-13948
(Commission file number)

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

Delaware (State or other jurisdiction of incorporation or organization)	62-1612879 (I.R.S. Employer Identification No.)
100 North Point Center East, Suite 600 Alpharetta, Georgia (Address of principal executive offices)	30022 (Zip code)

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

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

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

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

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

There were 18,361,113 shares of common stock, par value $0.10 per share, of the registrant outstanding as of July 30, 2010.

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* These Section 906 certifications are not being incorporated by reference into the Form 10-Q filing or otherwise deemed to be filed with the Securities and Exchange Commission.

PART I

ITEM 1. FINANCIAL STATEMENTS

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in millions, except per share amounts)
(Unaudited)

	Three Months Ended		Six Month Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net Sales	$ 182.9	$ 183.3	$ 375.9	$ 367.4
Cost of products sold	138.0	138.7	277.8	281.2
Gross Profit	44.9	44.6	98.1	86.2
Selling expense	4.6	5.5	9.9	10.7
Research expense	2.1	2.2	4.1	4.0
General expense	10.6	11.6	22.6	23.1
Total nonmanufacturing expenses	17.3	19.3	36.6	37.8
Restructuring and impairment expense	4.0	13.3	8.8	13.6
Operating Profit	23.6	12.0	52.7	34.8
Interest expense	0.6	1.3	1.0	3.1
Other expense, net	0.3	0.6	1.3	0.4
Income Before Income Taxes and Income (Loss) from Equity Affiliates	22.7	10.1	50.4	31.3
Provision for income taxes	8.6	1.9	18.3	8.5
Income (loss) from equity affiliates	0.7	(1.1)	1.3	(2.4)
Net Income	$ 14.8	$ 7.1	$ 33.4	$ 20.4
Net Income Per Share:				
Basic	$ 0.80	$ 0.46	$ 1.84	$ 1.33
Diluted	$ 0.78	$ 0.45	$ 1.80	$ 1.32
Cash Dividends Declared Per Share	$ 0.15	$ 0.15	$ 0.30	$ 0.30
Weighted Average Shares Outstanding:				
Basic	17,820,200	15,175,600	17,813,000	15,137,400

Diluted	18,137,500	15,433,700	18,150,100	15,299,300

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

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SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in millions, except per share amounts)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 91.9	$ 56.9
Accounts receivable	83.4	85.8
Inventories	106.7	127.3
Income taxes receivable	5.0	23.4
Other current assets	11.1	6.3
Total Current Assets	298.1	299.7
Property, Plant and Equipment, net	371.4	401.1
Deferred Income Tax Benefits	13.4	17.3
Investment in Equity Affiliates	18.0	16.6
Goodwill and Intangible Assets	11.7	14.1
Other Assets	46.6	43.1
Total Assets	$ 759.2	$ 791.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current debt	$ 7.1	$ 17.7
Accounts payable	49.6	46.7
Accrued expenses	89.4	115.5
Current deferred revenue	6.0	6.0
Total Current Liabilities	152.1	185.9
Long-Term Debt	39.7	42.4
Pension and Other Postretirement Benefits	35.5	38.4
Deferred Income Tax Liabilities	21.2	14.2
Deferred Revenue	3.3	7.2
Other Liabilities	19.6	21.6
Total Liabilities	271.4	309.7
Stockholders' Equity:		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.10 par value; 100,000,000 shares authorized; 18,679,281 and 18,633,235 shares issued at June 30, 2010 and December 31, 2009, respectively; 18,361,113 and 17,874,885 shares outstanding at June 30, 2010 and December 31, 2009, respectively...	1.9	1.9

Additional paid-in-capital		202.9		205.7
Common stock in treasury, at cost, 318,168 and 758,350 shares at June 30, 2010 and December 31, 2009, respectively		(6.2)		(14.0)
Retained earnings		309.9		281.9
Accumulated other comprehensive income (loss), net of tax		(20.7)		6.7
Total Stockholders' Equity		487.8		482.2
Total Liabilities and Stockholders' Equity	$	759.2	$	791.9

