SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-Q
May 02, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2018
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from __________________to __________________

1-13948
(Commission file number)

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

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

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

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

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 x No o

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

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

reporting
company)

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The Company had 30,754,075 shares of common stock issued and outstanding as of May 2, 2018.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

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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	
	March 31, 2018	March 31, 2017
Net sales	$261.9	$ 233.3
Cost of products sold	189.9	169.9
Gross profit	72.0	63.4
Selling expense	9.1	8.3
Research expense	4.1	4.4
General expense	23.4	22.0
Total nonmanufacturing expenses	36.6	34.7
Restructuring and impairment expense	0.4	1.1
Operating profit	35.0	27.6
Interest expense	6.2	5.8
Other (expense), net	(0.3)	(1.1)
Income from continuing operations before income taxes and income from equity affiliates	28.5	20.7
Provision for income taxes	7.3	7.1
(Loss) income from equity affiliates, net of income taxes	(0.3)	0.1
Income from continuing operations	20.9	13.7
Loss from discontinued operations	(0.4)	—
Net income	$20.5	$ 13.7
Net income per share - basic:		
Income per share from continuing operations	$0.68	$ 0.45
Income (loss) per share from discontinued operations	(0.01)	—
Net income per share – basic	$0.67	$ 0.45
Net income per share – diluted:		
Income per share from continuing operations	$0.68	$ 0.45
Income (loss) per share from discontinued operations	(0.01)	—
Net income per share – diluted	$0.67	$ 0.45
Weighted average shares outstanding:		
Basic	30,488,600	30,364,700
Diluted	30,619,700	30,487,300

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

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income	$20.5	$ 13.7
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	8.6	5.9
Less: Reclassification adjustment for realized translation adjustments	(0.2)	—
Unrealized gains on derivative instruments	2.5	1.1
Less: Reclassification adjustment for (gains) losses on derivative instruments included in net income	(0.8)	0.2
Less: Reclassification adjustment for amortization of postretirement benefit plans' costs included in net periodic benefit cost	0.7	1.1
Other comprehensive income	10.8	8.3
Comprehensive income	$31.3	$ 22.0

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

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

	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$96.1	$ 106.9
Accounts receivable, net	164.5	149.4
Inventories	152.9	155.2
Income taxes receivable	1.7	3.4
Assets held for sale	12.0	12.8
Other current assets	8.1	5.4
Total current assets	435.3	433.1
Property, plant and equipment, net	363.7	361.9
Deferred income tax benefits	0.7	1.0
Investment in equity affiliates	70.8	68.5
Goodwill	343.2	341.3
Intangible assets	294.2	297.2
Other assets	39.3	39.5
Total assets	$1,547.2	$ 1,542.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current debt	$3.8	$ 5.1
Accounts payable	61.2	59.4
Income taxes payable	5.3	4.0
Accrued expenses	68.8	78.6
Total current liabilities	139.1	147.1
Long-term debt	670.8	679.1
Long-term income tax payable	36.7	36.7
Pension and other postretirement benefits	30.0	30.7
Deferred income tax liabilities	45.3	42.3
Other liabilities	63.2	59.9
Total liabilities	985.1	995.8
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; 30,767,897 and 30,711,299 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	3.1	3.1
Additional paid-in-capital	67.8	66.3
Retained earnings	569.8	566.7
Accumulated other comprehensive loss, net of tax	(78.6)	(89.4)
Total stockholders' equity	562.1	546.7
Total liabilities and stockholders' equity	$1,547.2	$ 1,542.5

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					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	30,544,494	$ 3.1	$ 59.2	$ 585.3	$ (139.3)	$ 508.3
Net income	—	—	—	13.7	—	13.7
Other comprehensive income, net of tax	—	—	—	—	8.3	8.3
Dividends declared ($0.42 per share)	—	—	—	(12.9)	—	(12.9)
Restricted stock issuances, net	169,947	—	—	—	—	—
Stock-based employee compensation expense	—	—	1.3	—	—	1.3
Stock issued to directors as compensation	1,317	—	0.1	—	—	0.1
Purchases and retirement of common stock	(24,200)	—	—	(1.1)	—	(1.1)
Balance, March 31, 2017	30,691,558	$ 3.1	$ 60.6	$ 585.0	$ (131.0)	$ 517.7
Balance, December 31, 2017	30,711,299	$ 3.1	$ 66.3	$ 566.7	$ (89.4)	$ 546.7
Cumulative effects of changes in accounting standards	—	—	—	(1.7)	—	(1.7)
Net income	—	—	—	20.5	—	20.5
Other comprehensive income, net of tax	—	—	—	—	10.8	10.8
Dividends declared ($0.43 per share)	—	—	—	(13.2)	—	(13.2)
Restricted stock issuances, net	117,828	—	—	—	—	—
Stock-based employee compensation expense	—	—	1.4	—	—	1.4
Stock issued to directors as compensation	1,404	—	0.1	—	—	0.1
Purchases and retirement of common stock	(62,634)	—	—	(2.5)	—	(2.5)
Balance, March 31, 2018	30,767,897	$ 3.1	$ 67.8	$ 569.8	$ (78.6)	$ 562.1

