

SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-Q
November 04, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____

1-13948

(Commission file number)

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

30022
(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The Company had 30,472,399 shares of common stock issued and outstanding as of November 4, 2015.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

TABLE OF CONTENTS

	Page
Part I. - Financial Information	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	43
Part II. - Other Information	
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 3. <u>Defaults Upon Senior Securities</u>	44
Item 4. <u>Mine Safety Disclosures</u>	44
Item 5. <u>Other Information</u>	44
Item 6. <u>Exhibits</u>	45
<u>Signatures</u>	46
<u>Glossary of Terms</u>	47

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net Sales	\$184.4	\$204.3	\$554.3	\$612.6
Cost of products sold	132.0	151.4	395.7	442.9
Gross Profit	52.4	52.9	158.6	169.7
Selling expense	5.5	5.5	16.0	16.5
Research expense	3.5	3.6	10.5	11.9
General expense	10.3	15.3	43.3	45.9
Total nonmanufacturing expenses	19.3	24.4	69.8	74.3
Restructuring and impairment expense	1.3	3.3	10.5	6.6
Operating Profit	31.8	25.2	78.3	88.8
Interest expense	1.7	1.8	5.3	5.4
Other income, net	1.3	2.7	9.5	6.3
Income from Continuing Operations before Income Taxes and Income from Equity Affiliates	31.4	26.1	82.5	89.7
Provision for income taxes	5.9	2.3	17.9	18.6
Income (loss) from equity affiliates, net of income taxes	0.1	(0.7	) 4.3	0.2
Income from Continuing Operations	25.6	23.1	68.9	71.3
Income (loss) from Discontinued Operations	0.2	(0.1	) (0.9	) (0.1
Net Income	\$25.8	\$23.0	\$68.0	\$71.2
Net Income per Share - Basic:				
Income per share from continuing operations	\$0.84	\$0.76	\$2.26	\$2.33
Income (loss) per share from discontinued operations	0.01	—	(0.03) —
Net income per share – basic	\$0.85	\$0.76	\$2.23	\$2.33
Net Income per Share – Diluted:				
Income per share from continuing operations	\$0.84	\$0.76	\$2.25	\$2.32
Income (loss) per share from discontinued operations	0.01	—	(0.03) —
Net income per share – diluted	\$0.85	\$0.76	\$2.22	\$2.32
Weighted Average Shares Outstanding:				
Basic	30,275,400	30,098,300	30,243,000	30,284,900
Diluted	30,408,600	30,225,500	30,366,600	30,402,700

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

1

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

(dollars in millions)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
Net Income	\$25.8	\$23.0	\$68.0	\$71.2
Other Comprehensive (Loss) Income, net of tax:				
Foreign currency translation adjustments	(6.3	) (37.2	) (42.1	) (39.6
Unrealized (losses) gains on derivative instruments	(15.4	) (1.9	) (25.1	) 3.2
Less: Reclassification adjustment for losses on derivative instruments included in net income	3.7	0.8	7.3	3.0
Reclassification adjustment for amortization of postretirement benefit plans' costs included in net periodic benefit cost	(0.5	) 0.7	(1.8	) 2.3
Other Comprehensive Loss	(18.5	) (37.6	) (61.7	) (31.1
Comprehensive Income (Loss)	\$7.3	\$(14.6	) \$6.3	\$40.1

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

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)
(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$268.5	\$290.3
Accounts receivable, net	119.1	93.9
Inventories	102.4	108.4
Income taxes receivable	—	11.5
Current deferred income tax benefits	9.5	9.2
Assets held for sale	5.8	—
Other current assets	5.6	6.1
Total Current Assets	510.9	519.4
Property, Plant and Equipment, net	313.4	362.0
Investment in Equity Affiliates	66.3	67.8
Goodwill	124.5	125.5
Intangible Assets	85.6	89.3
Other Assets	19.2	22.6
Total Assets	\$1,119.9	\$1,186.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current debt	\$3.1	\$2.9
Accounts payable	39.9	44.8
Income taxes payable	1.2	—
Accrued expenses	77.8	75.8
Total Current Liabilities	122.0	123.5
Long-Term Debt	397.0	437.2
Pension and Other Postretirement Benefits	38.1	34.1
Deferred Income Tax Liabilities	68.3	71.4
Other Liabilities	34.5	31.4
Total Liabilities	659.9	697.6
Stockholders' Equity:		
Preferred stock, \$0.10 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.10 par value; 100,000,000 shares authorized; 30,475,744 and 30,465,522 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	3.0	3.0
Additional paid-in-capital	52.1	49.8
Retained earnings	543.1	512.7
Accumulated other comprehensive loss, net of tax	(138.2	) (76.5
Total Stockholders' Equity	460.0	489.0
Total Liabilities and Stockholders' Equity	\$1,119.9	\$1,186.6