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

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

	Common Stock Issued			Treasury Stock				
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2008	16,078,733	$ 1.6	$ 64.6	748,953	$ (14.1)	$ 255.9	$ (30.6)	$ 277.4
Net income for the six months ended June 30, 2009						20.4		20.4
Adjustments to unrealized foreign currency translation, net of tax							11.6	11.6
Changes in fair value of derivative instruments, net of tax							4.3	4.3
Amortization of postretirement benefit plans' costs, net of tax							1.3	1.3
Comprehensive income, net of tax								37.6
Dividends declared ($0.30 per share)						(4.6)		(4.6)
Restricted stock issuances, net			(0.3)	(13,500)	0.3			—
Stock-based employee compensation expense			3.5					3.5
Tax effect of stock-based employee compensation expense			(0.5)					(0.5)
Stock issued to directors as compensation				(2,444)	0.1			0.1
Issuance of shares for options exercised			—	(22,000)	0.4			0.4
Purchases of treasury stock	—	—	—	56,953	(0.8)	—	—	(0.8)

Balance, June 30, 2009	16,078,733	$ 1.6	$ 67.3	767,962	$ (14.1)	$ 271.7	$ (13.4)	$ 313.1
Balance, December 31, 2009	18,633,235	$ 1.9	$ 205.7	758,350	$ (14.0)	$ 281.9	$ 6.7	$ 482.2
Net income for the six months ended June 30, 2010						33.4		33.4
Adjustments to unrealized foreign currency translation, net of tax							(25.6)	(25.6)
Changes in fair value of derivative instruments, net of tax							(2.9)	(2.9)
Amortization of postretirement benefit plans' costs, net of tax							1.1	1.1
Comprehensive income, net of tax								6.0
Dividends declared ($0.30 per share)						(5.4)		(5.4)
Restricted stock issuances, net			(8.6)	(451,973)	8.6			—
Stock-based employee compensation expense			3.5					3.5
Tax effect of stock-based employee compensation expense			1.1					1.1
Stock issued to directors as compensation	1,345		0.1					0.1
Issuance of shares for options exercised	44,701		1.1					1.1
Purchases of treasury stock	—	—	—	11,791	(0.8)	—	—	(0.8)
Balance, June 30, 2010	18,679,281	$ 1.9	$ 202.9	318,168	$ (6.2)	$ 309.9	$ (20.7)	$ 487.8

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

	Six Months Ended	
	June 30, 2010	June 30, 2009
Operations		
Net income	$ 33.4	$ 20.4
Non-cash items included in net income:		
Depreciation and amortization	19.9	21.9
Restructuring-related impairment	0.4	—
Amortization of deferred revenue	(3.9)	(3.4)
Deferred income tax provision	11.2	5.4
Pension and other postretirement benefits	1.2	(3.4)
Stock-based compensation	3.5	3.5
(Income) loss from equity affiliate	(1.3)	2.4
Other items	(1.6)	0.2
Net changes in operating working capital	11.9	(24.1)
Cash Provided by Operations	74.7	22.9
Investing		
Capital spending	(25.8)	(4.6)
Capitalized software costs	(6.1)	(1.8)
Other	2.0	0.3
Cash Used for Investing	(29.9)	(6.1)
Financing		
Cash dividends paid to SWM stockholders	(5.4)	(4.6)
Changes in short-term debt	1.7	(6.3)
Proceeds from issuances of long-term debt	48.0	12.2
Payments on long-term debt	(55.6)	(23.1)
Purchases of treasury stock	(0.8)	(0.8)
Proceeds from exercise of stock options	1.1	0.4
Excess tax benefits of stock-based awards	1.1	(0.5)
Cash Used in Financing	(9.9)	(22.7)
Effect of Exchange Rate Changes on Cash	0.1	0.3
Increase (Decrease) in Cash and Cash Equivalents	35.0	(5.6)
Cash and Cash Equivalents at beginning of period	56.9	11.9
Cash and Cash Equivalents at end of period	$ 91.9	$ 6.3

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

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NOTE 1. GENERAL

Nature of Business

Schweitzer-Mauduit International, Inc., or the Company, is a multinational diversified producer of premium specialty papers headquartered in the United States of America. The Company manufactures and sells 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 93 percent and 94 percent of the Company's consolidated net sales in the three and six month periods ended June 30, 2010 and 2009, respectively. The primary products in the group include cigarette, plug wrap and base tipping papers, or Cigarette Papers, used to wrap various parts of a cigarette, reconstituted tobacco leaf, or RTL, which is used as a blend with virgin tobacco in cigarettes and reconstituted tobacco wrappers and binders for machine-made cigars. These products are sold directly to the major tobacco companies or their designated converters in the Americas, Europe, Asia and elsewhere. Non-tobacco industry products are a diverse mix of products, certain of which represent commodity paper grades produced to maximize machine operations.