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)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Operating		
Net income	$20.5	$ 13.7
Less: Loss from discontinued operations	(0.4)	—
Income from continuing operations	20.9	13.7
Non-cash items included in net income:		
Depreciation and amortization	15.6	16.6
Deferred income tax provision	0.8	—
Pension and other postretirement benefits	1.0	1.0
Stock-based compensation	1.5	1.4
(Income) loss from equity affiliates	0.3	(0.1)
Other items	0.3	(0.4)
Changes in operating working capital, net of assets acquired:		
Accounts receivable	(13.1)	(8.6)
Inventories	1.7	2.2
Prepaid expenses	(2.7)	(1.7)
Accounts payable	2.1	(0.9)
Accrued expenses	(9.6)	(7.3)
Accrued income taxes	3.2	(3.0)
Net changes in operating working capital	(18.4)	(19.3)
Net cash provided by (used in) operating activities of:		
- Continuing operations	22.0	12.9
- Discontinued operations	—	0.1
Net cash provided by operations	22.0	13.0
Investing		
Capital spending	(6.0)	(11.1)
Capitalized software costs	(0.4)	(0.8)
Acquisitions, net of cash acquired	—	(293.4)
Other investing	(0.8)	(0.6)
Net cash used in investing	(7.2)	(305.9)

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Financing		
Cash dividends paid to SWM stockholders	(13.2)	—
Changes in short-term debt	(1.4)	—
Proceeds from issuances of long-term debt	—	286.5
Payments on long-term debt	(9.7)	(0.7)
Purchases of common stock	(2.5)	(1.1)
Payments for debt issuance costs	—	(0.6)
Net cash provided by (used in) financing	(26.8)	284.1
Effect of exchange rate changes on cash and cash equivalents	1.2	1.2
Decrease in cash and cash equivalents	(10.8)	(7.6)
Cash and cash equivalents at beginning of period	106.9	107.4
Cash and cash equivalents at end of period	$96.1	$ 99.8
Supplemental Cash Flow Disclosures		
Cash paid for interest	$6.3	$ 3.5
Cash paid for taxes, net	$3.4	$ 9.8
Change in capital spending in accounts payable and accrued liabilities	$1.0	$ 3.4
Deferred contingent business acquisition consideration	$—	$ 8.6

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

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SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO 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. The Company maintains two operating product line segments: Advanced Materials and Structures and Engineered Papers.

The Advanced Materials & Structures segment, or AMS, produces mostly resin-based rolled goods such as nets, films and meltblown materials, typically through an extrusion process or other non-woven technologies. These products are used in a variety of specialty applications across the filtration, construction and infrastructure, transportation, industrial and medical end-markets. As discussed more fully in Note 4. Business Acquisitions, in January 2017, the Company completed the acquisition of Conwed Plastics LLC, a Delaware limited liability company, and its Belgian subsidiary ("Conwed NV" and collectively with Conwed Plastic LLC, “Conwed”), which has been integrated into the AMS segment.

The Engineered Papers segment, or EP, primarily serves the tobacco industry with production of various cigarette papers and reconstituted tobacco products, or "recon". Traditional reconstituted tobacco leaf, or "RTL", is used as a blend with virgin tobacco in cigarettes and used as wrappers and binders for cigars. Recon, as well as LIP (low ignition propensity) cigarette paper, a specialty product with fire-safety features, are two key profit drivers, which together account for more than half of segment net sales. The EP segment also produces non-tobacco papers for both premium applications, such as energy storage, and industrial commodity paper grades, which are often produced to maximize machine utilization.

We conduct business in over 90 countries and operate 23 production locations worldwide, with facilities in the U.S., Canada, United Kingdom, France, Luxembourg, Belgium, Russia, Brazil, China and Poland. We also have a 50% equity interest in two joint ventures in China. The first, China Tobacco Mauduit (Jiangmen) Paper Industry Ltd., or CTM, produces cigarette and porous plug wrap papers and the second, China Tobacco Schweitzer (Yunnan) Reconstituted Tobacco Co. Ltd., or CTS, 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 5. 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 thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 1, 2018.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its 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, net of income taxes. Intercompany balances and transactions have been eliminated. Certain reclassifications of prior year data were made in the Condensed Consolidated Statements of Income and in the Notes to Consolidated Financial Statements. The reclassifications were made to conform to the current year presentation.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and rebates, 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, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" (Topic 606). This 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. The Company adopted this ASU effective January 1, 2018, utilizing the modified retrospective transition approach upon adoption. This approach required an adjustment upon adoption to the financial statements to reflect the cumulative impact of the guidance and results in no change to prior period financial statements. The guidance in this update was applied to all contracts that were not completed at the date of adoption. Based on the evaluation of the provisions included in the new guidance, along with the related updates discussed below, the adoption of this standard resulted in a cumulative-effect adjustment directly to retained earnings of $0.5 million as of January 1, 2018. The adoption of this guidance did not materially impact the amount or timing of revenues recognized in the consolidated financial statements or materially effect our financial position. See Note 2. Revenue Recognition for further discussion.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842): Amendments to the FASB Accounting Standards Codification." The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. Companies must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Company is currently in the process of evaluating the impact of the pronouncement on the Company's outstanding leases and expects that adoption will have a material impact on the consolidated balance sheets related to recording right-of-use assets and corresponding lease liabilities. Further, the Company is currently in the process of evaluating the impact of adoption on the consolidated statements of income.

