

SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-K
February 25, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to

(Commission file number) 1-13948
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
Common stock, par value \$0.10 per share
(together with associated preferred stock
purchase rights)

Name of exchange on which registered
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 No

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 No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.

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 12-b2 of the Exchange Act. (Check One):

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

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 30, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was \$902.8 million, based on the last sale price for the Common Stock of \$50.45 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 17,268,949 shares of Common Stock issued and outstanding as of February 22, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to its 2011 Annual Meeting of Stockholders scheduled to be held on April 28, 2011 ("the 2011 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

GENERAL

Schweitzer-Mauduit International, Inc. (referred to, with its consolidated subsidiaries, as “we”, “us”, “our”, the “Company”, “SWM INTL” or “SWM” unless the context indicates otherwise) is a multinational diversified producer of premium specialty papers headquartered in the United States of America. 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 93% of our consolidated net sales in each of the years 2008 through 2010. 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 and reconstituted tobacco leaf, or RTL, which is used as a blend with virgin tobacco in cigarettes, reconstituted tobacco wrappers and binders for cigars. 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 that includes low volume, high-value engineered papers as well as commodity paper grades produced to maximize machine utilization.

We are a manufacturer of lightweight specialty 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 11 production locations worldwide, with mills in the United States, France, the Philippines, Indonesia, Brazil and Poland. We also have a 50% equity interest in a paper mill in China that produces cigarette and porous plug wrap papers.

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 the Investor Relations section of our web site at www.swmintl.com. 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 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. The web site provides additional background information about us including information on our history, products and locations. Requests for information or to contact the audit committee chair, lead non-management director or to report concerns about accounting or other issues 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 the morning after our quarterly earnings releases and are available through our web site via a webcast. The tentative dates for our quarterly earnings conference calls related to 2011 financial results are May 4, 2011, August 3, 2011, November 2, 2011 and February 2, 2012. 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, SWM Poland, Sp.zo.o., SWM Poland, SWM RTL Philippines Inc. and Schweitzer-Mauduit International China, Limited, or SM-China, a holding company incorporated in Hong Kong which owns 50% 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% of Schweitzer-Mauduit Holding S.A.S., a French holding company, or SMH, and SMH owns 100% of Schweitzer-Mauduit Industries S.A.S., a French corporation, or SMI, which, together with SM-Spain, holds 100% of a second holding company Schweitzer-Mauduit France S.A.S., a French corporation, or SMF, which holds our French, Philippine and Indonesian paper operations. SMF also owns 100% of Schweitzer-Mauduit Developpements S.A.S., a French corporation, or SMD, and SMD owns 100% of LTR Industries S.A., a French corporation, or LTRI, our French RTL operation. SMF, directly or indirectly, owns 100% of three 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% of PDM Philippines Industries, Inc., or PPI, and 95% of P.T. PDM Indonesia, or PT PDM. SM-Spain also owns directly 99.99% of the issued and outstanding shares of Schweitzer-Mauduit do Brasil S.A., our Brazilian paper operations, or SWM-B. We had no special purpose entities as of December 31, 2010.

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.

DESCRIPTION OF BUSINESS

Segment Financial Information. We operate and manage three 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 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 two 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 18, 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 10, 11, 14 and 18 (“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 and reconstituted tobacco wrappers and binders for cigars. These products are sold directly to tobacco companies or their designated converters in the Americas, Europe, Asia and elsewhere.

Each of the three 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 control of ignition propensity, 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 reduced deliveries of tobacco-related smoke constituents. In addition to the attributes and functional requirements of conventional cigarette papers, certain of our products facilitate our customers’ design of LIP cigarettes to enhance cigarette safety when they are not actively being smoked, including papers sold under our registered trademark ALGINEX®.

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.

Base 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 as a means of recycling their tobacco by-products and to achieve product performance attributes. We currently produce reconstituted tobacco in two forms: leaf, or RTL, in France, which is manufactured by LTRI, and wrapper and binder in the United States. RTL is used by cigarette manufacturers 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 waste 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, battery separator paper, drinking straw wrap, filter papers and other specialized papers primarily for the 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 that includes low volume, high-value engineered papers as well as 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, the European Union, or EU, and parts of Asia and Oceania. The customer base for the U.S. operations consists of more than 150 customers in approximately 40 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, and the Middle East. The customer base for the French operations consists of a diverse group of approximately 200 customers in more than 70 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 50 customers in approximately 20 countries outside Brazil. Customers of all three business segments include international tobacco companies, regional tobacco manufacturers and government monopolies.

Philip Morris International Inc., Philip Morris USA, a subsidiary of Altria Group Inc., and British American Tobacco, or BAT, are our three largest customers and together with their respective affiliates and designated converters, accounted for 45%, 45% and 39% of the Company's 2010, 2009 and 2008 consolidated net sales, respectively. Although the total loss of one or more 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 one or more 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 8% of each of their respective net sales, are sold on a direct basis. The Brazilian segments' non-tobacco related products comprise approximately 12% 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 As the sole domestic producer of Cigarette Papers in North America, we believe that we have the majority supply position. PdM and PdStG, indirect wholly-owned subsidiaries in France, sell most of their products in western Europe and Asia. We believe SWM-B has the majority of the cigarette paper market in Brazil and 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. 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 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 and continue to actively develop the technologies for such products. We formed a "Center of Excellence" platform at our Newberry, South Carolina facility dedicated to the development, production and distribution of cigarette papers for LIP cigarettes and are establishing LIP capacity to serve the European market, with a new facility in Poland modeled after the successful Newberry site.

Plug Wrap Paper We estimate that our segments hold a majority of market share for plug wrap papers in each of the markets in which we compete. In the U.S. and Brazil segments, our competitors are Miquel y Costas and Delfort. In

France, our principal competitor is Delfort.

Base Tipping Paper We believe that our U.S. segment is a leading supplier for the North American market for base tipping paper, which is subsequently printed by converters. Our principal competitor in this market is Delfort. We estimate our Brazilian segment holds the majority of the market share for base tipping paper in South American, 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 runability and printability requirements of converting equipment and high-speed cigarette-making machines.

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 USA, R.J. Reynolds Tobacco Company, Elets, an affiliate of Japan Tobacco Inc. which operates in Russia, and STMA (China), which produce RTL primarily for internal use. As currently being experienced, low prices for tobacco leaf can adversely impact RTL demand.

We estimate that approximately 40% of reconstituted cigar wrapper and binder used in the U.S. market is 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 for the U.S. market which is not produced internally by domestic cigar manufacturers. The Ancram mill and DHT, a subsidiary of NV Deli Maatschappij, are the main suppliers to the European cigar manufacturers.

Other Products We produce papers for lightweight printing and writing, battery separator papers, drinking straw wrap, filter papers and other specialized papers primarily for the western European and Brazilian markets. 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.

RAW MATERIALS AND ENERGY

Wood pulp is the primary fiber used in our operations. Our operations consumed 82,000 and 81,000 metric tons of wood pulp in 2010 and 2009, 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 or purchased on the open market. 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, precipitated 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 17, 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. These cogeneration facilities are expected to provide energy cost savings and improved security of supply.

In Brazil, where production of electricity is heavily reliant upon hydroelectric plants, availability of electricity has been affected in the past by 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 17, 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 for 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. Its largest customer Philip Morris USA provides forecasts of future demand, but actual orders for Cigarette Papers are typically placed two weeks in advance of shipment.

Our French segment does maintain records of order backlogs. For Cigarette Papers, the order backlog was approximately \$28 million and \$31 million on December 31, 2010 and 2009, respectively. This represented approximately 29 and 41 days of Cigarette Paper sales for the French segment in 2010 and 2009, respectively. LTRI's RTL business operates under a number of annual supply agreements. The order backlog for RTL was approximately \$163 million and \$161 million on December 31, 2010 and 2009, 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 eight 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 subject to significant seasonal fluctuations. In the United States and Europe, customer shutdowns of one to two weeks in duration typically occur in July and December. In Brazil, customer orders are typically lower in December due to a January and February holiday season.

RESEARCH AND DEVELOPMENT

We employ approximately 50 research personnel in research and laboratory facilities in Spay, France, Santanésia, Brazil, San Pedro, Philippines and Alpharetta, Georgia. 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 \$8.5 million in 2010, \$8.0 million in 2009 and \$7.9 million in 2008 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, 2010, we owned 191 patents and had pending 88 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. We believe that patents have contributed to our position 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, and the "SWM" logo and trade names have been important contributors to the marketing of our products.

EMPLOYEES

As of December 31, 2010, we had 2,800 regular, full-time, active employees.

North American Operations Hourly employees at the 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 is a one-year agreement which is effective through July 28, 2011. The three-year collective bargaining agreement at our Ancram mill is effective through September 30, 2011. We believe employee and union relations continue to be positive at the Spotswood and Ancram mills.

The fiber operations of our Canadian subsidiary and our Newberry, South Carolina facility are non-union. We believe that employee relations are positive.

French Operations Hourly employees at our Quimperlé, Spay, and Saint-Girons, France mills are union represented. Our Quimperlé mill is operating pursuant to an employment agreement that expired effective December 31, 2010. Negotiations are being held at this location regarding compensation issues. The collective bargaining agreements at our Spay and Saint-Girons mills are effective through February 28, 2011 and June 1, 2011, respectively. We believe our employee relations are comparable to similar French manufacturing operations.

Employees of our Philippine and Polish operations are non-union. We believe that employee relations in those locations are positive.

Our mill in Medan, Indonesia is operating pursuant to a two-year collective bargaining agreement that is effective through June 30, 2011. We believe that employee relations are positive.

Brazilian Operations Hourly employees at the Pirahy mill are represented by a union. The one-year collective bargaining agreement at SWM-B was renewed through May 31, 2011. 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 \$0.5 million in 2010 and are expected to be \$2 million to \$3 million in 2011 and less than \$1 million in 2012, 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 25, 2011, together with certain biographical information, are as follows:

Name	Age	Position
Frédéric P. Villoutreix	46	Chairman of the Board and Chief Executive Officer
Otto R. Herbst	51	Chief Operating Officer & Executive Vice President
Michel Fievez	53	Executive Vice President
Wilfred A. Martinez	57	Vice President
Peter J. Thompson	48	Executive Vice President, Finance and Strategic Planning
Mark A. Spears	48	Corporate Controller

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.

Frédéric P. Villoutreix was elected Chairman of the Board and Chief Executive Officer effective January 1, 2009. Mr. Villoutreix joined the Company on December 7, 2005, was elected Chief Operating Officer on February 1, 2006, and served 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.

Otto R. Herbst has served as Chief Operating Officer since January 2009 and the Executive Vice President since March 2010. Previously, Mr. Herbst was President of the Americas beginning 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.

Michel Fievez was appointed Executive Vice President during March 2010. He held the position of President — European Operations from June 2007 to March 2010. 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.

Wilfred A. Martinez was appointed Vice President in January 2011. He served as President Americas Paper Business since March 2010. Previously, Mr. Martinez served as President of the Americas from January 1, 2009. Mr. Martinez was Corporate Executive Vice President and Strategy Officer, President, International Division and Senior Vice President, Worldwide Operations from 1996 to 2008 with Laticrete International, Inc., a world leader of tile and stone installation systems. From 1995 to 1996, he was General Manager, Monolithic Refractories, for Harbison-Walker Refractories, Inc., a leading global manufacturer of high temperature refractory products, and from 1979 to 1995 he served as Vice-President, International Operations, Vice-President, Technology and Director, Research and Development for Minteq International, Inc., a technology based multi-national sales and manufacturing refractory company.

Peter J. Thompson has served as Executive Vice President, Finance and Strategic Planning since January 2009. He served as Vice-President — Strategic Planning since August 2008. From August 2006 to August 2008, Mr. Thompson was our Chief Financial Officer and Treasurer. Mr. Thompson served as our President — U.S. Operations from 1998 to July 2006. During 1998, Mr. Thompson was Director — Sales and Marketing for the U.S. Operations. Mr. Thompson joined us in 1997 as a Marketing Manager in the U.S. Operations. Prior to joining us, he was employed by Tape, Inc. from 1995 to 1997, where he held several senior management positions in marketing, sales and finance. Mr. Thompson was employed by Kimberly-Clark from 1984 to 1995 in a variety of financial positions.

Mark A. Spears has served as our Corporate Controller since March 2008. Mr. Spears joined the Company in 1995 as Corporate Reporting Manager and subsequently served in progressive roles in the Controller department including Director of Corporate Reporting and Assistant Controller. Prior to joining Schweitzer-Mauduit, Mr. Spears was an audit manager with Coopers and Lybrand LLP (now PricewaterhouseCoopers) from 1984 to 1995.

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 2011 and beyond to differ materially from those expressed in any forward-looking statements we have made.

Our business can be impacted by governmental actions relating to tobacco products.