The Company is 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. The Company conducts business in over 90 countries and currently operates 12 production locations worldwide, with mills in the United States, France, the Philippines, Indonesia, Brazil and Poland. The Company also has a 50 percent equity interest in a paper mill in China.

Basis of Presentation

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

The results of operations for the three and six month periods ended June 30, 2010, are not necessarily indicative of the results to be expected for the full year. The unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on March 8, 2010.

Principles of Consolidation

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

Use of Estimates

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

Recent Accounting Pronouncements

Effective January 1, 2010, the Company adopted the requirements of Accounting Standards Codification (ASC) 810, “Amendments to FASB Interpretation No. 46R” which amends the accounting guidance for consolidating variable interest entities and eliminates the concept of qualifying special-purpose entities. The adoption of this guidance did not have any impact on the Company’s consolidated financial statements.

NOTE 2. NET INCOME PER SHARE

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Numerator (basic and diluted):				
Net income	$ 14.8	$ 7.1	$ 33.4	$ 20.4
Less: Undistributed earnings available to participating securities	(0.1)	—	(0.1)	(0.1)
Less: Distributed earnings available to participating securities	(0.5)	—	(0.6)	(0.1)
Undistributed and distributed earnings available to common shareholders	$ 14.2	$ 7.1	$ 32.7	$ 20.2
Denominator:				
Average number of common shares outstanding	17,820.2	15,175.6	17,813.0	15,137.4
Effect of dilutive stock-based compensation	317.3	258.1	337.1	161.9
Average number of common and potential common shares outstanding	18,137.5	15,433.7	18,150.1	15,299.3

Certain stock options outstanding during the periods presented were not included in the calculations of diluted net income per share because the exercise prices of the options were greater than the average market prices of the common shares during the respective periods. There were no anti-dilutive stock options during the three and six month periods ended June 30, 2010. For the three and six month periods ended June 30, 2009, 695,900 and 736,500 share equivalents, respectively, resulting from anti-dilutive stock options were not included in the computations of diluted net income per share.

NOTE 3. INVENTORIES

The following schedule details inventories by major class ($ in millions):

	June 30, 2010	December 31, 2009
Raw materials	$ 30.2	$ 35.4
Work in process	29.2	30.5
Finished goods	29.5	39.4

Supplies and other	17.8	22.0
Total	$ 106.7	$ 127.3

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NOTE 4. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for each segment for the six months ended June 30, 2010 were as follows ($ in millions):

	France	Brazil	Total
Balance as of January 1, 2010	$ 7.9	$ 1.1	$ 9.0
Foreign currency translation adjustments	(0.9)	—	(0.9)
Balance as of June 30, 2010	$ 7.0	$ 1.1	$ 8.1

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

	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount
Customer-related intangibles (French Segment)	$ 10.0	$ 6.4	$ 3.6	$ 10.0	$ 4.9	$ 5.1

* Accumulated amortization also includes adjustments for foreign currency translation.

Amortization expense of intangible assets was $0.4 million and $0.9 million for the three and six months ended June 30, 2010, respectively, and $0.5 million and $1.0 million for the three and six months ended June 20, 2009, respectively. The Company's customer-related intangibles are amortized to expense using the 150 percent declining balance method over a 6-year life. Estimated amortization expense for the next four years is as follows (in millions of dollars): 2010—$1.9 million, 2011—$1.6 million, 2012—$1.2 million, and 2013—$0.4 million.

NOTE 5. INVESTMENT IN EQUITY AFFILIATE

The Company's joint venture with China National Tobacco Corporation, or CNTC, is China Tobacco Mauduit (Jiangmen) Paper Industry Co. LTD, or CTM. CTM has two paper machines which produce cigarette paper and porous plug wrap, both of which started production in 2008. The Company uses the equity method to account for its 50 percent ownership interest in CTM. At June 30, 2010 and December 31, 2009, the Company's equity investment in CTM was $18.0 million and $16.6 million, respectively. The Company's share of the net income (loss) of CTM was included in income (loss) from equity affiliates within the consolidated statements of income. CTM pays to each the Company and CNTC a 2 percent royalty on net sales of cigarette and porous plug wrap papers. CTM sells its products to CNTC and its subsidiaries.