In March, April and May 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU 2016-10, “Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing,” ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting," and ASU 2016-12, "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients," which provide supplemental adoption guidance and clarification to ASC 2014-09. ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12 must be adopted concurrently with the adoption of ASU 2014-09. The Company adopted these updates effective January 1, 2018 and adoption of these updates did not materially affect our financial position or materially

impact the amount or timing of revenues recognized in the consolidated financial statements, as discussed above. See Note 2. Revenue Recognition for further discussion.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 718): Intra-Entity Transfers of Assets Other Than Inventory." This standard states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, thus eliminating the exception for an intra-entity transfer of an asset other than inventory. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company adopted this ASU effective January 1, 2018, utilizing the modified retrospective basis transition approach

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

upon adoption. The adoption of this guidance resulted in a cumulative-effect adjustment directly to retained earnings of $2.2 million as of January 1, 2018.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The guidance clarifies the definition of a business with the objective of assisting entities in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. The new update is effective for annual periods beginning after December 15, 2017. The Company adopted this guidance as of January 1, 2018. Adoption of ASU 2017-01 did not have an impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendment eliminates the second step of the analysis that required the measurement of a goodwill impairment by comparing the implied value of a reporting unit’s goodwill and the goodwill’s carrying amount. This guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendment requires an employer to report the service cost component in the same line item or line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal from operations. This guidance is effective for annual periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018, utilizing the retrospective transition approach upon adoption. The adoption of this guidance resulted in a reclassification of the components of net periodic pension cost, other than service cost, from Cost of products sold and General expense to Other income (expense), net, in the Consolidated Statements of Income. The reclassification of these costs effects only the EP segment, as there are no pension costs associated with the AMS segment; for the three months ended March 31, 2017, $1.0 million in pension expense was reclassified from Operating profit to Other expense in the condensed consolidated statement of income for the 2017 comparative period. The adoption of this guidance had no effect on Net income in the Consolidated Statements of Income and no effect on the other consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting". This amendment clarifies the changes to terms or conditions of a share-based payment award that require an entity to apply modification accounting. ASU 2017-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted and prospective application is required. The Company adopted this guidance as of January 1, 2018. Adoption of ASU 2017-09 did not have an impact on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This amendment better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. Early application is permitted and should be applied to hedging relationships existing on the date of adoption. The effect of adoption should be reflected as of the

beginning of the fiscal year of adoption. The Company elected to early adopt this guidance as of January 1, 2018. Refer to Note 12. Derivatives for additional information regarding the impact of adoption of this standard on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU was issued following the enactment of the Tax Cuts and Jobs Act (the "Tax Act") of 2017. This ASU allows an entity to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Act. ASU 2018-02 is effective for annual reporting periods, and interim periods therein, beginning after

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 15, 2018. Early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

Note 2. Revenue Recognition

The Company has two main sources of revenue: product sales and materials conversion. The Company recognizes product sales revenues when control of a product is transferred to the customer. For the majority of product sales, transfer of control occurs when the products are shipped from one of the Company’s manufacturing facilities to the customer. The cost of delivering finished goods to the Company’s customers is recorded as a component of cost of products sold. Those costs include the amounts paid to a third party to deliver the finished goods. Any freight costs billed to and paid by a customer are included in net sales. The Company also provides services to customers through the conversion of customer-owned raw materials into processed finished goods. In these transactions, the Company generally recognizes revenue as processing is completed.

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which generally occurs when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Generally, the Company considers collectability of amounts due under a contract to be probable upon inception of a sale based on an evaluation of the credit worthiness of each customer. If collectability is not considered to be probable, the Company defers recognition of revenue on satisfied performance obligations until the uncertainty is resolved. Any variable consideration, such as discounts or price concessions, is set forth in the terms of the contract at inception, and is included in the assessment of the transaction price at the outset of the arrangement. The transaction price is allocated to the individual performance obligations due under the contract based on the relative stand-alone fair value of the performance obligations identified in the contract. The Company typically uses an observable price to determine the stand-alone selling price for separate performance obligations.

The Company does not typically include extended payment terms or significant financing components in our contracts with customers. Certain product sales contracts may include cash-based incentives (volume rebates or credits), which are accounted for as variable consideration. We estimate these amounts at least quarterly based on the expected forecast quantities to be provided to customers and reduce revenues recognized accordingly. Incidental items that are immaterial in the context of the contract are recognized as expense in the period incurred. The Company generally expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within sales and marketing expenses. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. As a practical expedient, the Company treats shipping and handling activities that occur after control of the good transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation.