In 2010, more than 93% of our net sales were from products used by the tobacco industry in making cigarettes or other tobacco products. Governments around the world, particularly in the United States and western Europe, increasingly are regulating the advertising, promotion, sale and use of tobacco products as a result of reports and speculation with respect to the possible harmful physical effects of cigarette smoking, second-hand smoke and use of tobacco products. In addition, tobacco products are heavily taxed in many jurisdictions, and U.S. healthcare legislation — the U.S. State Children's Health Insurance Program, known as SCHIP legislation — significantly raised federal excise taxes in 2009 on all tobacco products. Cigarette consumption in the United States and western Europe has declined, in part due to these actions, which, in turn, have decreased demand for our products in these regions. 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 or its demand for our products, but in the past, increases in taxes and litigation have adversely affected demand. In the U.S., the regulatory jurisdiction of the Federal Food and Drug Administration includes tobacco products, and product component disclosure regulations. Also, similar regulations, commonly known as REACH, are being implemented in the European Union. The impact of these legislative initiatives on the production and sale of our and our customers' products is not presently known.

Our technological advantages are unlikely to continue indefinitely.

We consider our intellectual property and patents to be a material asset. We have been at the forefront of developing new products and technology within our industry and have patented several of our innovations, particularly with regard to cigarette paper used to produce LIP cigarettes. This has enhanced our ability to sell products and to provide added function and other value to the products we sell allowing them to command higher margins. Presently, we are seeing evidence of increasing efforts and activity by our competitors to develop and sell competitive products, particularly in the area of papers used for lower ignition propensity applications. Over time, we expect our competitors to develop competitive products that are designed to avoid our patents or to license our innovations. Ultimately, our patents will expire. As we expand our production of LIP papers and RTL to more locations and countries, the risk of the loss of proprietary trade secrets will increase, and any significant loss would result in the loss of the competitive advantages provided by such trade secrets. While we cannot predict the impact or the timing of these trends and eventualities, they likely will be to reduce our sales and margins from the levels that we otherwise would have achieved.

Effectively policing our domestic and international intellectual property and patent rights is costly and may not be successful.

Our portfolio of granted patents varies by country, which could have an impact on any competitive advantage provided by patents in individual markets. We rely on patent, trademark, and other intellectual property laws of the United States and other countries to protect our intellectual property rights. In order to maintain the benefits of our patents, we may be required to enforce certain of our patents against infringement through judicial or administrative

actions. However, we may be unable to prevent third parties from using our intellectual property or infringing on our patents without our authorization, which may reduce any competitive advantage we have developed. If we have to litigate to protect these rights, any proceedings could be costly, time consuming, could divert management resources, and we may not prevail. We cannot guarantee that any United States or foreign patents, issued or pending, will continue to provide us with any competitive advantage or will not be successfully challenged by third parties. We do not believe that any of our products infringe the valid intellectual property rights of third parties. However, we may be unaware of intellectual property rights of others that may cover some of our products or services. In that event, we may be subject to significant claims for damages. Effectively policing our intellectual property and patents is time consuming and costly, and the steps taken by us may not prevent infringement of our intellectual property, patents or other proprietary rights in our products, technology and trademarks, particularly in foreign countries where in many instances the local laws or legal systems do not offer the same level of protection as in the United States.

Oppositions were filed in December 2009 with the European Patent Office (EPO) contesting the grant by the EPO to the Company of patent number EP-1482815. The Company has responded to the opposition arguments by the September 18, 2010 deadline established by the EPO. An opposition was filed with the EPO contesting the grant by the EPO to the Company of patent number EP-133729, but the EPO has not yet opened an opposition proceeding. The Company believes that the EPO properly granted the patents in opposition; however, the final resolution of the oppositions could result in the invalidation of the patent or a further limitation of the scope of the patent claims which could affect the competitive value of the patent. The outcome of this dispute would not prevent the Company from practicing its Alginex® LIP solution.

Further, the Company filed an infringement action on February 8, 2010 in the United States District Court for South Carolina, Charleston Division, against multiple defendants alleging infringement of the Company's United States Patent Number 6,725,867 and a First Amended Complaint on June 1, 2010 which added claims of alleged infringement under United States Patent Number 5,878,753 and further specification of the products alleged to violate said patents. Adversarial proceedings present uncertainties and risks, which could include invalidation of the patent in dispute, a change in the scope of the patent claims, or an adverse determination on the question of infringement, among others. As provided by statute, upon opening of the investigation by the International Trade Commission, or ITC, concerning the importation of allegedly infringing cigarette papers into the United States, the respondents in the ITC action have the right to move to stay the civil action filed in South Carolina pending completion of the ITC actions, which they have done and the court has entered an order to that effect. This action will likely be restarted once the ITC action is concluded. We believe the outcome of this dispute would not prevent the Company from practicing its Alginex® LIP solution.

On December 17, 2010, the Company filed a complaint with the International Trade Commission under Section 337 of the Tariff Act of 1930 as amended, 19 U.S.C. § 1337, against multiple respondents based on the unlawful importation into the United States, the sale for importation, and the sale within the United States after importation of certain reduced ignition proclivity cigarette paper wrappers and products containing same that infringe, or are made or produced under, or by means of, a process covered by, one or more of claims 36, 43, and 45 of United States Patent No. 6,725,867 and claims 1-6, 10-18, and 22-25 of United States Patent No. 5,878,753. Upon further investigation and discovery, SWM may identify additional accused products and/or seek to assert additional claims. The complaint requests the ITC to issue an exclusion order and cease and desist orders. By notice dated January 13, 2011, the ITC instituted an investigation. The outcome of this action will not impact on the Company's right to produce and sell its flagship Alginex® papers for LIP cigarettes. An adverse outcome would not be dispositive of the claims asserted in the civil action filed in Charleston, South Carolina, as noted above, the institution of the ITC action does give the respondents the statutory right to have the civil action filed in South Carolina stayed pending the completion of the ITC investigation.

Our financial performance can be significantly impacted by the cost of raw materials and energy.

Raw materials are a significant component of the cost of the paper that we manufacture. The cost of wood pulp, which is the largest component of the raw materials that we use, is highly cyclical and can be more volatile than general consumer or producer inflationary changes in the general economy. For instance, during the period from January 2008 through December 2010, 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 \$635 per metric ton in April 2009 to a high of \$1,010 per metric ton in June 2010. We periodically enter into agreements with customers under which we agree to supply products at fixed prices. As a consequence, unanticipated increases in the costs of raw materials can significantly impact our financial performance. Even where we do not have fixed-price agreements, we generally cannot pass through increases in raw material costs in a timely manner and in many instances are not able to pass through the entire increase to our customers.

Paper manufacturing is energy-intensive. In France and in the United States, availability of energy generally is reliable, although prices can fluctuate significantly based on variations in overall demand. Western Europe is becoming increasingly dependent on energy supplies from the Commonwealth of Independent States, which in the past has demonstrated a willingness to restrict or cut off supplies of energy to certain customers. The volume of oil or gas flowing through pipeline systems that ultimately connect to western Europe also has been cut off or restricted in the past, and such actions also have the capability of adversely impacting the supply of energy to western Europe. In Brazil, where production of electricity is heavily reliant upon hydroelectric plants, availability of electricity can be, and has in the past been, affected by rain variations. Although our Brazilian business currently has a sufficient supply of energy to continue its current level of operation there can be no assurance that we will have sufficient supply in the future. Due to the competitive pricing for most of our products, we typically are unable to fully pass through higher energy costs to our customers. Periodically, when we believe it is advantageous 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.

Because of the geographic diversity of our business, we are subject to a range of international risks.

We have manufacturing facilities in seven countries, and sell products in over 90 countries, many of which are emerging and undeveloped markets. Both our manufacturing operations and our sales, depending on their location, are subject to various international business risks, including:

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Foreign countries can impose significant tax and other regulatory restrictions on business, including limitations on repatriation of profits and proceeds of liquidated assets. While we evaluate our overall financing plans in the various jurisdictions in which we operate and attempt to manage international movements of cash from and amongst our foreign subsidiaries in a tax-efficient manner, unanticipated international movement of funds due to unexpected changes in our business or in the needs of the business could result in a material adverse impact on our financial condition or results of operations.

•We are exposed to changes in foreign currency exchange rates. We utilize a variety of practices to manage this risk, including operating and financing activities and, where considered appropriate, derivative instruments. All derivative instruments we use are either exchange traded or entered into with major financial institutions in order to reduce credit risk and risk of nonperformance by third parties. However, as recent conditions in the financial markets have demonstrated, counterparty risk cannot be eliminated and there can be no assurance that our efforts will be successful.

•Changes in foreign currency exchange rates also impact the amount reported in other income (expense), net. For instance, when a non-local currency receivable or payable is not settled in the period in which it is incurred, we are required to record a gain or loss, as applicable, to reflect the impact of any change in the exchange rate as of the end of the period. We also have to reflect the translation rate impact on the carrying value of our foreign assets and liabilities as of the end of each period, which is recorded as Unrealized Translation Adjustment in Other Comprehensive Income.

•We are exposed to global as well as regional macroeconomic and microeconomic factors, which can affect demand and pricing for our products; unsettled political and economic conditions; expropriation; import and export tariffs; regulatory controls and restrictions; and inflationary and deflationary economies.

•We participate in a joint venture in China that sells our products primarily to Chinese tobacco companies and expect to build a new reconstituted tobacco mill in China. Operations in China entail a number of risks including the need to obtain operating and other permits from the government and to operate within an evolving legal and economic system.

The recoverability of business tax credits is uncertain

Our ability to recover certain business tax credits depends on the amount of taxable transactions we have in certain jurisdictions. In Brazil, we are currently generating more value-added tax credits than we utilize. As of December, 31, 2010, these credits totaled \$14.8 million. We applied for a special government action to obtain tax exempt status in the state of Rio de Janeiro to enable more rapid utilization of these credits. We expect approval and, if successful, this and other actions should allow our Brazilian operation to utilize more credits than it generates on an annual basis. These credits do not expire; however, if the exemption is not obtained, we may record an allowance for a significant portion of the balance. For more information, see Note 9. Other Assets, of the Notes to the Consolidated Financial Statements.

We are dependent upon the availability of credit, and changes in interest rates can impact our business.

We supplement operating cash flow with bank borrowings under a credit agreement with a syndicate of banks that expires in July 2012. To date, we have been able to access credit when needed and on commercially reasonable terms. However, deterioration of credit markets could have an adverse impact on our ability to negotiate new credit facilities. Constraints on the availability of credit, or the unavailability of credit at reasonable interest rates, would negatively impact our business.

Our credit facility contains financial covenants that we have historically fulfilled, and we do not presently anticipate any events that would impair our ability to meet those covenants in the future. However, in the event of material unforeseen events that impact on our financial performance, particularly during a time when we have material amounts of debt, a situation could arise where we are unable to fully draw from our existing credit facility notwithstanding that there is otherwise available capacity.

We have a combination of variable and fixed-rate debt consisting of short-term and long-term instruments. We selectively hedge our exposure to interest rate increases on our variable rate long-term debt when we believe that it is practical to do so. We utilize various forms of interest rate hedge agreements, including interest rate swap agreements and forward rate agreements, generally with contractual terms no longer than 24 months. There can be no certainty that our hedging activities will be successful or fully protect us from interest rate exposure.

Seasonality can impact our business.

Sales of our products in the United States, Europe and Brazil are subject to seasonal fluctuations. In the United States and Europe, customer shutdowns typically occur in July and December and historically have resulted in reduced net sales and operating profit during those two months. Additionally, our mills occasionally shut down equipment to perform additional maintenance during these months, resulting in higher product costs, higher maintenance expenses and reduced operating profit. In Brazil, customer orders are typically lower in December due to a holiday season during much of January and February. As an increasing percentage of our total production capacity and product sales become Asian and southeast Asian based, we will become increasingly subject to seasonal fluctuations that reflect the holiday periods in those regions.

We face competition from several capable and established competitors.

Our three largest competitors are Delfort Group AG, Julius Glatz GmbH and Miquel y Costas. All three primarily operate from modern and cost-effective mills in western Europe and are capable and long-standing suppliers to the tobacco industry. Further, two, Delfort and Glatz, are privately held and the third, Miquel y Costas, is a closely held public company. Thus their financial results and other business developments and strategies are not disclosed to the same extent as ours, which provides them some advantage in dealing with customers. Given our mutual concentration in western Europe, which is a declining market and has labor laws that make reducing capacity expensive and slow, excess capacity exists and therefore price competition is acute. All three have good relationships with the multinational cigarette companies, as does the Company. The multinational cigarette companies have been known to use these close relationships to support development of competitive products and facilities, especially when confronted with high value new technologies such as porous plug wrap in the past and potentially LIP today. As a result of the foregoing, the Company primarily faces selling price, sales volume and new product risks from its existing competitors. Currently, fine papers used to produce cigarettes are not exported from available capacity in China to western multinational cigarette companies due to government monopoly control over these producers. Should conditions change in this regard, capacity that currently is operating in China would present a risk to our competitive position in the developed world. In the RTL market, demand is a function of smoke delivery regulations, the cigarette manufacturer's desire for a uniform and consistent product and the cost of recycling the tobacco by-product scraps relative to the cost of virgin tobacco products. The enhanced capabilities provided by RTL in the area of product design and regulatory compliance are becoming more important to the end-user.

We are dependent upon a small number of customers for a significant portion of our sales. The loss of one or more of these customers could have a materially adverse effect on our business.

