

SCHWEITZER MAUDUIT INTERNATIONAL INC  
Form 10-Q  
August 08, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

1-13948  
(Commission file number)

---

**SCHWEITZER-MAUDUIT INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**62-1612879**  
(I.R.S. Employer  
Identification No.)

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

**30022**  
(Zip code)

**1-800-514-0186**

(Registrant's telephone number, including area code)

---

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

There were 15,450,339 shares of Common Stock, par value \$0.10 per share, of the registrant outstanding as of August 7, 2006.

---

**TABLE OF CONTENTS**

		<b>Page</b>
<b><u>Part I</u></b>	<b><u>FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u>	1
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4.</u>	<u>Controls and Procedures</u>	36
	<u>Report of Independent Registered Public Accounting Firm</u>	37
<b><u>Part II</u></b>	<b><u>OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	38
<u>Item 1A.</u>	<u>Risk Factors</u>	38
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	38
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	38
<u>Item 5.</u>	<u>Other Information</u>	38
<u>Item 6.</u>	<u>Exhibits</u>	39
<b><u>SIGNATURES</u></b>		40
<b><u>GLOSSARY OF TERMS</u></b>		
<b><u>INDEX TO EXHIBITS</u></b>		
EX 10.1	Electricity Supply Agreement, dated May 24, 2006, by and among Schweitzer-Mauduit do Brasil, S.A. and Companhia Energetica de Sao Paulo, or CESP	
EX 10.2	Credit Agreement, dated July 31, 2006, by and among Schweitzer-Mauduit International, Inc. , Schweitzer-Mauduit France S.A.R.L and a group of lenders	
EX 15	Letter from Deloitte & Touch LLP regarding unaudited interim financial information	
EX 31.1	Section 302 Certification of CEO	
EX 31.2	Section 302 Certification of CFO	
EX 32	Section 906 Certification of CEO and CFO. *	

---

\* 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)**

Edgar Filing: SCHWEITZER MAUDUIT INTERNATIONAL INC - Form 10-Q

	Three Months Ended June 30, 2006	June 30, 2005	Six Months Ended June 30, 2006	June 30, 2005
Net Sales	\$ 162.1	\$ 168.2	\$ 327.5	\$ 328.8
Cost of products sold	139.9	142.0	280.7	278.5
Gross Profit	22.2	26.2	46.8	50.3
Selling expense	5.9	6.1	11.5	12.3
Research expense	1.9	2.5	3.7	5.0
General expense	6.8	6.9	14.5	12.7
Total nonmanufacturing expenses	14.6	15.5	29.7	30.0
Restructuring expense (see Note 4)	3.4		3.9	
Operating Profit	4.2	10.7	13.2	20.3
Interest expense	1.4	1.5	2.8	2.8
Other (expense) income, net	(0.6 )	0.9	(0.6 )	1.5
Income Before Income Taxes, Minority Interest and Loss from Equity Affiliates	2.2	10.1	9.8	19.0
Provision for income taxes	0.4	2.9	2.4	5.5
Minority interest in earnings of subsidiaries	1.0	1.4	2.0	2.7
Loss from equity affiliates	0.1		0.1	
Net Income	\$ 0.7	\$ 5.8	\$ 5.3	\$ 10.8
Net Income Per Share				
Basic	\$ 0.04	\$ 0.39	\$ 0.34	\$ 0.72
Diluted	\$ 0.04	\$ 0.38	\$ 0.34	\$ 0.70
Cash Dividends Declared Per Share	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30
Weighted Average Shares Outstanding				
Basic	15,399,600	15,156,200	15,377,100	15,083,600
Diluted	15,528,000	15,499,000	15,529,200	15,501,700

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

## SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)

	June 30, 2006 (Unaudited)	December 31, 2005
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2.7	\$ 5.1
Accounts receivable	93.1	99.8
Inventories	127.3	123.0
Other current assets	15.2	14.8
Total Current Assets	238.3	242.7
Property, Plant and Equipment, net	418.6	414.0
Other Assets	37.1	34.1
Total Assets	\$ 694.0	\$ 690.8
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Current debt	\$ 27.3	\$ 30.0
Accounts payable	54.4	64.3
Accrued expenses	73.7	71.7
Current deferred revenue	6.0	6.0
Total Current Liabilities	161.4	172.0
Long-Term Debt	79.4	83.7
Deferred Income Tax Liabilities	38.8	40.2
Pension and Other Postretirement Benefits	37.4	38.1
Deferred Revenue	26.7	30.0
Other Liabilities	20.9	20.1
Minority Interest	17.1	13.8
Total Liabilities	381.7	397.9
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; 16,078,733 shares issued; 15,441,163 and 15,307,756 shares outstanding at June 30, 2006 and December 31, 2005, respectively	1.6	1.6
Additional paid-in-capital	63.3	63.8
Common stock in treasury, at cost, 637,570 and 770,977 shares at June 30, 2006 and December 31, 2005, respectively	(12.9)	(15.6)
Retained earnings	282.4	281.8
Unearned compensation on restricted stock		(0.3)
Accumulated other comprehensive loss, net of tax	(22.1)	(38.4)
Total Stockholders Equity	312.3	292.9
Total Liabilities and Stockholders Equity	\$ 694.0	\$ 690.8

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)

<b>Common Stock Issued</b>	<b>Additional Paid-In</b>	<b>Treasury Stock</b>	<b>Retained</b>	<b>Unearned</b>	<b>Accumulated Other Comprehensive</b>
----------------------------	-------------------------------	-----------------------	-----------------	-----------------	--