The following table presents the Company’s net sales disaggregated by revenue source ($ in millions). Sales and usage-based taxes are excluded from net sales.

	Three Months Ended					
	March 31, 2018			March 31, 2017		
	AMS	EP	Total	AMS	EP	Total
Product revenues	$108.4	$120.8	$229.2	$91.3	$113.3	$204.6

Materials conversion revenues	6.2	24.7	30.9	8.2	19.0	27.2
Other revenues	0.7	1.1	1.8	0.5	1.0	1.5
Total revenues (1)	$115.3	$146.6	$261.9	$100.0	$133.3	$233.3

(1) Revenues include net hedging gains and losses for the three months ended March 31, 2018 and 2017.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net sales are attributed to the following geographic locations based on the location of the Company's direct customers ($ in millions):

	Three Months Ended					
	March 31, 2018			March 31, 2017		
	AMS	EP	Total	AMS	EP	Total
United States	$78.1	$49.7	$127.8	$68.7	$46.3	$115.0
Europe and the former Commonwealth of Independent States	15.8	57.6	73.4	11.2	49.2	60.4
Asia/Pacific (including China)	14.6	21.3	35.9	14.7	21.1	35.8
Latin America	3.2	11.5	14.7	2.3	10.5	12.8
Other foreign countries	3.6	6.5	10.1	3.1	6.2	9.3
Total revenues (1)	$115.3	$146.6	$261.9	$100.0	$133.3	$233.3

(1) Revenues include net hedging gains and losses for the three months ended March 31, 2018 and 2017.

Note 3. Other Comprehensive Income

Comprehensive income includes net income, as well as certain 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, Other (expense) income, net, or Interest expense in the condensed consolidated statements of income. See Note 12. 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 14. Postretirement and Other Benefits.

Components of Accumulated other comprehensive loss, net of tax, were as follows ($ in millions):

	March 31, 2018	December 31, 2017
Accumulated pension and OPEB liability adjustments, net of income tax benefit of $13.4 million and $13.8 million at March 31, 2018 and December 31, 2017, respectively	$(24.2)	$ (24.9)
Accumulated unrealized loss on derivative instruments, net of income tax benefit of $0.1 million and $0.2 million at March 31, 2018 and December 31, 2017, respectively	2.1	0.4
Accumulated unrealized foreign currency translation adjustments, net of income tax benefit of $3.4 million and $4.5 million at March 31, 2018 and December 31, 2017, respectively	(56.5)	(64.9)
Accumulated other comprehensive loss	$(78.6)	$ (89.4)

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

	Three Months Ended					
	March 31, 2018			March 31, 2017		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Unrealized gain (loss) on pension and OPEB liability adjustments	$1.1	$(0.4)	$0.7	$1.3	$(0.2)	$1.1
Unrealized gain (loss) on derivative instruments	1.8	(0.1)	1.7	1.7	(0.4)	1.3
Unrealized gain (loss) on foreign currency translation	9.5	(1.1)	8.4	5.9	—	5.9
Total	$12.4	$(1.6)	$10.8	$8.9	$(0.6)	$8.3

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Note 4. Business Acquisitions

On January 20, 2017, the Company completed the acquisition of Conwed pursuant to the Equity Interest Purchase Agreement, dated as of December 14, 2016, by and among the Company, Delstar Technologies, Inc., Baldwin Enterprises, Inc., Conwed and Leucadia National Corporation. As a result of the transaction, Conwed and its subsidiaries became wholly-owned indirect subsidiaries of the Company. The acquisition of Conwed expanded and continued the diversification of SWM's global presence in advanced materials and has been integrated into the Company's AMS segment.

The consideration transferred to acquire Conwed was $295.0 million in cash, subject to certain customary post-closing adjustments, plus three potential earn-out payments not to exceed $40.0 million in the aggregate, which payments are contingent upon the achievement of certain financial metrics in each of 2019, 2020 and 2021, in each case, upon the terms and subject to the conditions contained in the Purchase Agreement. The estimated fair value of the potential earn-out payments at the acquisition date was $8.6 million, for total consideration transferred of $303.6 million. The estimated fair value of the deferred contingent consideration was determined based on management's projections related to the achievement of certain financial metrics for the aforementioned years. The discount rate used to value the liability was based on specific business risk, cost of capital and other factors. The fair value of the contingent consideration was determined using significant unobservable inputs and is considered a Level 3 liability. There were no changes to the assumptions underlying the estimated fair value calculation during the three months ended March 31, 2018. As of March 31, 2018, the balance of the contingent liability was $9.7 million, including $0.2 million in accretion year-to-date.

The purchase price for Conwed was funded from the Company’s borrowings under the First Amendment to Second Amended and Restated Credit Agreement, while the purchase price for Conwed NV was funded from cash on hand. See Note 11. Debt, for additional information.