Three customers accounted for over 45% of our net sales in 2010. The loss of one or more of these customers, or a significant reduction in their purchases, could have a material adverse effect on our results of operations and financial results. In addition, significant consolidation has occurred among our customers, thereby increasing our dependence upon a fewer number of customers and increasing the negotiating leverage of the customers that survive. Adverse results in the negotiation of any of our significant customer contracts, the terms of which are typically negotiated every one to three years, could significantly impact our financial performance. We are presently the sole supplier of on-line banded cigarette papers for use in LIP cigarettes to Philip Morris-USA for its U.S. requirements under a long-term supply agreement for which Philip Morris-USA is obligated to purchase 100% of its requirements for its proprietary on-line banded cigarette papers for a minimum period of 7 years, and the Company is obligated to supply such product for a minimum of 12 years which began June 1, 2007. This supply agreement is a cost plus arrangement, and Philip Morris-USA began advising us in 2009 that it disagrees with the manner in which we have determined one aspect of the cost of this product as invoiced. Philip Morris-USA has exercised its contract right to have an independent party audit our cost calculation. We have provided Philip Morris-USA with the support for our calculation and confirmed that the calculation was made consistent with methodology applied over the life of the supply agreement and in accordance with the terms of the supply agreement. This matter could result in litigation between Philip Morris-USA and us. Currently, the amount disputed is approximately \$24.4 million.

Our business is subject to various environmental risks.

Our mills are subject to significant federal, state, local and foreign environmental protection laws with respect to air, water and other emissions as well as the disposal of solid waste. We believe we are operating in substantial compliance with these laws and regularly incur capital and operating expenditures in order to assure future compliance. However, these laws may change in the future, which could require changes in our practices or the incurrence of additional capital expenditures, and we may discover aspects of our business that are not in compliance. Violation of these laws can result in the imposition of significant fines and remediation costs. In France, we presently have sufficient authorized capacity for our emissions of carbon dioxide. However, this authorization must be renewed every five years. We cannot predict that we will have sufficient authorized capacity to conduct our operations in France as presently conducted or to do so without having to make substantial capital expenditures in future years. There also is the possibility of regulation of carbon dioxide emissions in the U.S., and legislation to this end has been introduced in Congress. It is not presently possible to assess what, if any, impact such regulations might have on our domestic U.S. operations.

We are a member of a potentially responsible party group (Global PRP Group) that has entered into a settlement with the State of New Jersey concerning the remediation of a landfill site in Middlesex County, New Jersey. We have established a reserve of less than \$0.1 million that we believe is adequate to cover our liability, but we remain exposed to changes in the State's requirements and in the estimated costs to complete the remediation in accordance with the settlement terms. In 2008, we received an invitation to participate in the remediation of contamination allegedly identified at a mill complex in Elizabeth, New Jersey that was formerly owned and operated by Kimberly-Clark Corporation. Under the terms of our spin-off from Kimberly-Clark in 1995, we are obligated to indemnify Kimberly-Clark Corporation from certain exposures related to the past and future liabilities of the business spun-off, which would include the Elizabeth, New Jersey mill. We declined the invitation to participate in the proposed clean-up of this mill pending the provision of information demonstrating our responsibility to do so, which to date has not been provided.

Although we are not aware of any environmental conditions at any of our facilities that could have a material adverse effect on our financial results, as we restructure and close certain facilities in France and in the U.S. that have been operated over the course of many decades, we may be required to perform additional environmental evaluations that could identify items that might require remediation or other action, the nature, extent and cost of which are not presently known.

We are subject to various legal actions and other claims.

We regularly are involved in legal actions and other claims arising in the ordinary course of business. Although we do not believe that any of the currently pending actions or claims will have a materially adverse impact on our business or financial condition, we cannot provide any assurances in this regard. Information concerning some of the actions that currently are pending is contained in Note 17, Commitments and Contingencies, of the Notes to Consolidated Financial Statements and in Part I, Item 3, "Legal Proceedings".

Our expansion plans entail different and additional risks relative to the rest of our business.

We recently announced suspension of construction of a wholly-owned reconstituted tobacco mill in the Philippines and plans to construct a new reconstituted tobacco mill in China through a joint venture in which one of our subsidiaries would have a 50% ownership interest. Building a new mill is a major construction project and entails a number of risks, ranging from the possibility that the contractors and sub-contractors who are expected to build the facility and supply the necessary equipment do not perform as expected, to the possibility that there will be cost overruns or that design defects or omissions cause the mill to perform at less than projected efficiency or at less than

projected capacity. In addition, commencement of production at a new mill is time consuming and requires customer testing and acceptance of the products that are produced. Also, while we anticipate sufficient demand for the mill's output, there can be no assurances that the expected demand will materialize. For more information on our expansion plans, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Restructuring activities can significantly impact our business.

We began significant restructuring activities in 2006 and 2007 in France and the United States and during 2007 in Brazil 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. Although now largely completed, 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 the remaining actions that are part of our 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 while 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 that often include reductions in the workforce;

coordinating and combining operations, which may be subject to additional constraints imposed by collective bargaining agreements and local laws and regulations; and

- achieving the anticipated levels of cost savings and efficiency as a result of the restructuring activities.

In the aggregate including continuing and discontinued operations, we have incurred \$138.9 million in restructuring and related impairment expenses from 2006 through December 31, 2010, including \$86.0 million in cash-related expenses. As a result of actions taken as of December 31, 2010, we expect future payments of approximately \$19 million in cash-related restructuring costs through 2011.

One portion of our business is dependent upon a single mill.

Sales of reconstituted tobacco leaf products represent a substantial portion of our revenues. We presently produce reconstituted tobacco leaf at only one facility located in France. Although reasonable measures have been taken to minimize the risk of a casualty event at this facility, its loss or the interruption of operations for a significant length of time could have a material adverse effect on our business. Our RTL business is also subject to competitive risk from lower cost natural tobacco.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

As of December 31, 2010, we operated 11 production facilities (which include three fiber pulping operations) on four continents.

We have approximately 141,000 metric tons of annual paper production capacity and approximately 84,000 metric tons of annual reconstituted tobacco products production capacity, dependent upon the production mix. Capacity utilization increased in 2010 to 92% for paper products and decreased to 91% for reconstituted tobacco products compared with 82% and 98%, respectively, in 2009. 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 Shanghai, China, in Pirai and Rio de Janeiro, Brazil, in Madrid, Spain, in San Pedro, Philippines, in Medan, Indonesia, Moscow,

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Russia and Strykow, Poland. Our world headquarters are also located in Alpharetta. All of these offices are owned except for those located in Alpharetta, Shanghai, Rio de Janeiro, Madrid, Moscow and Strykow.

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

The following are locations of our principal production facilities which are owned, except for the Strykow, Poland facility which is leased, as of December 31, 2010:

French Segment Production Locations	U.S. Segment Production Locations	Brazil Segment Production Locations
Papeteries de Mauduit Mill Quimperlé, France	Spotswood Mill Spotswood, New Jersey	Pirahy Mill Piraí, Brazil
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	SWM-Poland Strykow, Poland	

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.

Class Action

On March 31, 2010, the City of Pontiac General Employees' Retirement System, individually and on behalf of all others similarly situated, sued Schweitzer-Mauduit International, Inc., its Chief Executive Officer, Frédéric P. Villoutreix, and its Chief Financial Officer, Peter J. Thompson, in the United States District Court for the Northern District of Georgia for alleged violations of certain sections and rules of the Securities Act of 1934. The plaintiffs' identified a putative class period covering August 5, 2009 to February 10, 2010. The primary allegations of the suit contend that the defendants misrepresented the strength of the Company's competitive position in the U.S. and its ability to withstand European competition, particularly in the area of lower ignition propensity papers. Further, the complaint alleges that the defendants concealed threats to the Company's relationship with Phillip Morris USA, Inc. As a consequence of these alleged misrepresentations or omissions, the plaintiffs contend that the Company's stock price was artificially inflated causing the plaintiffs to be damaged in an unspecified amount. The court issued an order on August 26, 2010 appointing as co-Lead Plaintiffs the City of Pontiac General Employees' Retirement System and the Western Washington Laborers-Employers Pension Trust. Robbins Geller Rudman & Dowd was appointed Lead Counsel. Plaintiffs filed an Amended Consolidated Complaint, which becomes the operative complaint in the case going forward. The matter has been fully briefed by the parties. The Company believes that the allegations are without merit as to all defendants and intends to vigorously defend the matter as to itself and its two officers. The Company has not recorded any liability associated with this matter and believes the outcome of this litigation will not have a material adverse impact on the Company's financial condition.

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. In January 2010, the State of Rio de Janeiro attempted to execute a tax foreclosure to collect Assessment 2. In June 2010, the Supreme Court of Brazil granted a writ of prevention that blocks any attempt by the State of Rio de Janeiro from attempting to execute a tax foreclosure against SWM-B on Assessment 2. As to Assessment 1, there is no ruling in favor of the State of Rio de Janeiro that would allow it to execute a tax foreclosure.

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, 2010, the Assessment totaled approximately \$34 million, of which approximately \$16 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, 2010. In August 2006, SWM-B filed an interlocutory appeal, which has not yet been ruled upon. As of December 31, 2010, 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 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, 2010, there are no material claims pending under this indemnification.

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 22, 2011, our stock closed at \$55.05 per share.

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

	High	Low
2011		
First Quarter (through February 22, 2011)	\$ 68.38	\$ 52.95
2010		
Fourth Quarter	\$ 69.33	\$ 53.08
Third Quarter	60.48	42.62
Second Quarter	62.63	47.28
First Quarter	83.63	42.39
2009		
Fourth Quarter	\$ 72.18	\$ 49.08
Third Quarter	57.28	27.47
Second Quarter	27.99	18.07
First Quarter	23.22	12.65

Performance Graph

The following graph compares the total cumulative stockholder return on our Common Stock during the period from December 31, 2005 through December 31, 2010, with the comparable cumulative total returns of the Wilshire 5000 Index and a self-constructed peer group which reflects, but is not exactly comparable to, the Dow Jones Paper Products Index. We have selected the following companies as our peer group: Neenah Paper Inc., P.H. Glatfelter Co., Wausau-Mosinee Paper Corp., and Buckeye Technologies Inc.

The graph assumes that the value of the investments in the Common Stock and each index were \$100 on December 31, 2005 and that all dividends were reinvested. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

Holders

As of February 22, 2011, there were 2,763 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. Our Credit Agreement covenants require that we maintain certain financial ratios, as disclosed in Note 11, Debt, of the Notes to Consolidated Financial Statements, none of which under normal business conditions materially limit our ability to pay such dividends. We will continue to assess our dividend policy in light of our cash generation, debt levels and ongoing requirements for cash to fund operations and to pursue possible strategic opportunities.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information, as of December 31, 2010, 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)	174,987	\$ 31.56	—
Outside Directors Stock Plan (2)	N/A	N/A	68,061
Restricted Stock Plan (3)	N/A	N/A	161,046
Total approved by stockholders	N/A	N/A	229,107
Equity Compensation Plans not approved by stockholders:			
Grand Total	N/A	N/A	229,107

N/A — Not applicable.

- (1) The Equity Participation Plan is described in Note 16, 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 2010 were \$15,000 quarterly 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 closing price on the date one day prior to the date of distribution. 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 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, 2010, deferred retainer fees have resulted in 36,082 accumulated stock unit credits, excluding credited dividends (40,445 accumulated stock unit credits including credited dividends).

- (3) The Restricted Stock Plan is described in Note 16, 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, 2010, 539,314 shares issued under this plan remained restricted.

Recent Sales of Unregistered Securities

We had no unregistered sales of equity securities during the fiscal year ended December 31, 2010.

Repurchases of Equity Securities

The following table indicates the number of shares and amount of our Common Stock repurchased during 2010 and the remaining number of shares and amount of share repurchases currently authorized by our Board of Directors as of December 31, 2010:

	Total Number Of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased As Part of Publicly Announced Programs (# shares)	(\$ in millions)	Maximum Amount Of Shares that May Yet be Repurchased Under the Program (\$ in millions)
First Quarter	8,491	\$70.35	8,491	0.6	
Second Quarter	3,300	48.34	3,300	0.2	
Third Quarter	376,903	48.35	376,903	18.2	
October	—	—	—	—	
November	—	—	—	—	
December	—	—	—	—	
Fourth Quarter	—	—	—	—	
Full Year 2010	388,694	\$48.83	388,694	19.0	\$ 30.0 *

*In December 2010, the Board of Directors authorized the repurchase of shares of our Common Stock during the period January 2, 2011 to December 31, 2011 in an amount not to exceed \$30.0 million. During February 2011, the Company repurchased 525,000 shares for \$30.0 million.

The Company sometimes uses corporate 10b5-1 plans 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 within this Annual Report on Form 10-K. The results of our closed Malaucène, France mill have been retrospectively presented as discontinued operations for all periods. All dollar amounts are in millions except per share amounts, statistical data and ratios.