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

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

	Common Stock Issued			Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Additional Paid-In Capital			
Balance, December 31, 2013	31,423,427	\$3.1	\$ 43.3	\$520.0	\$ (5.0)	\$561.4
Net income				71.2		71.2
Other comprehensive loss, net of tax					(31.1)	(31.1)
Dividends declared (\$1.08 per share)				(33.0)		(33.0)
Restricted stock issuances, net	198,180	—	—			—
Stock-based employee compensation expense			4.3			4.3
Excess tax benefits of stock-based employee compensation			0.6			0.6
Stock issued to directors as compensation	1,996	—	0.1			0.1
Purchases and retirement of common stock	(1,161,812)	(0.1)		(52.5)		(52.6)
Balance, September 30, 2014	30,461,791	\$3.0	\$ 48.3	\$505.7	\$ (36.1)	\$520.9
Balance, December 31, 2014	30,465,522	\$3.0	\$ 49.8	\$512.7	\$ (76.5)	\$489.0
Net income				68.0		68.0
Other comprehensive income, net of tax					(61.7)	(61.7)
Dividends declared (\$1.14 per share)				(34.7)		(34.7)
Restricted stock issuances, net	70,949	—	—			—
Stock-based employee compensation expense			1.7			1.7
Excess tax benefits of stock-based employee compensation			0.5			0.5
Stock issued to directors as compensation	2,638	—	0.1			0.1
Purchases and retirement of common stock	(63,365)	—		(2.9)		(2.9)
Balance, September 30, 2015	30,475,744	\$3.0	\$ 52.1	\$543.1	\$ (138.2)	\$460.0

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

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(dollars in millions)

(Unaudited)

	Nine Months Ended	
	September 30, 2015	September 30, 2014
Operating		
Net income	\$68.0	\$71.2
Less: Loss from discontinued operations	(0.9)	(0.1)
Income from continuing operations	68.9	71.3
Non-cash items included in net income:		
Depreciation and amortization	29.0	34.9
Restructuring-related impairment	3.5	—
Deferred income tax provision	0.5	2.6
Pension and other postretirement benefits	3.4	2.9
Stock-based compensation	1.8	4.3
Income from equity affiliates	(4.3)	(0.2)
Gain on sale of intangible assets	(4.3)	—
Excess tax benefits of stock-based awards	(0.5)	(0.6)
Cash dividends received from equity affiliates	3.9	4.4
Other items	0.3	(0.9)
Changes in operating working capital:		
Accounts receivable	(32.6)	(30.2)
Inventories	(3.0)	11.2
Prepaid expenses	—	(0.7)
Accounts payable	2.0	3.6
Accrued expenses	(1.5)	(5.1)
Accrued income taxes	12.6	(6.4)
Net changes in operating working capital	(22.5)	(27.6)
Net cash provided by operating activities of:		
- Continuing operations	79.7	91.1
- Discontinued operations	0.5	0.7
Net Cash Provided by Operations	80.2	91.8
Investing		
Capital spending	(14.0)	(26.2)
Capitalized software costs	(0.7)	(0.5)
Acquisitions, net of cash acquired	(0.4)	(2.3)
Investment in equity affiliates	—	(8.8)
Other investing	2.9	3.5
Net Cash Used in Investing	(12.2)	(34.3)