The consideration paid for Conwed and the final fair values of the assets acquired and liabilities assumed as of the January 20, 2017 acquisition date were as follows ($ in millions):

	Fair Value as of January 20, 2017
Cash and cash equivalents	$ 3.3
Accounts receivable	15.4
Inventory	20.6
Other current assets	1.1
Property, plant and equipment	31.7
Identifiable intangible assets	134.4
Total assets	206.5
Accounts payable and accrued expenses	8.2
Deferred tax liabilities	0.9
Net identifiable assets acquired	197.4

Goodwill	106.2
Fair value of consideration transferred	$ 303.6

The Company used the income, market or cost approach (or a combination thereof) for the valuation as appropriate and used valuation inputs in these models and analyses that were based on market participant assumptions. Market

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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. The fair value of receivables acquired from Conwed on January 20, 2017 was $15.4 million, with gross contractual amounts receivable of $15.8 million. Acquired inventories and property, plant and equipment were recorded at their fair values. Acquired intangible assets are primarily customer relationships, developed technology, trade names and non-competition agreements.

The fair value of the inventory acquired from Conwed on January 20, 2017 was $20.6 million, which included a step-up in basis of $2.9 million. Finished goods and work-in-process inventory was valued using the comparative sales method, which is a function of the estimated selling price less the sum of (a) any cost to complete, (b) costs of disposal, (c) holding costs and (d) a reasonable profit for allowance for the acquirer. Raw materials were valued using the replacement cost method of the cost approach.

Properties acquired included 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 market and cost approaches, supported where available by observable market data which included consideration of obsolescence.

Intangible assets acquired included a number of customer relationships in the infrastructure, construction and industrial end-markets. In addition to these intangible assets, the Company acquired a number of patented and unpatented technologies, a number of business-to-business trade names and non-competition agreements. Management valued intangible assets using the relief from royalty, multi-period excess earnings and with-and-without methods, all 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):

	Fair Value as of January 20, 2017	Weighted-Average Amortization Period (Years)
Amortizable intangible assets:		
Customer relationships	$ 108.0	15.0
Developed technology	18.1	17.2
Non-competition agreements	1.2	7.2
Total amortizable intangible assets	127.3	
Indefinite-lived intangible assets:		
Trade names	7.1	Indefinite
Total	$ 134.4	

In connection with the acquisition, the Company recorded goodwill, which represents the excess of the consideration transferred over the fair value of tangible and intangible assets acquired, net of liabilities assumed. The goodwill is attributed primarily to Conwed's revenue growth and potential operational synergies from combining the SWM and Conwed businesses and workforces as well as the benefits of access to different markets and customers. Goodwill from the Conwed acquisition was assigned to the AMS reportable segment. The goodwill was determined on the basis of the fair values of the assets and liabilities identified as part of the transaction. The goodwill acquired in connection with Conwed and its domestic subsidiaries is deductible for tax purposes. The goodwill associated with Conwed NV is not deductible for tax purposes.

For the three months ended March 31, 2018 and 2017, the Company recognized $0.0 million and $0.1 million of direct and indirect acquisition-related costs, respectively. In the three months ended March 31, 2017, the Company incurred $0.6 million in acquisition-related financing costs. Direct and indirect acquisition-related costs were

expensed as incurred and are included in the General expense line item in the condensed consolidated statements of income. Financing costs related to expanding the Amended Credit Agreement (as defined below) have been capitalized and are amortized in Interest expense over the life of the Amended Credit Agreement.

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The amounts of Net sales and Income from continuing operations of Conwed included in the Company's consolidated income statement from the acquisition date are as follows ($ in millions):

	Net Sales	Loss from Continuing Operations
January 20, 2017 - March 31, 2017	26.6	(0.1)

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, 2017 are as follows ($ in millions):

	Net Sales	Income from Continuing Operations
2017 Supplemental Pro Forma from January 1, 2017 - March 31, 2017	$241.0	$ 10.4

Note 5. Discontinued Operations

The Company's former paper mill in San Pedro, Philippines is reported as a discontinued operation. This operation was previously presented as a component of the EP segment. The physical assets at the Philippines paper mill were sold during the fourth quarter of 2013. For all periods presented, results of this operation 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):

	March 31, 2018	December 31, 2017
Assets of discontinued operations:		
Current assets	$ 1.0	1.0
Other assets	1.9	2.4
Liabilities of discontinued operations:		
Current liabilities	0.1	0.1

Summary financial results of discontinued operations were as follows ($ in millions):

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net sales	$ —	$ —
Other income (expense)	(0.4)	—
Loss from discontinued operations before income taxes	(0.4)	—
Income tax (provision) benefit	—	—
Loss from discontinued operations	(0.4)	—

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Note 6. Net Income Per Share

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

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Numerator (basic and diluted):		
Net income	$20.5	$ 13.7
Less: Dividends paid to participating securities	(0.1)	(0.1)
Less: Undistributed earnings available to participating securities	—	—
Undistributed and distributed earnings available to common stockholders	$20.4	$ 13.6
Denominator:		
Average number of common shares outstanding	30,488.6	30,364.7
Effect of dilutive stock-based compensation	131.1	122.6
Average number of common and potential common shares outstanding	30,619.7	30,487.3