	For the Years Ended December 31,				
	2010	2009	2008	2007	2006
Results of Operations					
Net Sales	\$740.2	\$719.6	\$724.5	\$676.4	\$617.7
Cost of products sold	543.6	531.8	617.9	565.3	532.8
Gross Profit	196.6	187.8	106.6	111.1	84.9
Nonmanufacturing expenses	73.6	74.7	60.2	62.2	53.7
Restructuring & impairment expense	13.4	23.9	6.5	18.7	20.8
Operating Profit	109.6	89.2	39.9	30.2	10.4
Income from Continuing Operations	71.4	59.6	16.7	20.0	6.8
Loss from Discontinued Operations	(6.1)	(24.0)	(15.8)	(8.6)	(3.5)
Net Income	65.3	35.6	0.9	11.4	3.3
Net Income Attributable to Noncontrolling Interest					
Net Income (Loss) Attributable to SWM	65.3	35.6	0.7	3.4	(0.8)
Net Income (Loss) Per Share- Basic:					
Income per share from continuing operations					
Income per share from continuing operations	\$3.94	\$3.80	\$1.06	\$0.77	\$0.18
Loss from discontinued operations	(0.34)	(1.53)	(1.02)	(0.55)	(0.23)
Net income (loss) per share - Basic	\$3.60	\$2.27	\$0.04	\$0.22	\$(0.05)
Net Income (Loss) Per Share – Diluted:					
Income per share from continuing operations					
Income per share from continuing operations	\$3.86	\$3.69	\$1.05	\$0.77	\$0.18
Loss from discontinued operations	(0.33)	(1.49)	(1.01)	(0.55)	(0.23)
Net income (loss) per share - Diluted	\$3.53	\$2.20	\$0.04	\$0.22	\$(0.05)
Cash Dividends Declared and Paid Per Share					
Cash Dividends Declared and Paid Per Share	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
EBITDA from Continuing Operations (Earnings before interest, taxes, depreciation and amortization) (1)					
EBITDA from Continuing Operations (1)	\$145.8	\$128.0	\$74.4	\$71.5	\$46.3
Adjusted EBITDA from Continuing Operations (1)					
Adjusted EBITDA from Continuing Operations (1)	\$159.2	\$151.9	\$80.9	\$90.2	\$67.1
Percent of Net Sales					
Gross Profit	26.6	% 26.1	% 14.7	% 16.4	% 13.7
Nonmanufacturing expenses	9.9	% 10.4	% 8.3	% 9.2	% 8.7
Financial Position					
Capital spending	\$73.7	\$15.3	\$35.3	\$47.7	\$9.6
Depreciation	33.0	37.1	41.0	39.9	40.7
Total Assets	850.4	791.9	728.7	775.0	697.1

Total Debt	51.8		60.1		179.8		100.9		97.3	
Total debt to capital ratio	9.0	%	11.1	%	39.3	%	21.5	%	23.4	%

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) from Continuing Operations is a non-GAAP financial measure that is calculated by adding interest expense, income tax provision, net income attributable to controlling interest, depreciation and amortization expense to income (loss) from continuing operations. Adjusted EBITDA from continuing operations is a non-GAAP financial measure that is calculated by adding restructuring and impairment expense to EBITDA from continuing operations. Reconciliations to income from continuing operations for the years ended December 31 are as follows (\$ in millions):

	2010	2009	2008	2007	2006
Income from Continuing Operations	\$71.4	\$59.6	\$16.7	\$20.0	\$6.8
Plus: Interest expense	1.8	4.3	9.5	5.3	5.3
Plus: Tax provision (benefit)	39.8	25.3	6.4	5.0	(2.2)
Plus: Depreciation and amortization	40.0	43.9	47.4	39.2	38.2
Less: Amortization of deferred revenue	(7.2)	(5.1)	(5.8)	(6.0)	(5.9)
Plus: Net income attributable to noncontrolling interest	—	—	0.2	8.0	4.1
EBITDA from Continuing Operations	\$145.8	\$128.0	\$74.4	\$71.5	\$46.3
Restructuring and impairment expense	13.4	23.9	6.5	18.7	20.8
Adjusted EBITDA from Continuing Operations	\$159.2	\$151.9	\$80.9	\$90.2	\$67.1

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
 - 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

In 2010, SWM reported net income of \$65.3 million on total net sales of \$740.2 million.

Sustained growth of highly differentiated LIP products resulted in overall year-on-year revenue increase of 4.1% at constant currency, an inflexion point after several years of relatively stagnant revenue generation.

In 2010, we reported diluted earnings per share of \$3.53, higher than the \$2.20 earned in 2009, despite unfavorable impacts from higher pulp prices and share count dilution partially offset by lower losses from discontinued operations at our closed Malaucène, France mill and lower restructuring and impairment expenses. The Company generated \$141.1 million in operating cash flow during 2010, as a result of higher levels of net income and a \$26.7 million reduction in working capital. That was more than enough to fund large strategic capital projects and \$29.0 million in restructuring-related cash severances for our continuing and discontinued operations.

SWM performance of recent years reflects, in large part, the repositioning of our business portfolio towards higher-value products and in growing our market presence in Asia.

We managed to deliver more profit from a lean slate of productive assets in 2010, resulting in a higher return on invested capital (ROIC). This measure, at the core of our executive compensation plans, reflects our determination to invest in products, projects and businesses that consistently yield returns in excess of our underlying cost of capital. ROIC increased to another record high of 17.1% in 2010.

During 2010, we sharpened our strategic focus and accelerated the deployment of Lean Six Sigma to achieve our operational excellence ambitions. Our renewed focus on driving business efficiency will benefit both top-line and bottom-line growth as we commit to achieving business excellence in every area of our organization including sales and marketing, research and development, procurement, production and global supply. Our commitment to operational excellence will support our efforts to deliver the best total value to customers.

Recent Developments

With the expected advent of the LIP requirements in the European Union in 2011, we are poised to further strengthen our market position in this premium application and significantly improve the margin profile of our core paper business. During 2010, we completed the construction of a new LIP facility in Poland, established third party printing capacity and purchased an LIP press in France at PdM in anticipation of supplying our customers' needs with compliant papers.

In light of increased volatility and a developing oversupply condition within the leaf tobacco sector, in January 2011, we announced changes to our Asian reconstituted tobacco strategy. The decision to suspend the construction of the greenfield reconstituted tobacco leaf, or RTL, facility in the Philippines and redirect the capacity expansion plan to serve the Chinese market is both opportunistic and strategic. By accelerating establishment of a domestic production site in China through a joint venture, at a time when RTL demand is expected to more than double in China over the next five years, SWM can fully leverage its leading technology and expertise in the area of tar reduction. The Chinese expansion is expected to considerably strengthen our business platform in this strategic market with direction to better serve domestic customers on the fast growing premium cigarette segment and help China achieve success as new regulations targeting smoke delivery reductions become implemented.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates that affect the amounts of revenues, expenses, assets and liabilities reported and disclosure of contingencies. Changes in these estimates could have a significant impact on our results of operations, financial position, or cash flows. We discussed with the Audit Committee of the Board of Directors the estimates and judgments made for each of the following items and our accounting for and presentation of these items in the accompanying financial statements:

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 to reduce deferred tax assets to an amount we estimate will be realizable more likely than not. We have available net operating loss carryforwards, or NOLs, and other various tax credits in the jurisdictions in which we operate, for which we have recorded deferred tax assets totaling \$57.0 million as of December 31, 2010. Certain of these potential future benefits are not expected to be fully realized or utilized prior to their expiration. As a result, at December 31, 2010, we have \$6.9 million of valuation allowances against certain of the deferred tax assets, as follows (\$ in millions):

	Total Asset	Valuation Allowance	Net Asset
Net operating loss carryforwards	\$ 56.0	\$ (5.9)	\$ 50.1
U.S. states tax credit carryforwards	1.0	(1.0)	--
	\$ 57.0	\$ (6.9)	\$ 50.1

Expiration periods vary for our NOLs depending on the tax laws governing the jurisdiction where the NOL was generated. Under current tax laws, remaining NOLs in France and Brazil carry forward indefinitely, and NOLs in Spain expire in 15 years subsequent to the year generated. Valuation allowances related to NOLs in Spain totaled \$4.1 million as of December 31, 2010, 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 our primary foreign investment holding company. The remaining NOLs at December 31, 2010, in Spain will fully expire in 2023 if not utilized against taxable income in Spain. Valuation allowances related to NOLs in Brazil totaled \$1.8 million as of December 31, 2010, partially reserving the related \$13.1 million deferred tax asset in Brazil, since we believe that we will not generate sufficient taxable income in Brazil within an acceptable time frame and given the annual limit of NOL utilization of 30% of taxable income. In 2010, the Company wrote off \$0.1 million in Philippine deferred tax assets related to NOLs that did not have a valuation allowance due to it not being fully utilized prior to expiration.

We expect sufficient future taxable income in France and Brazil to fully utilize the respective French and Brazilian NOL carryforward deferred tax assets, net of valuation allowances, of \$38.8 million and \$11.3 million, respectively, and plan to utilize available tax planning strategies in France. However, operating losses have been incurred in past periods in Brazil and France as a result of lower operating earnings together with substantial restructuring expenses incurred. The Company's assumptions, judgments and estimates relative to the valuation of these net deferred tax assets take into account available positive and negative evidence of realizability, including recent financial performance, the ability to realize benefits of restructuring and other recent actions, projections of the amount and category of future taxable income and tax planning strategies. Actual future operating results and the underlying amount and category of income in future periods could differ from the Company's current assumptions, judgments and estimates. Although realization is not assured, the Company believes it is more likely than not that these net deferred tax assets at December 31, 2010, will be realized. Future operating losses in Brazil and the Company's paper operations in France could result in recording additional valuation allowance in a future period which could be material to our results of operations in the period that such valuation allowance was recorded. If at a future date the Company determines that the weight of the positive evidence is not sufficient to overcome the negative evidence, additional valuation allowances against these deferred tax assets to reduce the net deferred tax asset to an amount we believe will more likely than not be realizable would be recorded in the period such determination is made.

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. At December 31, 2010, we utilized all current year foreign tax credits generated and all unexpired credit carryforwards from prior years. Depending on the U.S. business unit's profitability, we may implement 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 be maintained to provide us an opportunity to utilize any foreign tax credits in the future in a manner that will be beneficial to our financial results. Under current tax law, the carryforward period of foreign tax credits is 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 would evaluate whether it is more likely than not that we could fully utilize any foreign tax credit carryforwards in a beneficial manner prior to their expiration and reduce a net deferred tax asset to an estimated realizable amount. 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 expected utilization of foreign tax credits and valuation allowances on these deferred tax assets.

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. At December 31, 2010, we utilized 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 utilize all of our state tax credits prior to their expiration. In Massachusetts, where we have substantially completed plant shut-down activities, New York and New Jersey, the carryforward periods are 15, 15 and 7 years, respectively, and credit utilization is limited to 50% of the income tax liability. At December 31, 2010, we have \$1.0 million of valuation allowances reducing these deferred tax assets to our estimated realizable amounts. 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.

At December 31, 2010 and 2009, we had no significant unrecognized tax benefits related to income taxes at January 1, 2009, December 31, 2009 and December 31, 2010. 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 materially impact the amounts provided for income taxes in our consolidated financial statements.

For additional information regarding income taxes and valuation allowances, see Note 14, Income Taxes, of the Notes to Consolidated Financial Statements.

Accounting for Contingencies

We accrue an estimated loss by taking a charge to income when the likelihood that a future event, such as a legal proceeding, will result in a loss or the incurrence of a liability is probable and the amount of loss can be reasonably estimated. We disclose material contingencies if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued, we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our results of operations, financial position, or our cash flows.

For further information, please see "Litigation" in Part I, Item 3, "Legal Proceedings" and Note 17, Commitments and Contingencies, of the Notes to Consolidated Financial Statements.

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 52% of our total assets as of December 31, 2010. Property, plant and equipment is depreciated on the straight-line method over the estimated useful lives of the assets. Paper machines and related equipment are not subject to substantial technological changes rendering them obsolete and are generally depreciated over estimated useful lives of 20 years. In the United States, banded cigarette paper production assets at the Spotswood Mill are generally depreciated over estimated useful lives of 10 years. When indications of impairment exist, we 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. Changes in management's estimates and plans could significantly impact our results of operations, financial position or cash flows.

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 selling prices for certain of our products are not sufficient to cover our costs with a reasonable margin. Such competitive pressures have resulted in downtime of certain paper machines and, in some cases, accelerated depreciation or impairment of certain equipment. Over the past four years, we have restructured our operations to improve our competitiveness and profitability. As a result, we incurred

significant charges related to asset impairments, accelerated depreciation and employee severances. Due to the closure of our mill in Malaucène, France, the activities of Malaucène have been retrospectively presented as a discontinued operation.

Certain of our Spotswood Mill's banded cigarette paper production 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 banded cigarette paper for a customer. Also, we have \$6.0 million of unamortized deferred revenue as of December 31, 2010, which is being amortized to revenue as product is being purchased by that customer through 2011. 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, 2010, the net book value of Spotswood Mill property, plant and equipment was \$42.1 million, of which \$2.5 million related to 10-year-life banded cigarette paper specific assets and \$5.9 million related to three paper machines capable of producing banded cigarette paper, but not currently in operation.

In January 2011, the Company revised its Asian RTL expansion plans to suspend the construction of the Philippine greenfield site. Due to this change, the carrying value of partially constructed assets will be evaluated for impairment during the first quarter of 2011 by assessing the recoverability of the costs based on the undiscounted cash flows of the operation, likelihood of its reactivation and alternative uses for the equipment. The net book value of the RTL Philippines property, plant and equipment was \$57.6 million as of December 31, 2010. If indicated, impairment losses will be measured by comparing the projected carrying value of the completed assets to their fair value as determined by discounted cash flows, potential alternative uses and appraised market prices.

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.