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

	Nine Months Ended	
	September 30, 2015	September 30, 2014
Financing		
Cash dividends paid to SWM stockholders	(34.7	) (33.0
Changes in short-term debt	0.2	5.5
Proceeds from issuances of long-term debt	35.5	215.3
Payments on long-term debt	(68.1	) (157.4
Purchases of common stock	(2.9	) (52.5
Excess tax benefits of stock-based awards	0.5	0.6
Net Cash Used in Financing	(69.5	) (21.5
Effect of exchange rate changes on cash and cash equivalents	(20.3	) (22.0
Increase in cash and cash equivalents	(21.8	) 14.0
Cash and cash equivalents at beginning of period	290.3	272.0
Cash and cash equivalents at end of period	\$268.5	\$286.0
Supplemental Cash Flow Disclosures		
Cash paid for interest	\$5.2	\$3.6
Cash (recovered) paid for taxes, net	\$(3.7	) \$30.5
Capital Spending in accounts payable and accrued liabilities	\$1.0	\$4.7

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

Note 1. General

Nature of Business

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

The primary products we sell to the tobacco industry include cigarette, plug wrap and base tipping papers, or Cigarette Papers, which are used to wrap various parts of a cigarette, and reconstituted tobacco leaf, or RTL, which is used as a blend with virgin tobacco in cigarettes, reconstituted tobacco wrappers and binders for cigars. We sell these products directly to tobacco companies or their designated converters in the Americas, Europe, Asia and elsewhere. We also sell a diverse mix of products to non-tobacco industries, including low volume, high-value engineered papers and commodity paper grades produced, among other reasons, to maximize our machine utilization. In December 2013, we acquired DelStar, Inc., or DelStar, a manufacturer of plastic netting and other resin-based products mainly focused on the filtration, industrial and medical market segments. The acquisition of DelStar diversifies SWM's global presence in advanced materials, particularly in filtration. In December 2014, we acquired in two separate transactions certain assets from Pronamic Industries, Inc. and Smith & Nephew's Advanced Wound Management Division, which we expect to complement the DelStar acquisition and which have been incorporated into our Advanced Materials & Structures (formerly Filtration) operating segment. As discussed more fully in Note 16. Subsequent Events, in October 2015, the Company completed the acquisition of Argotec Intermediate Holdings, LLC, or Argotec, a manufacturer of highly engineered thermoplastic polyurethane films for demanding specialty applications in surface protection, glass lamination and medical products. This acquisition will be incorporated into the Advanced Materials & Structures operating segment.

In September 2015, we changed the name of the Filtration segment to the Advanced Materials & Structures segment to reflect the nature of the businesses that comprise this segment.

We conduct business in over 90 countries and operate 17 production locations worldwide, with locations in the United States, United Kingdom, Canada, France, Luxembourg, Russia, Brazil, China and Poland. We also have a 50% equity interest in two joint ventures in China: China Tobacco Mauduit (Jiangmen) Paper Industry Ltd., or CTM, which produces cigarette and porous plug wrap papers, and China Tobacco Schweitzer (Yunnan) Reconstituted Tobacco Co. Ltd., or CTS, which produces RTL.

Basis of Presentation

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

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

The results of operations are not necessarily indicative of the results to be expected for the full year. The unaudited condensed consolidated financial statements and these notes thereto included herein should be read in conjunction with the audited consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on February 27, 2015.

7

Principles of Consolidation

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

Use of Estimates

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

Recent Accounting Pronouncements

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

In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity." The update requires an entity to determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of the relevant facts and circumstances (commonly referred to as the whole-instrument approach). This guidance is effective for annual periods beginning after December 15, 2015, and interim periods thereafter. Early adoption is permitted. The Company is currently in the process of evaluating the impact the adoption will have on the consolidated financial statements.