Note 7. Inventories

Inventories are valued at the lower of cost (using the First-In, First-Out and weighted average methods) or market. The Company's costs included in inventory primarily include resins, pulp, chemicals, direct labor, utilities, maintenance, depreciation, finishing supplies and an allocation of certain overhead costs. Machine start-up costs or abnormal machine shut downs are expensed in the period incurred and are not reflected in inventory. The definition of market value, with respect to all inventories, is net realizable value. The Company reviews inventories at least quarterly to determine the necessity of write-offs for excess, obsolete or unsalable inventory. The Company estimates write-offs for inventory obsolescence and shrinkage based on its judgment of future realization. These reviews require the Company to assess customer and market demand. The following schedule details inventories by major class ($ in millions):

	March 31, 2018	December 31, 2017
Raw materials	$ 48.9	$ 50.4
Work in process	23.1	21.3
Finished goods	71.3	74.2
Supplies and other	9.6	9.3
Total	$ 152.9	$ 155.2

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Note 8. Goodwill

The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2018 were as follows ($ in millions):

	Advanced Materials & Structures	Engineered Papers	Total
Goodwill as of December 31, 2017	$ 336.1	$ 5.2	$ 341.3
Foreign currency translation adjustments	1.8	0.1	1.9
Goodwill as of March 31, 2018	$ 337.9	$ 5.3	$ 343.2

Note 9. Intangible Assets

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

	March 31, 2018				
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Accumulated Foreign Exchange	Net Carrying Amount
Amortized Intangible Assets					
Advanced Materials & Structures					
Customer relationships	$ 276.3	$ 37.3	$ —	$ (4.1)	$ 243.1
Developed technology	34.0	6.6	—	(0.3)	27.7
Customer contracts	0.9	0.9	—	—	—
Trade names	21.8	0.8	20.7	0.3	—
Non-compete agreements	2.9	1.3	—	(0.1)	1.7
Patents	1.5	0.3	—	—	1.2
Total	$ 337.4	$ 47.2	$ 20.7	$ (4.2)	$ 273.7
Unamortized Intangible Assets (Advanced Materials & Structures)					
Trade names	$ 20.0	$ —	$ —	$ (0.5)	$ 20.5

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	December 31, 2017				
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Accumulated Foreign Exchange	Net Carrying Amount
Amortized Intangible Assets					
Advanced Materials & Structures					
Customer relationships	$276.3	$ 32.9	$ —	$ (2.3)	$ 245.7
Developed technology	34.0	6.0	—	(0.1)	28.1
Customer contracts	0.9	0.9	—	—	—
Trade names	21.8	0.8	20.7	0.3	—
Non-compete agreements	2.9	1.1	—	—	1.8
Patents	1.5	0.3	—	—	1.2
Total	$337.4	$ 42.0	$ 20.7	$ (2.1)	$ 276.8
Unamortized Intangible Assets (Advanced Materials & Structures)					
Trade names	$20.0	$ —	$ —	$ (0.4)	$ 20.4

Amortization expense of intangible assets was $5.2 million and $5.0 million for the three months ended March 31, 2018 and 2017, respectively. Finite-lived intangibles in the AMS segment are expensed using the straight-line amortization method. The estimated average aggregate amortization expense is $20.6 million in each of the next five years.

Note 10. Restructuring and Impairment Activities

The Company incurred Restructuring and impairment expense of $0.4 million and $1.1 million in the three months ended March 31, 2018 and 2017, respectively.

In the AMS segment, Restructuring and impairment expense was $0.4 million and $0.4 million for the three months ended March 31, 2018 and 2017, respectively. Restructuring and impairment expense for the three months ended March 31, 2018 consisted of severance accruals for employees at our U.S. manufacturing operations. In the three months ended March 31, 2017, Restructuring and impairment expense consisted of severance accruals for employees at our U.S. and Belgium manufacturing operations.

In the EP segment, Restructuring and impairment expense was $0.0 million and $0.5 million for the three months ended March 31, 2018 and 2017, respectively. During the three months ended March 31, 2017, Restructuring and impairment expense consisted of $0.5 million in severance accruals for employees at our manufacturing facilities in the U.S. and France.

Additionally, the Company incurred $0.0 million and $0.2 million in restructuring and impairment expense during the three months ended March 31, 2018 and 2017, respectively, related to accruals for severance expenses within supporting overhead departments which were not allocated to a specific segment.