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,		
	2010	2009	2008
	(\$ in millions, except per share amounts)		
Net Sales	\$740.2	\$719.6	\$724.5
Cost of products sold	543.6	531.8	617.9
Gross Profit	196.6	187.8	106.6
Selling expense	19.0	19.4	20.8
Research expense	8.5	8.0	7.9
General expense	46.1	47.3	31.5
Total nonmanufacturing expenses	73.6	74.7	60.2
Restructuring and impairment expense	13.4	23.9	6.5
Operating Profit	109.6	89.2	39.9
Interest expense	1.8	4.3	9.5
Other income (expense), net	0.2	(1.1)	(3.3)
Income from Continuing Operations Before Income Taxes and Loss from Equity Affiliates	108.0	83.8	27.1
Provision for income taxes	39.8	25.3	6.4
Income (Loss) from equity affiliates	3.2	1.1	(4.0)
Income from Continuing Operations	71.4	59.6	16.7
Loss from Discontinued Operations	(6.1)	(24.0)	(15.8)
Net Income	65.3	35.6	0.9
Less: Net income attributable to noncontrolling interest	—	—	0.2
Net Income Attributable to SWM	\$65.3	\$35.6	\$0.7
Net Income Per Share - Basic:			
Income per share from continuing operations	\$3.94	\$3.80	\$1.06
Loss per share from discontinued operations	(0.34)	(1.53)	(1.02)
Net income per share – basic	\$3.60	\$2.27	\$0.04
Net Income Per Share – Diluted:			
Income per share from continuing operations	\$3.86	\$3.69	\$1.05
Loss per share from discontinued operations	(0.33)	(1.49)	(1.01)
Net Income per share – diluted	\$3.53	\$2.20	\$0.04

Discontinued Operations

In 2010, the results of the closed tipping mill in Malaucène, France have been classified as a discontinued operation. As a result, all periods presented have been retrospectively recast to exclude the discontinued operations. The \$6.1 million loss in 2010 from discontinued operations was the result of severance being accrued over the remaining service period of the affected employees, impairment losses on certain assets and inventory and accruals for certain site clean-up costs. In 2009, the \$24.0 million loss from discontinued operations was the result of severance accruals, asset impairments and accelerated depreciation as a result of the decision to close the mill.

Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009

Net Sales

	2010	2009	Percent Change	Consolidated Sales Volume Change
	(\$ in millions)			
France	\$ 432.1	\$ 434.8	(0.6)%	0.4 %
United States	273.0	250.9	8.8	(13.1)
Brazil	86.5	76.3	13.4	4.6
Subtotal	791.6	762.0	3.9	
Intersegment	(51.4)	(42.4)		
Total	\$ 740.2	\$ 719.6	2.9 %	0.4 %

Net sales were \$740.2 million, a 2.9% increase compared with \$719.6 million in 2009. The increase of \$20.6 million consisted of the following (\$ in millions):

	Amount	Percent
Changes in product mix and selling price	\$ 23.5	3.3 %
Changes in sales volumes	6.3	0.9
Changes in currency exchange rates	(9.2)	(1.3)
Total	\$ 20.6	(2.9)%

Change in product sales mix consisting of more high-value products such as LIP papers in the United States and RTL products in France had a favorable \$23.5 million, or 3.3%, impact on the net sales comparison.

Increases in unit sales volumes in 2010 versus 2009 resulted in a favorable effect on net sales of \$6.3 million, or 0.9%. Intercompany segment volume reporting, the manufacturing segment receives credit for the volume.

The Brazil segment's sales volumes increased by 4.6%, primarily due to our sourcing products sold externally by other segments from Brazil.

Sales volumes in the French segment increased by 0.4%, as a result of slightly increased tobacco-related papers sales volumes mostly offset by a small decline in RTL sales volumes.

Sales volumes in the United States, net of intercompany eliminations, decreased by 13.1%, primarily reflecting a change to source certain products from SWM's Brazilian and French locations, as well as reduced sales of certain tobacco-related products caused by lower market demand.

Changes in currency exchange rates in 2010 had an unfavorable impact on net sales of \$9.2 million, or 1.3%, and primarily reflected the impacts of euros and Brazilian real compared with the U.S. dollar. On average in 2010 compared to 2009, the euro was 5.5% weaker and real was 11.8% stronger against the U.S. dollar.

The French segment 2010 net sales of \$432.1 million decreased by \$2.7 million, or 0.6%, versus \$434.8 million in 2009. The decrease in net sales was primarily the result of a weaker euro and an unfavorable mix of products sold partially offset by higher sales volumes of cigarette papers.

The U.S. segment 2010 net sales of \$273.0 million increased by \$22.1 million, or 8.8%, compared with \$250.9 million in 2009. The increase was due to the effect of higher average selling prices, primarily due to an improved mix of

products sold, and changes in sales volumes. In metric tons, the decreased sales volumes of cigarette papers more than offset increased volumes of LIP papers. However, the dollar impact of higher LIP volumes more than offset the decline in other cigarette papers resulting in a favorable dollar impact on the U.S. segment net sales due to volume.

The Brazil segment 2010 net sales of \$86.5 million increased by \$10.2 million, or 13.4%, from \$76.3 million for the prior-year period. The increase was due to higher average selling prices that primarily resulted from an improved mix of products sold and higher sales volumes.

Operating Expenses

	2010	2009	Change	Percent Change	Percent of Net Sales	
					2010	2009
	(\$ in millions)					
Net Sales	\$ 740.2	\$ 719.6	\$ 20.6	2.9 %		
Cost of products sold	543.6	531.8	11.8	2.2	73.4 %	73.9 %
Gross Profit	\$ 196.6	\$ 187.8	\$ 8.8	4.7 %	26.6 %	26.1 %

Gross profit in 2010 was \$196.6 million, an increase of \$8.8 million, or 4.7%, from \$187.8 million for 2009. The gross profit margin in 2010 was 26.6% of net sales, increasing from 26.1% in 2009. Gross profit was favorably impacted by \$21.6 million from cost saving programs and \$7.1 million from higher average selling prices due to an improved mix of products sold. These favorable impacts were partially offset by \$16.1 million in inflationary increases, primarily wood pulp. The average per ton list price of northern bleached softwood kraft pulp in the United States was \$960 in 2010 compared with \$720 per metric ton in 2009.

Nonmanufacturing Expenses

	2010	2009	Change	Percent Change	Percent of Net Sales	
					2010	2009
	(\$ in millions)					
Selling expense	\$ 19.0	\$ 19.4	\$ (0.4)	(2.1)%	2.6 %	2.7 %
Research expense	8.5	8.0	0.5	6.3	1.1	1.1
General expense	46.1	47.3	(1.2)	(2.5)	6.2	6.6
Nonmanufacturing expenses	\$ 73.6	\$ 74.7	\$ (1.1)	(1.5)%	9.9 %	10.4 %

Nonmanufacturing expenses in 2010 decreased by \$1.1 million, or 1.5%, to \$73.6 million from \$74.7 million in 2009, primarily due to lower accruals for incentive expenses. Nonmanufacturing expenses were 9.9% and 10.4% of net sales in 2010 and 2009, respectively.

Restructuring and Impairment Expense

The Company incurred total restructuring and impairment expense of \$13.4 million in 2010, including \$9.1 million for employee severance and other cash costs and \$4.3 million for asset and goodwill impairment charges, accelerated depreciation and other non-cash charges. Total restructuring expense of \$23.9 million was recognized in 2009, including \$12.2 million for employee severance and other cash costs and \$11.7 million for asset impairment charges, accelerated depreciation and other non-cash charges.

Operating Profit

	2010	2009	Percent Change	Return on Net Sales	
				2010	2009
	(\$ in millions)				
France	\$ 65.5	\$ 59.9	9.3 %	15.2 %	13.8 %

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United States	57.6	43.4	32.7	21.1	17.3
Brazil	3.5	7.4	(52.7)	4.0	9.7
Subtotal	127.6	110.7			
Unallocated expenses	(17.0)	(21.5)			
Total	\$ 109.6	\$ 89.2	22.9 %	14.8 %	12.4 %

Operating profit in 2010 was \$109.6 million compared with an operating profit of \$89.2 million in 2009.

The France segment's operating profit in 2010 was \$65.5 million, an increase of \$5.6 million, or 9.3%, from an operating profit of \$59.9 million in 2009. The increase was primarily due to \$14.8 million from improved manufacturing expenses and the benefits of costs savings programs. This was partially offset by \$9.5 million of inflationary cost increases mostly as a result of higher wood pulp costs and \$4.5 million of unfavorable foreign currency translation impacts.

The U.S. segment's operating profit in 2010 was \$57.6 million, a \$14.2 million increase from an operating profit of \$43.4 million in 2009. The increase was primarily due to \$7.4 million of lower restructuring and impairment expense, \$9.2 million in improved manufacturing expenses and the benefits of cost savings programs and \$2.5 million from higher average selling prices, primarily due to increased sales of cigarette paper for LIP cigarettes. These positive factors were partially offset by \$2.0 million in inflationary cost increases, primarily as a result of higher wood pulp costs.

The Brazil segment's operating profit in 2010 was \$3.5 million, compared with \$7.4 million in 2009. The lower operating profit was primarily due to \$4.6 million of higher inflationary costs, primarily from wood pulp, and \$4.5 million from higher manufacturing expenses partially offset by a \$3 million favorable impact from higher average selling prices.

Unallocated expenses include executive and director incentive compensation accruals and other corporate expense. The \$4.5 million decrease in unallocated expenses during 2010 compared to 2009 is primarily due to lower incentive compensation expense based on 2010 results compared to incentive targets.

Non-Operating Expenses

Interest expense of \$1.8 million in 2010 decreased from \$4.3 million for 2009. Average debt levels decreased significantly during 2010 versus 2009, mainly due to higher operating cash flow and a portion of the November 2009 equity offering proceeds which were used to pay down debt. The weighted average effective interest rates on our debt facilities were approximately 1.7% and 1.9% for 2010 and 2009, respectively.

Other income (expense), net was income of \$0.2 million in 2010 compared to expense of \$1.1 million in 2009. The favorable change is primarily due to \$1.0 million of lower net foreign currency transaction losses in 2010 compared to 2009 and interest income.

Income Taxes

A \$39.8 million income tax provision was recognized for 2010 compared to \$25.3 million income tax provision recognized in 2009. The effective tax rate was 36.9% and 30.2% in 2010 and 2009, respectively. Both periods were impacted by tax benefits from substantial restructuring and impairment expenses and our foreign holding company structure which reduced the effective tax rate from statutory rates. In 2010, higher pre-tax income is the primary cause of the higher expense. In 2010, the provision includes a \$1.9 million valuation allowance against certain net operating loss carryforwards. In 2009, we incurred \$1.0 million in deferred tax expense as a result of a legal reorganization during 2008 and a decision by management to consider the undistributed earnings of LTRI to be permanently reinvested.

Income from Equity Affiliates

The income from equity affiliates in 2010 was \$3.2 million compared with \$1.1 million in 2009 and represents our 50% share of the net income associated with our joint venture paper mill in China.

Net Income Attributable to SWM and Net Income per Share

Net income attributable to SWM in 2010 was \$65.3 million, or \$3.60 and \$3.53 per basic and diluted share, respectively, compared with \$35.6 million of net income, or \$2.27 and \$2.20 per basic and diluted share in 2009, respectively. The increase in net income in 2010 was primarily due to a higher proportion of RTL and LIP products in the sales mix, higher average selling prices and benefits of strategic actions taken over the last four years to reduce

manufacturing costs.

Year Ended December 31, 2009 Compared with the Year Ended December 31, 2008

Net Sales

	2009	2008	Percent Change	Consolidated Sales Volume Change
	(\$ in millions)			
France	\$ 434.8	\$ 452.0	(3.8)%	0.9 %
United States	250.9	226.7	10.7	(44.0)
Brazil	76.3	70.5	8.2	(10.3)
Subtotal	762.0	749.2		
Intersegment	(42.4)	(24.7)		
Total	\$ 719.6	\$ 724.5	(0.7)%	0.9 %

Net sales were \$719.6 million, a 0.7% decrease compared with \$724.5 million in 2008. The decrease of \$4.9 million consisted of the following (\$ in millions):

	Amount	Percent
Changes in product mix and selling price	\$ 74.6	10.3 %
Changes in sales volumes	(54.7)	(7.6)
Changes in currency exchange rates	(24.8)	(3.4)
Total	\$ (4.9)	(0.7)%

Change in product sales mix consisting of more high-value products such as LIP papers in the United States and RTL products in France and higher average selling prices in 2009 had a favorable \$74.6 million, or 10.3%, impact on the net sales comparison.

Changes in unit sales volumes in 2009 versus 2008 resulted in an unfavorable effect on net sales of \$54.7 million, or 7.6%. Intercompany transactions increased during 2009 as a result of a change in product sourcing. For segment volume reporting, the manufacturing segment receives credit for the volume.

Sales volumes in the United States, net of intercompany eliminations, decreased by 44.0%, primarily reflecting a change to source certain products from SWM's Brazilian and French locations, as well as reduced sales of certain tobacco-related products caused by lower market demand.

The Brazil segment's sales volumes decreased by 10.3%, primarily due to our 2008 mid-year exit of the coated papers business.