Below is summarized balance sheet information as of June 30, 2010 and December 31, 2009 and income statement information of the China joint venture for the three and six months ended June 30, 2010 and 2009 ($ in millions):

Balance Sheet Information	June 30, 2010 (Unaudited)	December 31, 2009
Current assets	$ 25.9	$ 20.9
Noncurrent assets	84.4	86.2
Current debt	17.7	15.4
Other current liabilities	6.2	6.5
Long-term debt	50.1	51.8
Other long-term liabilities	0.2	0.2
Stockholders' equity	36.1	33.2

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Statement of Operations Information (unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net sales	$ 8.8	$ 3.6	$ 16.3	$ 6.9
Gross profit	3.4	0.9	6.6	1.2
Net income (loss)	$ 1.5	$ (2.3)	$ 2.7	$ (4.9)

NOTE 6. RESTRUCTURING ACTIVITIES

The Company incurred restructuring expenses of $4.0 million and $8.8 million in the three and six month periods ended June 30, 2010, respectively, and $13.3 million and $13.6 million in the three and six month periods ended June 30, 2009, respectively, in connection with previously announced restructuring activities. The following table summarizes the associated cash and non-cash, pre-tax restructuring expense for the three and six months ended June 30, 2010 and 2009 and the associated expense incurred since the 2006 inception of restructuring activities through June 30, 2010 ($ in millions):

	Three Months Ended		Six Months Ended		Cumulative 2006 to
	June 30, 2010	June 30, 2009	June 30 2010	June 30, 2009	June 30, 2010
France					
Cash Expense					
Severance and other employee related costs	$ 2.9	$ 12.4	$ 7.6	$ 12.4	$ 68.0
Other	—	—	—	—	0.9
Non-cash Expense					
Accelerated depreciation	—	—	—	—	21.0
Other	—	0.8	—	1.1	1.8
Total France Restructuring Expense	$ 2.9	$ 13.2	$ 7.6	$ 13.5	$ 91.7
United States					
Cash Expense					
Severance and other employee related costs	$ 0.1	$ —	$ 0.1	$ —	$ 3.3
Other	—	0.1	0.2	0.1	1.0
Non-cash Expense					
Accelerated depreciation and asset impairment charges	0.5	—	0.4	—	27.1
(Gain) Loss on disposal of assets	—	—	—	—	(0.3)
Other	—	—		—	(0.7)
Total United States Restructuring Expense	$ 0.6	$ 0.1	$ 0.7	$ 0.1	$ 30.4
Brazil					
Cash Expense					
Severance and other employee related costs	$ 0.5	$ —	$ 0.5	$ —	$ 2.2
Non-cash Expense					
Asset impairment charges	—	—	—	—	1.9
Total Brazil Restructuring Expense	$ 0.5	$ —	$ 0.5	$ —	$ 4.1
Summary					
Total Cash Expense	$ 3.5	$ 12.5	$ 8.4	$ 12.5	$ 75.4
Total Non-cash Expense.	0.5	0.8	0.4	1.1	50.8
Total Restructuring Expense	$ 4.0	$ 13.3	$ 8.8	$ 13.6	$ 126.2

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Restructuring liabilities were classified within accrued expenses in each of the consolidated balance sheets as of June 30, 2010 and December 31, 2009. Changes in the restructuring liabilities during the six month period ended June 30, 2010 and the year ended December 31, 2009 are summarized as follows ($ in millions):

	Six Months Ended June 30, 2010	Year Ended December 31, 2009
Balance at beginning of year	$ 33.0	$ 5.4
Accruals for announced programs	8.4	36.7
Cash payments	(10.7)	(9.1)
Exchange rate impacts	(4.8)	—
Balance at end of period	$ 25.9	$ 33.0

NOTE 7. DEBT

Total debt is summarized in the following table ($ in millions):

	June 30, 2010	December 31, 2009
Credit Agreement		
U. S. Revolver	$ -	$ 33.0
Euro Revolver	30.6	11.5
French Employee Profit Sharing	10.4	11.0
Bank Overdrafts	2.8	2.5
Other	3.0	2.1
Total Debt	46.8	60.1
Less: Current debt	7.1	17.7
Long-Term Debt	$ 39.7	$ 42.4

Credit Agreement