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Restructuring liabilities were classified within Accrued expenses in each of the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017. Changes in the restructuring liabilities, substantially all of which are employee-related, during the periods ended March 31, 2018 and December 31, 2017 are summarized as follows ($ in millions):

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Balance at beginning of year	$ 1.7	$ 4.3
Accruals for announced programs	0.4	3.5
Cash payments	(0.6)	(6.4)
Other	1.8	—
Exchange rate impacts	0.1	0.3
Balance at end of period	$ 3.4	$ 1.7

Long-lived assets to be sold are classified as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the assets; the assets are available for immediate sale in present condition subject only to terms that are usual and customary for sales of such assets; an active program to locate a buyer and other actions required to complete the plan to sell the assets have been initiated; the sale of the assets is probable, and transfer of the assets is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond our control extend the period of time required to sell the assets beyond one year; the assets are being actively marketed for sale at a price that is reasonable in relation to current fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A long-lived asset that is classified as held for sale is initially measured at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset until the date of sale. The fair value of a long-lived asset less any costs to sell is assessed each reporting period it remains classified as held for sale and any reduction in fair value is reported as an adjustment to the carrying value of the asset. Upon being classified as held for sale, depreciation is ceased. Long-lived assets to be disposed of other than by sale continue to be depreciated. Upon determining that a long-lived asset meets the criteria to be classified as held for sale, the assets and liabilities of the disposal group, if material, are reported in the line item Assets held for sale in our condensed consolidated balance sheets.

In early 2015, the Company made the decision to dispose of the Company's mothballed RTL facility and related equipment in the Philippines. These assets are included in the EP segment. During 2015, the Company reclassified the balance of the equipment, along with the land and building associated with the property, at this location from Property, plant and equipment, net, to Assets held for sale on the consolidated balance sheets. The reclassifications were made for all assets that are expected to be sold within one year of the balance sheet date and, as of March 31, 2018, all of the physical assets of this entity are classified as Assets held for sale. There were no impairment charges recognized on these assets during the three months ended March 31, 2018 or 2017.

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Note 11. Debt

The components of total debt are summarized in the following table ($ in millions):

	March 31, 2018	December 31, 2017
Term loan A-1	$ 60.0	$ 60.0
Term loan A-2	243.8	244.4
Revolving credit agreement - U.S. dollar borrowings	344.5	344.5
Revolving credit agreement - Euro borrowings	17.9	26.4
French employee profit sharing	9.3	9.1
Long-term capital lease obligations	4.3	4.1
Other	0.1	1.5
Debt issuance costs	(5.3)	(5.8)
Total debt	674.6	684.2
Less: Current debt	(3.8)	(5.1)
Long-term debt	$ 670.8	$ 679.1

Credit Agreement

On December 1, 2016, the Company entered into the First Amendment to the Second Amended and Restated Credit Agreement ("First Amendment") with JPMorgan Chase Bank, N.A. as administrative agent. Under the terms of the First Amendment, and effective upon the closing of the Conwed acquisition on January 20, 2017, the Company's maximum net debt to EBITDA ratio, as defined in the First Amendment, calculated on a trailing four fiscal quarter basis, is required to be not greater than 4.25 at December 31, 2017, reducing to 4.00 after December 31, 2017, 3.75 after March 31, 2018, 3.50 after June 30, 2018 and 3.00 after December 31, 2018.

On October 28, 2015, the Company, together with two of its Luxembourg-based wholly-owned holding subsidiaries, entered into the Second Amended and Restated Credit Agreement, or the Amended Credit Agreement, with JPMorgan Chase Bank, N.A., as administrative agent, providing for credit facilities in the aggregate principal amount of $1 billion, consisting of a $650 million revolving credit facility, or Revolving Credit Facility, available to the Company; a $100 million Term Loan A-1, or Term Loan A-1, made to the Company; and a $250 million Term Loan A-2, or Term Loan A-2 and, together with Term Loan A-1, the Term Loans, made to the Company. The Revolving Credit Facility matures on October 28, 2020. The Term Loan A-1 amortizes at the rate of 5.0% for the first two years, at the rate of 10.0% for the final three years and matures on October 28, 2020. The Term Loan A-2 amortizes at the rate of 1.0% per year and matures on October 28, 2022. The Term Loans are generally subject to mandatory repayment out of the net cash proceeds of asset sales which are not reinvested in operating assets. The credit facilities are secured by substantially all of the personal property of the Company and its domestic subsidiaries, while the obligations of the Luxembourg-based holding subsidiaries are secured by a pledge of certain of the equity interests held in their operating subsidiaries. In December 2015, the Company prepaid the full amount of amortization for Term Loan A-1, which totaled $40 million.

The interest rate margins applicable to the Revolving Credit Facility and the Term Loans under the Amended Credit Agreement are based on a fluctuating rate of interest measured by reference to either, at the Company's option, (i) a base rate, plus an applicable margin, which ranges from 0.25% to 1.50%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 0.50% to 1.75%, in the case of Term Loan A-2, or (ii) an adjusted London interbank offered rate (adjusted for maximum reserves), or LIBOR, plus an applicable margin, which ranges from 1.25% to

2.50%, in the case of the Revolving Credit Facility and Term Loan A-1, and from 1.50% to 2.75%, in the case of Term Loan A-2. The applicable margin, in each case, will be adjusted from time to time based on the Company's ratio of net debt to EBITDA as defined in the Amended Credit Agreement. As of March 31, 2018, the average interest rate was 3.91% on outstanding US Revolving Credit Facility borrowings, 2.00% on outstanding Euro Revolving Credit Facility borrowings, 3.94% on outstanding Term Loan A-1 borrowings and 4.19% on outstanding Term Loan A-2 borrowings. The weighted average effective interest rate on the Company's debt facilities, including the impact of interest rate hedges, was approximately 3.44% and 2.81% for the three months ended March 31, 2018 and 2017, respectively.