Sales volumes in the French segment increased by 0.9%, primarily due to increased growth in RTL sales volumes partially offset by decreased sales of tobacco-related papers volumes.

Changes in currency exchange rates in 2009 had an unfavorable impact on net sales of \$24.8 million, or 3.4%, and primarily reflected the impact of a weaker euro compared with the U.S. dollar. On average in 2009, the euro was 5.2% weaker and the Brazilian real was 8.4% stronger against the U.S. dollar.

The France segment's 2009 net sales of \$434.8 million decreased by \$17.2 million, or 3.8%, versus \$452.0 million in 2008. The decrease in net sales was primarily the result of a weaker euro and lower sales volumes partially offset by an improved mix of products sold.

The U.S. segment's 2009 net sales of \$250.9 million increased by \$24.2 million, or 10.7%, compared with \$226.7 million in 2008. The effect of higher average selling prices, primarily due to an improved mix of products sold, was partially offset by sales volumes.

The Brazil segment's 2009 net sales of \$76.3 million increased by \$5.8 million, or 8.2%, from \$70.5 million for the prior-year period. The increase was due to higher average selling prices that primarily resulted from an improved mix of products sold, partially offset by lower sales volumes.

Operating Expenses

2009	2008	Change	Percent Change	Percent of Net Sales
				2009
				2008
(\$ in millions)				

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Net Sales	\$ 719.6	\$ 725.2	(5.6)	(0.8)%				
Cost of products sold	531.8	618.6	(86.8)	(14.0)	73.9 %	85.3 %		
Gross Profit	\$ 187.8	\$ 106.6	81.2	76.2 %	26.1 %	14.7 %		

Gross profit in 2009 was \$187.8 million, an increase of \$81.2 million, or 76.2%, from \$106.6 million for 2008. The gross profit margin in 2009 was 26.1% of net sales, increasing from 14.7% in 2008. Gross profit was favorably impacted by \$67.2 million from higher average selling prices due to an improved mix of products sold, \$28.6 million due to cost savings programs, and \$7.2 million in inflationary cost decreases, primarily from lower per ton wood pulp costs. The average per ton list price of northern bleached softwood kraft pulp in the United States was \$720 in 2009 compared with \$860 per metric ton in 2008. These favorable impacts were partially offset by \$8.6 million in other cost of sales and effects of lower volumes of \$9.5 million.

Nonmanufacturing Expenses

	2009	2008	Change	Percent Change	Percent of Net Sales	
					2009	2008
	(\$ in millions)					
Selling expense	\$ 19.4	\$ 20.8	\$ (1.4)	(6.7)%	2.7 %	2.9 %
Research expense	8.0	7.9	0.1	1.3	1.1	1.1
General expense	47.3	31.5	15.8	50.2	6.6	4.3
Nonmanufacturing expenses	\$ 74.7	\$ 60.2	\$ 14.5	24.1 %	10.4 %	8.3 %

Nonmanufacturing expenses in 2009 increased by \$14.5 million, or 24.1%, to \$74.7 million from \$60.2 million in 2008, primarily due to higher accruals for incentive expenses. Nonmanufacturing expenses were 10.4% and 8.3% of net sales in 2009 and 2008, respectively.

Restructuring and Impairment Expense

The Company incurred restructuring and impairment expense of \$23.9 million in 2009, including \$12.2 million for employee severance and other cash costs and \$11.7 million for asset impairment charges, accelerated depreciation and other non-cash charges. Restructuring expense of \$6.5 million was recognized in 2008, including \$2.6 million for employee severance and other cash costs and \$3.9 million for asset impairment charges, accelerated depreciation and other non-cash charges.

Operating Profit (Loss)

	2009	2008	Percent Change	Return on Net Sales	
				2009	2008
	(\$ in millions)				
France	\$ 59.9	\$ 40.1	49.4 %	13.8 %	8.9 %
United States	43.4	19.3	N.M.	17.3	8.5
Brazil	7.4	(9.7)	N.M.	9.7	(13.8)
Subtotal	110.7	49.7			
Unallocated expenses	(21.5)	(9.8)			
Total	\$ 89.2	\$ 39.9	N.M.	12.4	5.5 %

N.M. Not Meaningful

Operating profit in 2009 was \$89.2 million compared with an operating profit of \$39.9 million in 2008. All three segments improved operating profit results compared to 2008.

The France segment's operating profit in 2009 was \$59.9 million, an increase of \$19.8 million, or 49.4%, from an operating profit of \$40.1 million in 2008. The increase was primarily due to:

• Higher average selling prices of \$20.8 million, primarily due to an improved mix of products sold, including higher sales of RTL products.

- Improved manufacturing expenses and the benefits of cost savings programs of \$17.4 million.

The positive factors were partially offset by:

- Increased restructuring and impairment expenses of \$13.2 million.
- The unfavorable effects of foreign currency translation of \$7.4 million.

The U.S. segment's operating profit in 2009 was \$43.4 million, a \$24.1 million increase from an operating profit of \$19.3 million in 2008. The increase was primarily due to higher average selling prices, primarily due to increased sales of cigarette paper for LIP cigarettes of \$36.9 million, partially offset by increased restructuring and impairment expenses of \$7.4 million.

The Brazil segment's operating profit in 2009 was \$7.4 million, compared with an operating loss of \$9.7 million in 2008. The increased operating profit was primarily due to:

- Higher average selling prices and improved sales mix increased operating profit by \$9.5 million.

Favorable currency hedging contracts, net of effects of the stronger Brazilian real versus the U.S. dollar, had a \$6.8 million favorable impact.

These positive factors were partially offset by the \$3.6 million impact of lower sales volumes.

Unallocated expenses include executive and director incentive compensation accruals and other corporate expense. The \$11.7 million increase in unallocated expenses during 2009 compared to 2008 is primarily due to higher incentive compensation expense as a result of improved operating results.

Non-Operating Expenses

Interest expense of \$4.3 million in 2009 decreased from \$9.5 million for 2008. Average debt levels decreased significantly during 2009 versus 2008, mainly due to higher operating cash flow and a portion of the November 2009 equity offering proceeds which were used to pay down debt. The weighted average effective interest rates on our debt facilities were approximately 1.9% and 3.9% for 2009 and 2008, respectively.

Other expense, net was \$1.1 million and \$3.3 million in 2009 and 2008, respectively, primarily due to net foreign currency transaction losses of \$1.9 million and \$4.0 million in 2009 and 2008, respectively.

Income Taxes

A \$25.3 million income tax provision was recognized for 2009 compared with a \$6.4 million income tax provision recognized in 2008. Both periods were impacted by tax benefits from substantial restructuring and impairment expenses and our foreign holding company structure which reduced the effective tax rate from statutory rates. In 2009, higher pre-tax income is the primary cause of the higher expense. In 2009 and 2008, we incurred \$1.0 million and \$1.2 million, respectively, in deferred tax expense as a result of a legal reorganization during 2008 and a decision by management to consider the undistributed earnings of LTRI to be permanently reinvested.

Income (Loss) from Equity Affiliates

The income from equity affiliates in 2009 was \$1.1 million compared with a loss of \$4.0 million in 2008 and represents our 50% share of the net income (loss) associated with our joint venture paper mill in China. The loss in 2008 includes operations start-up costs.

Net Income Attributable to SWM and Net Income per Share

Net income attributable to SWM in 2009 was \$35.6 million, or \$2.27 and \$2.20 per basic and diluted share, respectively, compared with \$0.7 million of net income, or \$0.04 per basic and diluted share in 2008. The increase in net income in 2009 was primarily due to a higher proportion of RTL products in the sales mix, higher average selling prices and benefits of strategic actions taken over the prior three years to reduce manufacturing costs.

Liquidity and Capital Resources

A major factor in our liquidity and capital resource planning is our generation of cash flow from operations, which is sensitive to changes in the sales mix, volume and pricing of our products, as well as changes in our production volumes, costs and working capital. Our liquidity is supplemented by funds contractually available under our revolving credit facility with a syndicate of banks that is used as either operating conditions or strategic opportunities warrant. Our ability to access contractually available funds depends on the continued performance by our lenders. We believe we have adequate funds on hand and sufficient borrowing capacity to meet our obligations and execute our operating strategy.

Capital spending for 2011 excluding RTL-related investments is currently projected to range between \$20 and \$30 million. Other cash needs, including employee severance payments associated with restructuring actions and capitalized software spending are projected to range between \$25 and \$40 million. In December 2010, the board of

directors authorized the repurchase of up to \$30 million in common stock. During February 2011, the Company repurchased 525,000 shares on the open market for \$30.0 million under this authorization. Additionally, in conjunction with employees' restricted stock vesting to-date in 2011, employees have surrendered 278,337 shares to the Company and the Company has remitted approximately \$15.9 million to satisfy associated tax withholdings on behalf of the employees. As a result of the recent announcement to suspend the RTL Philippines construction project, we are evaluating costs required to bring the project to an orderly suspension, including equipment purchases, which preliminarily are estimated to be \$15 to \$35 million. We plan to fund our capital projects using cash on-hand, cash generated from operations and our existing credit facilities.

Cash Requirements

As of December 31, 2010, we had net operating working capital of \$47.4 million and cash and cash equivalents of \$87.3 million, compared with net operating working capital of \$78.1 million and cash and cash equivalents of \$56.9 million as of December 31, 2008. Changes in these absolute amounts include the impacts of changes in currency exchange rates which are not included in the changes in operating working capital presented on the consolidated statements of cash flow. Based upon our existing cash and operating working capital levels, expected operating cash flows and capital spending, contractual availability of borrowings under our existing credit facilities and continued performance by our lenders, we believe we have the necessary financial resources to satisfy our current and future liquidity needs.

Cash Flows from Operating Activities

	For the Years Ended December 31,		
	2010	2009	2008
	(\$ in millions)		
Net income	\$ 65.3	\$ 35.6	\$ 0.9
Less: Loss from discontinued operations	6.1	24.0	15.8
Income from continuing operations	71.4	59.6	16.7
Non-cash items included in net income			
Depreciation and amortization	40.0	43.9	45.0
Asset impairment charges and restructuring-related accelerated depreciation	4.5	12.1	4.1
Amortization of deferred revenue	(7.2)	(5.1)	(5.8)
Deferred income tax provision (benefit)	25.4	22.0	(18.2)
(Income) loss from equity affiliates	(3.2)	(1.1)	4.0
Pension and other postretirement benefits	2.1	(20.6)	(2.5)
Stock-based compensation	7.7	8.2	0.8
Other items	(3.4)	1.2	—
Net changes in operating working capital	26.7	(42.7)	(7.4)
Net cash provided (used) by operating activities of:			
-Continuing operations	164.0	77.5	36.7
-Discontinued operations	(22.9)	(14.1)	(3.4)
Cash Provided by Operations	\$ 141.1	\$ 63.4	\$ 33.3

Net cash provided by operations was \$141.1 million in 2010 compared with \$63.4 million in 2009. The \$77.7 million increase in 2010 was due to increased net income, improved working capital and lack of contributions to our U.S. pension and other postretirement plans compared to \$27.3 million in contributions in 2009.

Prior to 2002, our cash provided by operations included advance payments from customers for future product purchases. We recorded these advance payments as deferred revenue, which is now being amortized into net sales as earned and credited to customers based upon a mutually agreed-upon amount per unit of product sales. We had \$6.0 million of deferred revenue on our December 31, 2010 consolidated balance sheet. At the current volume levels, we expect to fully amortize this amount by recognizing amortization in 2011.

Operating Working Capital

	For the Years Ended December 31,		
	2010	2009	2008
	(\$ in millions)		
Changes in operating working capital:			
Accounts receivable	\$ (15.8)	\$ 1.8	\$ 1.3
Inventories	9.9	(10.2)	7.3
Prepaid expenses	(0.1)	1.2	0.3
Accounts payable	17.4	(17.9)	(4.1)
Accrued expenses	(5.5)	10.6	(8.5)
Accrued income taxes	20.8	(28.2)	(3.7)
Net changes in operating working capital	\$ 26.7	\$ (42.7)	\$ (7.4)

In 2010, net changes in operating working capital were favorable to cash flow by \$26.7 million, primarily due to receipt of a \$20 million tax refund in France and higher accounts payable. These increases were partially offset by increases in accounts receivable.

In 2009, net changes in operating working capital was unfavorable to cash flow by \$6.8 million, primarily due to lower accrued income taxes as a result of estimated income tax payments in France which were refunded in 2010 and lower accounts payable in part as a result of a 2009 French law limiting vendor payment terms to 60 days. Partially offsetting these increases in working capital, accrued expense increased primarily from restructuring-related severance accruals.

During 2008, changes in operating working capital contributed unfavorably to cash flow by \$6.8 million, primarily due to decreased accrued expenses and accrued income taxes resulting from payments of prior period accruals for restructuring, incentive compensation, and income taxes. These increases in net working capital were partially offset by lower inventories due primarily to sales of inventories built up in advance of the Lee Mills shutdown.