In February 2015, FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This update is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective approach to adoption or a modified retrospective approach, by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

In April 2015, FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This new standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liabilities, consistent with treatment of debt discounts or premiums. The recognition and measurement guidance for debt issuance costs would not be affected by the amendments in this Update. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years. The Company is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

In May 2015, FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Currently, investments valued using the practical expedient are categorized within the fair value hierarchy. There is diversity in how certain investments measured at net asset value with future redemption dates should be categorized within the fair value hierarchy which this update

8

addresses. If an investment has its fair value measured at net asset value per share (or its equivalent) using the practical expedient, it should not be categorized in the fair value hierarchy. Removing these types of investments from the fair value hierarchy chart eliminates the diversity in classification of these investments and ensures that all investments categorized in the fair value hierarchy are classified consistently. Investments that calculate net asset value per share (or its equivalent) without the use of the practical expedient will continue to be included in the fair value hierarchy. For public business entities, the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

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

In September 2015, FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." The provisions in this Update require an entity that acquires a business to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The entity is also required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

Note 2. Other Comprehensive Income

Comprehensive income includes net income, as well as items charged and credited directly to stockholders' equity, which are excluded from net income. The Company has presented comprehensive income in the condensed consolidated statements of comprehensive income (loss). Reclassification adjustments of derivative instruments are presented in Net Sales in the condensed consolidated statements of income. See Note 11. Derivatives for additional information. Amortization of accumulated pension and other post-employment benefit, or OPEB, liabilities are included in the computation of net periodic pension and OPEB costs, which are more fully discussed in Note 13. Postretirement and Other Benefits.

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

	September 30, 2015	December 31, 2014
Accumulated pension and OPEB liability adjustments, net of income tax of \$22.0 million and \$21.0 million at September 30, 2015 and December 31, 2014, respectively	\$(40.2)	\$(38.4)
Accumulated unrealized loss on derivative instruments, net of income tax of \$0.5 million and \$0.0 million at September 30, 2015 and December 31, 2014, respectively	(26.1)	(8.3)
Accumulated unrealized foreign currency translation adjustments	(71.9)	(29.8)
Accumulated other comprehensive loss	\$(138.2)	\$(76.5)

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

	Three Months Ended					
	September 30, 2015			September 30, 2014		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Pension and OPEB liability adjustments	\$(0.8)	\$0.3	\$(0.5)	\$1.2	\$(0.5)	\$0.7
Unrealized (loss) gain on derivative instruments	(11.9)	0.2	(11.7)	(1.0)	(0.1)	(1.1)
Unrealized foreign currency translation adjustments	(6.3)	—	(6.3)	(37.2)	—	(37.2)
Total	\$(19.0)	\$0.5	\$(18.5)	\$(37.0)	\$(0.6)	\$(37.6)

	Nine Months Ended					
	September 30, 2015			September 30, 2014		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Pension and OPEB liability adjustments	\$(2.8)	\$1.0	\$(1.8)	\$3.7	\$(1.4)	\$2.3
Unrealized (loss) gain on derivative instruments	(18.3)	0.5	(17.8)	5.8	0.4	6.2
Unrealized foreign currency translation adjustments	(42.1)	—	(42.1)	(39.6)	—	(39.6)
Total	\$(63.2)	\$1.5	\$(61.7)	\$(30.1)	\$(1.0)	\$(31.1)

Note 3. Business Acquisition

In December 2014, the Company acquired certain assets from Pronamic Industries, Inc., or Pronamic, and Smith & Nephew, or SNN. These assets were incorporated into SWM's Advanced Materials & Structures segment. The acquisition of these assets provided further opportunities for growth into the filtration and healthcare industries. These acquisitions were treated as business combinations and accounted for in accordance with the guidance provided by ASC 805, Business Combinations. The purchase price included initial cash payments of \$30.7 million, net of \$0.7 million in working capital adjustments and \$0.4 million in cash paid in June 2015 primarily for the additional adjustments to the value of working capital at the acquisition date.

An additional variable payment of up to \$3.5 million was potentially due in connection with one of the acquisitions. The ultimate payment was to be based on the performance of the assets over a period from the acquisition date through December 31, 2015. Of this amount, \$1.0 million was recorded at the acquisition date as a payable based on management's estimate of the fair value of the variable consideration as of that date. During the first half of 2015, however, this \$1.0 million was reversed through other income on the condensed consolidated statement of income based on current projections of performance of the assets through December 31, 2015. As part of a settlement of certain items that had arisen in 2015, in September 2015, the seller waived the right to payment from SWM.