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In addition to the updated net debt to EBITDA ratios noted above, the Amended Credit Agreement also contains representations and warranties which are customary for facilities of this type and other covenants and provisions. The Company was in compliance with all of its covenants under the Amended Credit Agreement at March 31, 2018.

In conjunction with the First Amendment, the Company capitalized approximately $0.6 million in deferred debt issuance costs during the first quarter of 2017 which will be amortized over the term of the related debt instruments. As of March 31, 2018 and December 31, 2017, the Company's total deferred debt issuance costs, net of accumulated amortization, were $5.3 million and $5.8 million, respectively. Amortization expense of $0.5 million and $0.4 million was recorded during the three months ended March 31, 2018 and 2017, respectively, and has been included as a component of Interest expense in the accompanying consolidated statements of income.

Fair Value of Debt

At March 31, 2018 and December 31, 2017, the estimated fair values of the Company's current and long-term debt approximated the respective carrying amounts as the interest rates were variable and based on current market indices.

Note 12. Derivatives

In the normal course of business, the Company is exposed to foreign currency exchange rate risk and interest rate risk on its variable-rate debt. To manage these risks, the Company utilizes a variety of practices including, where considered appropriate, derivative instruments. The Company has no derivative instruments for trading or speculative purposes or derivatives with credit risk-related contingent features. All derivative instruments used by the Company are either exchange traded or are entered into with major financial institutions in order to reduce credit risk and risk of nonperformance by third parties. The fair values of the Company's derivative instruments are determined using observable inputs and are considered Level 2 assets or liabilities.

The Company utilizes currency forward, swap and, to a lesser extent, option contracts to selectively hedge its exposure to foreign currency risk when it is practical and economical to do so. The use of these contracts minimizes transactional exposure to exchange rate changes. We designate certain of our foreign currency hedges as cash flow hedges. Changes in the fair value of cash flow hedges are reported as a component of other comprehensive income (loss) and reclassified into earnings when the forecasted transaction affects earnings. For foreign exchange contracts not designated as cash flow hedges, changes in the contracts' fair values are recorded to net income each period.

The Company selectively hedges its exposure to interest rate increases on variable-rate, long-term debt when it is practical and economical to do so. Changes in the fair value of interest rate contracts considered cash flow hedges are reported as a component of other comprehensive income (loss) and reclassified into earnings when the forecasted transaction affects earnings.

On January 20, 2017, the Company entered into an interest rate swap transaction with JPMorgan Chase Bank, N.A. for a three-year term on a notional amount of $315 million. The interest rate swap is intended to manage the Company's interest rate risk by fixing the interest rate on a portion of the Company's debt currently outstanding under its credit facility that was previously subject to a floating interest rate equal to 1-month LIBOR plus a credit spread. The swap provides for the Company to pay a fixed rate of 1.65% per annum in addition to the credit spread on such portion of its outstanding debt in exchange for receiving a variable interest rate based on 1-month LIBOR.

On January 20, 2017, the Company also entered into a three-year cross-currency swap with JPMorgan Chase Bank, N.A. designated as a hedge of a portion of the Company's net investment in certain Euro-denominated subsidiaries.

The terms of the cross-currency swap provide for an exchange of principal on a notional amount of $100 million swapped to €93.7 million at maturity. The Company will receive from our swap counterparty U.S. dollar interest at a fixed rate of 1.65% per annum and pay to our swap counterparty Euro interest at a fixed rate of -0.18% per annum.

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The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at March 31, 2018 ($ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	$ 4.1	Accrued expenses	$0.1
Foreign exchange contracts	Other assets	0.1	Other liabilities	17.7
Interest rate contracts	Other assets	3.9	Other liabilities	—
Total derivatives designated as hedges		$ 8.1		$17.8
Derivatives not designated as hedges:				
Foreign exchange contracts	Accounts Receivable	1.5	Accounts Payable	0.1
Total derivatives not designated as hedges		1.5		0.1
Total derivatives		$ 9.6		$17.9

The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at December 31, 2017 ($ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	$ 4.7	Accrued expenses	$0.2
Foreign exchange contracts	Other assets	—	Other liabilities	14.2
Interest rate contracts	Other assets	2.0	Other liabilities	—
Total derivatives designated as hedges		$ 6.7		$14.4
Derivatives not designated as hedges:				
Foreign exchange contracts	Accounts Receivable	0.1	Accounts Payable	—
Total derivatives not designated as hedges		0.1		—
Total derivatives		$ 6.8		$14.4

The following table provides the gross effect that derivative instruments in cash flow hedging relationships had on accumulated other comprehensive income (loss), or AOCI, and results of operations ($ in millions):

Derivatives Designated as Cash Flow Hedging Relationships	Unrealized Gain (Loss) Recognized in AOCI on Derivatives, Net of Tax	Location of Gain (Loss) Reclassified from AOCI	Gain (Loss) Reclassified from AOCI