Cash Flows from Investing Activities

	For the Years Ended December 31,		
	2010	2009	2008
	(\$ in millions)		
Capital spending	\$ (73.7)	\$ (15.3)	\$ (35.3)
Capitalized software costs	(9.3)	(5.5)	(6.4)
Acquisitions, net of cash acquired	—	—	(51.3)
Investment in equity affiliates	—	—	(1.9)
Other	1.8	0.6	(0.2)
Cash Used for Investing	\$ (81.2)	\$ (20.2)	\$ (95.1)

During 2010, cash used for investing activities increased due to capital spending of \$73.7 million related to constructing an RTL facility in the Philippines and an LIP facility in Poland. The Company also spent \$9.1 million to implement new enterprise-wide information software in the U.S., Brazil and Poland.

Cash used for investing activities decreased in 2009 by \$74.9 million versus 2008 primarily due to the lack of acquisitions in 2009, lower capital spending and no investments in equity affiliates.

Cash used for investing activities increased in 2008 by \$22.2 million versus 2007 primarily due to the \$51.3 million acquisition of the LTRI noncontrolling interest partially offset by lower capital spending and lower investments in equity affiliates. We made our final contractual equity contribution in January 2008 of \$1.9 million to the China paper joint venture.

Capital Spending

Capital spending was \$73.7 million, \$15.3 million and \$35.3 million in 2010, 2009 and 2008, respectively. In 2010, the Company used \$35.9 million in the construction of an RTL facility in the Philippines, \$15.8 million to construct an LIP facility in Poland and \$7 million in France to purchase an LIP printing press. There were no major projects in 2009. In 2008, spending for capital projects included \$5.3 million at PdM for a paper machine rebuild and improvements to the bobbin slitting process, \$3.8 million for a new coating machine at the Newberry, South Carolina facility and \$2.1 million for improvements at LTRI.

We incur spending necessary 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. For these purposes, we incurred total capital expenditures of \$0.5 million in 2010 and expect to incur \$2 million to \$3 million in 2011 and less than \$1 million in 2012, of which no material amount was the result of environmental fines or settlements. Including expenditures associated with environmental matters, as of December 31, 2010, we had no material unrecorded outstanding commitments for capital expenditures. The foregoing capital expenditures to protect the environment are not expected to have a material adverse effect on our financial condition or results of operation.

Capitalized software costs totaled \$9.3 million, \$5.5 million and \$6.4 million in 2010, 2009 and 2008, respectively. In 2010, the Company spent \$9.1 million to implement an enterprise-wide information system in the U.S., Brazil and Poland. Capitalized software costs in 2009 included \$2.3 million for an enterprise-wide information system in the U.S. and Brazil and \$3.2 million in charges from our implementation in France. During the period of 2005 to 2009, we spent a total of \$21.3 million on the French project. The enterprise-wide information system is now fully implemented in France.

Acquisitions

We purchased the noncontrolling interest in LTRI in January 2008 for \$51.3 million.

Cash Flows from Financing Activities

	For the Years Ended December 31,		
	2010	2009	2008
	(\$ in millions)		
Cash dividends paid to SWM stockholders	\$ (10.8)	\$ (9.6)	\$ (9.4)
Net changes in debt	(4.8)	(122.5)	85.5
Issuances of common stock	—	117.4	—
Purchases of treasury stock	(19.0)	(0.8)	(6.3)
Proceeds from exercise of stock options	2.2	13.3	0.2
Excess tax benefits of stock-based awards	1.6	3.3	—
Cash Provided by (Used for) Financing	\$ (30.8)	\$ 1.1	\$ 70.0

During 2010, financing activities included \$19.0 million to purchase 388,694 shares of SWM stock, \$10.8 million in cash dividends paid to SWM stockholders, repayments of debt of \$56.3 million and net borrowings of \$51.5 million.

Financing activities during 2009 included net borrowings of \$33.5 million and repayments of \$156.0 million. In November 2009, the Company completed a secondary stock offering and received net proceeds of \$117.4 million. Other 2009 financing activities included proceeds from stock option exercises of \$13.3 million for which we received \$3.3 million of tax benefits, cash dividends of \$9.6 million paid to SWM stockholders as well as purchases of 56,953 shares of common stock for \$0.8 million.

Financing activities during 2008 included net borrowings of \$129.8 million and repayments of \$44.3 million. Other 2008 financing activities included cash dividends of \$9.4 million paid to SWM stockholders as well as purchases of 388,309 shares of common stock for \$6.3 million.

Dividend Payments

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. Our Credit Agreement covenants require us to maintain certain financial ratios, as disclosed in Note 11, Debt, of the Notes to Consolidated Financial Statements, none of which under normal business conditions materially limit our ability to pay such dividends.

On February 2, 2011, we announced that the Board of Directors had declared a quarterly cash dividend of \$0.15 per share of Common Stock. The dividend will be payable on March 24, 2011 to stockholders of record on February 24, 2011.

Share Repurchases

In 2010 and 2009, we repurchased 388,694 and 56,953 shares of our common stock, respectively, at a cost of \$ \$19.0 million and \$0.8 million, respectively. See Part II, Item 5, Repurchases of Equity Securities. Corporate repurchases are effected during open trading windows or pursuant to 10b5-1 plans that permit share repurchases to 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.

Debt Instruments

	For the Years Ended December 31,		
	2010	2009	2008
	(\$ in millions)		
Changes in short-term debt	\$ 3.3	\$ (23.8)	\$ 18.9
Proceeds from issuances of long-term debt	48.2	33.5	110.9
Payments on long-term debt	(56.3)	(132.2)	(44.3)
Net changes in debt	\$ (4.8)	\$ (122.5)	\$ 85.5

In 2010, primarily due to higher operating cash flow, our net payments on long-term debt were \$56.3 million. We anticipate additional borrowings in the range of approximately \$30 to \$45 million during 2011. With this level of borrowing and forecasted operating results, we expect to remain in compliance with our Credit Agreement financial covenants.

As of December 31, 2010, we had \$95.0 million available on our U.S. Revolver and \$73.6 million available on our Euro Revolver. We also had contractual availability under our bank overdraft facilities and lines of credit of \$27.2 million as of December 31, 2010. The Credit Agreement contains covenants that are customary for facilities of this type that, among other things, require the Company to maintain (a) a net debt to equity ratio not to exceed 1.0 and (b) a net debt to adjusted EBITDA ratio not to exceed 3.0. As of December 31, 2010, the net debt to equity ratio was (0.07), and the net debt to adjusted EBITDA ratio was (0.22).

Our total debt to capital ratios at December 31, 2010 and December 31, 2009 were 9.0% and 11.1%, respectively.

Other Factors Affecting Liquidity and Capital Resources

The following table represents our future contractual cash requirements for the next five years and thereafter for our long-term debt obligations and other commitments (\$ in millions):

	Total	Payments due for the periods ended					
		2011	2012	2013	2014	2015	Thereafter
Contractual Obligations							
Current debt (1)	\$ 8.7	\$ 8.7	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt (2)	43.1	—	34.5	2.3	3.0	3.3	—
Debt interest (3)	2.4	0.7	0.7	0.6	0.4	—	—
Restructuring obligations (4)	19.2	19.2	—	—	—	—	—
Minimum operating lease payments (5)	8.9	1.2	1.2	1.2	1.1	1.1	3.1
Purchase obligations – raw materials (6)	68.3	41.0	24.0	2.2	1.1	—	—
Purchase obligations – energy (7)	105.9	44.1	28.6	3.9	3.9	3.9	21.5
Purchase obligations – capital projects (8)	38.5	38.5	—	—	—	—	—
Other long-term liabilities (9) (10) (11)	—	—	—	—	—	—	—
Total	\$ 295.0	\$ 153.4	\$ 89.0	\$ 10.2	\$ 9.5	\$ 8.3	\$ 24.6

(1) Current debt includes borrowings against bank overdraft facilities; see Note 11, Debt, of the Notes to Consolidated Financial Statements.

(2) See additional information regarding long-term debt in Note 11, Debt, of the Notes to Consolidated Financial Statements.

(3) The amounts reflected in debt interest are based upon the short-term and long-term scheduled principal maturities and interest rates in effect as of December 31, 2010. Where specific maturities are not stated, such as for an overdraft line-of-credit, a repayment date coinciding with the end of the year was used for purposes of these calculations. Since our debt is largely variable interest rate debt, applicable market interest rates were assumed to be the same as at December 31, 2010 for purposes of these calculations. With respect to our variable-rate debt outstanding at December 31, 2010, a 100 basis point increase in interest rates would increase our debt interest obligation by \$0.4 million in 2011. For more information regarding our outstanding debt and associated interest rates, see Note 11 Debt, of the Notes to Consolidated Financial Statements.

(4)

Restructuring obligations are more fully discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, Recent Developments, Note 3, Discontinued Operations and Note 10, Restructuring and Impairment Activities, of the Notes to Consolidated Financial Statements. In 2011, restructuring payments are expected to be \$10.0 million for continuing operations and \$9.2 million for discontinued operations.

- (5) Minimum operating lease payments relate to our future minimum obligations under non-cancelable operating leases having an initial or remaining term in excess of one year as of December 31, 2010. In addition, our total future minimum obligations under non-cancelable operating leases having an initial or remaining term in excess of one year as of December 31, 2010 are \$1.0 million or less annually over each of the next five years.
- (6) Purchase obligations for raw materials include our calcium carbonate purchase agreement at our mill in Quimperlè, France, in which a vendor operates an on-site calcium carbonate plant and our mill has minimum purchase quantities. See Note 17, Commitments and Contingencies, of the Notes to Consolidated Financial Statements for additional information.
- (7) Purchase obligations for energy include obligations under agreements with (1) an energy cogeneration supplier at our mills in Quimperlè and Spay, France, to supply steam and our mills have minimum purchase commitments (2) a natural gas supplier to supply and distribute 100% of the natural gas needs of our Quimperlè mill and (3) an energy supplier to supply a constant supply of electricity for our Pirahy mill in Brazil. See Note 17, Commitments and Contingencies, of the Notes to Consolidated Financial Statements for additional information.
- (8) Purchase obligations for capital projects include obligation under agreements to purchase equipment in the Philippines.
- (9) We had no other long-term liabilities as defined for purposes of this disclosure by the SEC as of December 31, 2010.
- (10) The amounts reflected in other long-term liabilities do not include any amounts for our pension obligations. The pension obligations are funded by our separate pension trusts, which held \$121.5 million in assets at December 31, 2010. The combined projected benefit obligation, or PBO, of our U.S. and French pension plans was underfunded by \$32.6 million and \$27.2 million as of December 31, 2010 and 2009, respectively. We make contributions to our pension trusts based on many factors including regulatory guidelines, investment returns of the trusts and availability of cash for pension contributions versus other priorities. We were not required to make contributions to our U.S. and French pension plans during 2010. We expect 2011 funding to be in compliance with the Pension Protection Act of 2006 and have no required contributions in 2011. For information regarding our long-term pension obligations and trust assets, see Note 15, Postretirement and Other Benefits, of the Notes to Consolidated Financial Statements.

(11) The amounts reflected in other long-term liabilities do not include any amounts for our postretirement healthcare and life insurance benefits. Such payments are dependent upon the incurrence of costs and filing of claims by our retirees and thus the amounts of such future payments are uncertain. Our net payments under these plans were \$1.0 million in both of the years ended December 31, 2010 and 2009. Based on this past experience, we currently expect our share of the net payments to be approximately \$1 million during 2011 for these benefits. For more information regarding our retiree healthcare and life insurance benefit obligations, see Note 15, Postretirement and Other Benefits, of the Notes to Consolidated Financial Statements.

Outlook

As highlighted by our recent announcements of progress in securing customer agreements for supplying LIP cigarette paper to the European market and changes in SWM's Asian RTL strategy, 2011 will again be a critically important year for SWM. We believe that our continued focus on sound execution will deliver in 2011 another year of financial success as we advance our strategies. Two significant business developments are expected to impact SWM's financial results in 2011: European LIP introduction and decreases in RTL demand, as well as other changes in our business including lower wood pulp prices and stable foreign currency exchange relationships. Most critical to our current projections are each of the key European LIP business drivers, including market share, cost performance for SWM's new LIP capacity and the timing and rate of introduction of European LIP regulations.

During 2010, we sharpened our strategic focus and accelerated the deployment of Lean Six Sigma to achieve our operational excellence ambitions. Our renewed focus on driving business efficiency will benefit both top-line and bottom-line growth as we commit to achieving business excellence in every area of our organization including sales and marketing, research and development, procurement, production and global supply. Our commitment to operational excellence will support our efforts to deliver the best total value to customers.

With the expected advent of LIP requirements in the European Union in 2011, we are poised to further strengthen our market position in this premium application and significantly improve the margin profile of our core paper business.