As of September 30, 2015, the fair values of the assets acquired and liabilities assumed for the acquisition of assets from Pronamic and SNN are provisional because final appraisals have not yet been completed. The cash paid for these acquisitions and the preliminary fair values of the assets acquired and liabilities assumed as of the December 19, 2014 and December 31, 2014 acquisition dates for Pronamic assets and SNN assets, respectively, were as follows (\$ in millions):

	Preliminary Fair Value as Acquisition Date
Accounts receivable	\$3.5
Inventory	3.2
Other current assets	0.2
Property, plant and equipment	9.3
Identifiable intangible assets	11.6
Total Assets	27.8
Accounts payable	1.4
Accrued expenses	1.4
Net assets acquired	25.0
Goodwill	5.4
Cash paid	\$30.4

The Company used the income, market, or cost approach (or a combination thereof) for the preliminary valuation as appropriate and used valuation inputs in these models and analyses that were based on market participant assumptions. Market participants are considered to be buyers and sellers in the principal or most advantageous market for the asset or liability. For certain items, the carrying amount was determined to be a reasonable approximation of fair value based on information available to SWM management.

Properties acquired included two manufacturing and related facilities, land and leased sites that include leasehold improvements, and machinery and equipment for use in manufacturing operations. Management valued properties using the cost approach supported where available by observable market data which included consideration of obsolescence.

Intangible assets acquired included contracts with significant customers, technology related to products subject to a number of existing patents and trade know-how, and a number of customer relationships in water filtration, industrial filtration and healthcare industries. Management valued intangible assets using the relief from royalty and multi-period excess earnings methods, both forms of the income approach supported by observable market data for peer companies. The following table shows the fair values assigned to intangible assets (\$ in millions):

	Preliminary Fair Value as of December 31, 2014	Weighted-Average Amortization Period (Years)
Amortizable intangible assets:		
Customer relationships	\$6.1	15
Developed Technology	2.1	20
Patents	1.5	17
Customer contracts	1.9	6
Total	\$11.6	15

In connection with the acquisitions, the Company recorded goodwill, which represents the excess of the consideration transferred over the estimated preliminary fair value of tangible and intangible assets acquired, net of liabilities assumed. The goodwill is attributed primarily to incremental revenue growth from combining the acquired assets with DelStar's existing business and workforce as well as the benefits of access to different markets and customers. Goodwill from these acquisitions was assigned to the Advanced Materials & Structures segment. None of the goodwill is expected to be deductible for tax purposes.

The goodwill was determined on the basis of the provisional fair values of the assets and liabilities identified as of the acquisition date. It may be adjusted, within a period of no more than 12 months from the acquisition date, if the provisional fair values change as a result of circumstances existing at the acquisition date. Such fair value adjustments may arise in respect to property, plant and equipment, intangible assets and inventories, upon completion of the necessary valuations and physical verifications of such assets. The amount of provisions may also be adjusted as a result of ongoing procedures to identify and measure liabilities and contingent liabilities, including tax, environmental risks and litigation. The amount of deferred taxes may also be adjusted during the measurement period.

In the three and nine months ended September 30, 2015 and the fourth quarter of 2014, the Company recognized \$0.2 million, \$0.8 million and \$1.3 million, respectively, in direct and indirect acquisition-related costs related to the purchases. Direct and indirect acquisition-related costs were expensed as incurred and are included in the General Expense line item in the Consolidated Statements of Income.

The amounts of the unaudited pro forma Net Sales and Income from Continuing Operations of the combined entity had the acquisition date been January 1, 2014 are as follows (\$ in millions):

	Net Sales	Income from Continuing Operations
2014 Supplemental Pro Forma from July 1, 2014 - September 30, 2014	\$211.6	\$23.7
2014 Supplemental Pro Forma from January 1, 2014 - September 30, 2014	\$634.6	\$73.3

Note 4. Discontinued Operations

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

Included in Other Current Assets, Other Assets and Accrued Expenses within the condensed consolidated balance sheet are the following major classes of assets and liabilities, respectively, associated with the discontinued operations (\$ in millions):