In light of increased volatility and a developing oversupply condition within the leaf tobacco sector, we recently announced changes to our Asian reconstituted tobacco strategy. The decision to suspend the construction of the greenfield RTL facility in the Philippines and redirect the capacity expansion plan to serve the Chinese market is both opportunistic and strategic. By accelerating establishment of a domestic production site in China through a joint venture, at a time when RTL demand is expected to more than double in China over the next five years, SWM can fully leverage its leading technology and expertise in the area of tar reduction. The Chinese expansion is expected to considerably strengthen our business platform in this strategic market with direction to better serve domestic customers on the fast growing premium cigarette segment and help China achieve success as new regulations targeting smoke delivery reductions become implemented.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to the safe harbor created by that Act. These statements include those in the "Outlook" and "Critical Accounting Policies and Estimates" sections and our expectations elsewhere in Management's Discussion and Analysis of Financial Condition and Results of Operation, and in "Factors That May Affect Future Results" under "Risk Factors" in Item 1A. They also include statements containing "expect," "anticipate," "project," "appears," "should," "could," "may," "typical" and similar words. Actual results may differ materially from the results suggested by these statements for a number of reasons, including the following:

-

Schweitzer-Mauduit has manufacturing facilities in seven countries, a joint venture in China, and sells products in over 90 countries. As a result, it is subject to a variety of import and export, tax, foreign currency, labor and other regulations within these countries. Changes in these regulations, or adverse interpretations or applications, as well as changes in currency exchange rates, could adversely impact the Company's business in a variety of ways, including increasing expenses, decreasing sales, limiting its ability to repatriate funds and generally limiting its ability to conduct business. In Brazil, we are currently generating more value-added tax credits than we utilize. As of December, 31, 2010, these credits totaled \$14.8 million. We have applied for a special government action to obtain tax exempt status in the state of Rio de Janeiro to enable more rapid utilization of these credits. We expect approval and, if successful, this and other actions should allow our Brazilian operation to utilize more credits than it generates on an annual basis. These credits do not expire; however, if the exemption is not obtained, we may record an allowance for a significant portion of the balance.

¶The Company's sales are concentrated to a limited number of customers. In 2010, 45% of its sales were to its three largest customers. The loss of one or more of these customers, or a significant reduction in one or more of these customers' purchases, could have a material adverse effect on the company's results of operations.

¶The Company's financial performance is materially impacted by sales of both reconstituted tobacco products and cigarette paper for lower ignition propensity cigarettes. A significant change in sales or production volumes, pricing or manufacturing costs of these products could have a material impact on future financial results. In this regard, Philip Morris – USA began advising the Company in 2009 that it disputes the manner in which the Company has calculated costs for banded cigarette papers under a cost-plus based contract for this product during the period April 2009 through December 2010. Notwithstanding that the dispute is now over a year old, and SWM has consistently advised Philip Morris – USA that it disagrees with its position, Philip Morris -USA has to date not instituted any formal action to bring this matter to a close. Philip Morris - USA has also consistently paid the full invoiced amount from the date of the first notice of dispute to the present thereby avoiding any contention by SWM that the agreement has been breached for non-payment. Philip Morris - USA's action reflects a requirement found in the Virginia Uniform Commercial Code, the law that governs the contract, that suggests a party making full payment of a disputed invoice potentially waives any right to recover the amount paid unless such payment is accompanied by an explicit reservation of rights. Currently, the disputed amount is approximately \$24.4 million. While the Company believes that it has properly calculated the amount it invoiced, the ultimate resolution of this dispute, if unfavorable to the Company, could have a material adverse effect on the Company's results of operations.

As a result of excess capacity in the tobacco-related papers industry and increased operating costs, competitive levels of selling prices for certain of the Company's products are not sufficient to cover those costs with a margin that the Company considers reasonable. Such competitive pressures have resulted in downtime of certain paper machines and, in some cases, accelerated depreciation or impairment charges for certain equipment as well as employee severance expenses associated with downsizing activities. The Company will continue to disclose any such actions as they are announced to affected employees or otherwise become certain and will continue to provide updates to any previously disclosed expectations of expenses associated with such actions.

The demand for our reconstituted paper product is subject to change depending on the rate at which this product is included in the blend that forms the column of tobacco in various cigarette brands as well as the supply and cost of natural tobacco leaf, which serves to an extent as a substitute for reconstituted tobacco. A change in the inclusion rate or the dynamics of the natural leaf tobacco market can have a material adverse effect on the volume of reconstituted tobacco sales, the price for reconstituted tobacco or both, either of which can have a material adverse effect on our earnings from that product line. In past years, the Company has experienced the adverse effects for one or more years related to changes in the demand and supply relationship for natural leaf.

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 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. Also in recent years, certain governmental entities, particularly in North America, have enacted, considered or proposed actions that would require cigarettes to meet specifications aimed at reducing their likelihood of igniting fires when the cigarettes are not actively being smoked. Furthermore, it is not possible to predict what additional legislation or regulations relating to tobacco products will be enacted, or to what extent, if any, such legislation or regulations might affect our business.

Our portfolio of granted patents varies by country, which could have an impact on any competitive advantage provided by patents in individual markets. We rely on patent, trademark, and other intellectual property laws of the United States and other countries to protect our intellectual property rights. In order to maintain the benefits of our patents, we may be required to enforce certain of our patents against infringement through court actions. However, we may be unable to prevent third parties from using our intellectual property or infringing on our patents without our authorization, which may reduce any competitive advantage we have developed. If we have to litigate to protect these rights, any proceedings could be costly, time consuming, could divert management resources, and we may not prevail. We cannot guarantee that any United States or foreign patents, issued or pending, will continue to provide us with any competitive advantage or will not be successfully challenged by third parties. We do not believe that any of our products infringe the valid intellectual property rights of third parties. However, we may be unaware of intellectual property rights of others that may cover some of our products or services. In that event, we may be subject to significant claims for damages. Effectively policing our intellectual property and patents is time consuming and costly, and the steps taken by us may not prevent infringement of our intellectual property, patents or other proprietary rights in our products, technology and trademarks, particularly in foreign countries where in many instances the local laws or legal systems do not offer the same level of protection as in the United States.

Oppositions were filed in December 2009 with the European Patent Office (EPO) contesting the grant by the EPO to the Company of patent number EP-1482815. The Company believes that the EPO properly granted the patent and it intends to respond to the opposition arguments. However, the final resolution of the oppositions could result in the invalidation of the patent or a further limitation of the scope of the patent claims which could affect the competitive value of the patent. The outcome of this dispute would not prevent the Company from practicing its Alginex® LIP solution.

Further, the Company filed an infringement action on February 8, 2010 in the United States District Court for South Carolina, Charleston Division, against multiple defendants alleging infringement of the Company's United States Patent Number 6,725,867 and a First Amended Complaint on June 1, 2010 which added claims of alleged infringement under United States Patent Number 5,878,753 and further specification of the products alleged to violate said patents. Adversarial proceedings present uncertainties and risks, which could include invalidation of the patent in dispute, a change in the scope of the patent claims, or an adverse determination on the question of infringement, among others. The outcome of this dispute would not prevent the Company from practicing its Alginex® LIP solution.

On December 17, 2010, the Company filed a complaint with the International Trade Commission under Section 337 of the Tariff Act of 1930 as amended, 19 U.S.C. § 1337, against multiple respondents based on the unlawful importation into the United States, the sale for importation, and the sale within the United States after importation of certain reduced ignition proclivity cigarette paper wrappers and products containing same that infringe, or are made or produced under, or by means of, a process covered by, one or more of claims 36, 43, and 45 of United States Patent No. 6,725,867 and claims 1-6, 10-18, and 22-25 of United States Patent No. 5,878,753. Upon further investigation and discovery, SWM may identify additional accused products and/or seek to assert additional claims. The complaint requests the ITC to issue an exclusion order and cease and desist orders. By notice dated January 13, 2011, the ITC instituted an investigation. The outcome of this action will not impact on the Company's right to produce and sell its flagship Alginex® papers for LIP cigarettes. An adverse outcome would not be dispositive of the claims asserted in the civil action filed in Charleston, South Carolina although the institution of the ITC action does give the respondents the statutory right to have the civil action filed in South Carolina stayed pending the completion of the ITC investigation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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. 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 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 money center banks, insurance companies or government agencies, collectively known as counterparties. Usually, these contracts extend for no more than 12 months. We expect to continue to apply forward currency hedging in our Brazilian operations through 2013. As of December 31, 2010, a 10% 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 \$4.4 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 could 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.

Interest Rate Risk

We hold a combination of variable- and fixed-rate debt consisting of short-term 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 2010, 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, 2010, a 10% 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, 2010, a 100 basis point increase 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 2008 through December 2010, 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 \$635 per metric ton in April 2009 to a high of \$1,020 per metric ton in June 2010. 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% change in per ton wood pulp prices would impact our future annual pre-tax earnings by approximately \$6.2 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 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% change in per unit prices would impact our future annual pre-tax earnings by approximately \$7.5 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.

Item 8. Financial Statements and Supplementary Data

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Schedules have been omitted because they are either not required, not applicable or the required information is included in the consolidated financial statements or notes thereto.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(dollars in millions, except per share and share amounts)

	For the Years Ended December 31,		
	2010	2009	2008
Net Sales	\$740.2	\$719.6	\$724.5
Cost of products sold	543.6	531.8	617.9
Gross Profit	196.6	187.8	106.6
Selling expense	19.0	19.4	20.8
Research expense	8.5	8.0	7.9
General expense	46.1	47.3	31.5
Total nonmanufacturing expenses	73.6	74.7	60.2
Restructuring and impairment expense	13.4	23.9	6.5
Operating Profit	109.6	89.2	39.9
Interest expense	1.8	4.3	9.5
Other income (expense), net	0.2	(1.1)	(3.3)
Income from Continuing Operations Before Income Taxes and Income (Loss) from Equity Affiliates	108.0	83.8	27.1
Provision for income taxes	39.8	25.3	6.4
Income (Loss) from equity affiliates	3.2	1.1	(4.0)
Income from Continuing Operations	71.4	59.6	16.7
Loss from Discontinued Operations	(6.1)	(24.0)	(15.8)
Net Income	65.3	35.6	0.9
Less: Net income attributable to noncontrolling interest	—	—	0.2
Net Income Attributable to SWM	\$65.3	\$35.6	\$0.7
Net Income Per Share - Basic:			
Income per share from continuing operations	\$3.94	\$3.80	\$1.06
Loss per share from discontinued operations	(0.34)	(1.53)	(1.02)
Net income per share - basic	\$3.60	\$2.27	\$0.04
Net Income per Share – Diluted:			
Income per share from continuing operations	\$3.86	\$3.69	\$1.05
Loss per share from discontinued operations	(0.33)	(1.49)	(1.01)
Net income per share – diluted	\$3.53	\$2.20	\$0.04
Weighted Average Shares Outstanding:			
Basic	17,686,700	15,550,100	15,339,700
Diluted	18,049,400	16,003,500	15,372,400

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 and share amounts)

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 87.3	\$ 56.9
Accounts receivable	98.9	85.8
Inventories	113.8	127.3
Income taxes receivable	0.9	23.4
Other current assets	11.9	6.3
Total Current Assets	312.8	299.7
Property, Plant and Equipment, net	440.8	401.1
Deferred Income Tax Benefits	11.8	17.3
Goodwill and Intangible Assets	8.8	14.1
Investment in Equity Affiliates	20.5	16.6
Other Assets	55.7	43.1
Total Assets	\$ 850.4	\$ 791.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current debt	\$ 8.7	\$ 17.7
Accounts payable	66.4	46.7
Accrued expenses	105.6	115.5
Current deferred revenue	6.0	6.0
Total Current Liabilities	186.7	185.9
Long-Term Debt	43.1	42.4
Pension and Other Postretirement Benefits	46.3	38.4
Deferred Income Tax Liabilities	28.9	14.2
Deferred Revenue	—	7.2
Other Liabilities	21.2	21.6
Total Liabilities	326.2	309.7
Stockholders' Equity:		
Preferred stock, \$0.10 par value; 10,000,000 shares authorized; none issued	—	—
Common stock, \$0.10 par value; 100,000,000 shares authorized; 18,721,474 and 18,633,235 shares issued at December 31, 2010 and 2009, respectively; 18,027,903 and 17,874,885 shares outstanding at December 31, 2010 and 2009, respectively	1.9	1.9
Additional paid-in-capital	208.8	205.7
Common stock in treasury, at cost, 693,571 and 758,350 shares at December 31, 2010 and 2009, respectively	(24.4)	(14.0)
Retained earnings	336.4	281.9
Accumulated other comprehensive income, net of tax	1.5	6.7
Total Stockholders' Equity	524.2	482.2
Total Liabilities and Stockholders' Equity	\$ 850.4	\$ 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)

For the Years Ended December 31, 2010, 2009 and 2008

	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	Shares Issued	Amount		Shares	Amount				
Balance, December 31, 2007	16,078,733	\$ 1.6	\$ 68.0	570,336	\$ (12.3)	\$ 264.6	\$ 19.9	\$ 26.0	\$ 367.8
Net income						0.7		0.2	0.9
Adjustments to unrealized foreign currency translation							(28.7)		(28.7)
Adjustments to minimum pension liability, net of tax							(21.8)		(21.8)
Comprehensive loss, net of tax									(49.6)
Less:									
Comprehensive income attributable to noncontrolling interest, net of tax									0.2
Comprehensive income attributable to SWM, net of tax									(49.8)
Acquisition of noncontrolling interest								(26.2)	(26.2)
Dividends declared (\$0.60 per share)						(9.4)			(9.4)
Restricted stock issuances, net			(4.2)	(189,646)	4.2				—
Stock-based employee compensation			0.8						0.8

expense									
Stock issued to directors as compensation			0.1	(6,096)					0.1
Purchases of treasury stock				388,309	(6.3)				(6.3)
Issuance of shares for options exercised	—	—	(0.1)	(13,950)	0.3	—	—	—	0.2
Balance, December 31, 2008	16,078,733	1.6	64.6	748,953	(14.1)	255.9	(30.6)	—	277.4
Net income						35.6			