SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 10-K/A
March 22, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

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

For the fiscal year ended December 31, 2005

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 Northpoint Center East, Suite 600 **Alpharetta, Georgia** (Address of principal executive offices)	**30022-8246** (Zip Code)

1-800- 514-0186

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common stock, par value $0.10 per share (together with associated preferred stock purchase rights)	New York Stock Exchange, Inc.

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes x No o

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12-b2 of the Exchange Act. (Check One):

Large accelerated filer o Accelerated filer x Non-accelerated filer 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 aggregate market value of the outstanding common stock, par value $0.10 per share (the Common Stock), held by non-affiliates of the registrant as of June 30, 2005 (the last business day of the registrant s most recently completed second fiscal quarter) was $469.1 million, based on the last sale price for the Common Stock of $31.13 per share as reported on the New York Stock Exchange on said date. For purposes of the foregoing sentence only, all directors and executive officers are assumed to be affiliates.

There were 15,433,132 shares of Common Stock issued and outstanding as of March 20, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

None

EXPLANATORY NOTE AMENDMENT

This Amendment on Form 10-K/A amends our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as initially filed with the Securities and Exchange Commission (the SEC) on March 6, 2006. This Form 10-K/A is a technical amendment to add the conformed signature of our independent registered public accounting firm to their audit reports which appear in Items 8 and 9A. The conformed signatures were previously inadvertently omitted from the electronically filed document. The additions of these conformed signatures are the only changes to these Items 8 and 9A, which are filed herein in their entirety in accordance with the SEC s rules and regulations.

Except as described above, no other changes have been made to our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as initially filed with the SEC on March 6, 2006, and except as described above, this Form 10-K/A does not amend, update or change the financial statements or any other items or disclosures in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Item 8. *Financial Statements and Supplementary Data*

Index to Financial Statements

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

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

	For the Years Ended December 31, 2005	2004	2003
Net Sales	$ 669.8	$ 657.5	$ 566.9
Cost of products sold	572.5	535.4	458.0
Gross Profit	97.3	122.1	108.9
Selling expense	24.4	27.1	23.1
Research expense	9.0	9.3	8.3
General expense	24.6	28.0	23.6
Total nonmanufacturing expenses	58.0	64.4	55.0
Operating Profit	39.3	57.7	53.9
Interest expense	6.2	3.7	2.3
Other income (expense), net	2.5	1.5	(0.2)
Income Before Income Taxes and Minority Interest	35.6	55.5	51.4
Provision for income taxes	10.4	12.1	12.0
Income Before Minority Interest	25.2	43.4	39.4
Minority interest in earnings of subsidiaries	5.8	7.0	4.9
Net Income	$ 19.4	$ 36.4	$ 34.5
Net Income Per Share			
Basic	$ 1.28	$ 2.45	$ 2.34
Diluted	$ 1.26	$ 2.36	$ 2.28
Weighted Average Shares Outstanding			
Basic	15,150,100	14,842,000	14,738,300
Diluted	15,450,400	15,422,300	15,138,300

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

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

	December 31, 2005	December 31, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5.1	$ 4.5
Accounts receivable	99.8	97.7
Inventories	123.0	119.6
Other current assets	14.8	9.9
Total Current Assets	242.7	231.7
Property, Plant and Equipment, net	414.0	453.2
Other Assets	34.1	32.2
Total Assets	$ 690.8	$ 717.1
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current debt	$ 30.0	$ 50.9
Accounts payable	64.3	71.3
Accrued expenses	71.7	76.7
Current deferred revenue	6.0	7.5
Total Current Liabilities	172.0	206.4
Long-Term Debt	83.7	63.0
Deferred Income Tax Liabilities	40.2	39.3
Pension and Other Postretirement Benefits	38.1	47.8
Deferred Revenue	30.0	35.9
Other Liabilities	20.1	18.7
Minority Interest	13.8	13.4
Total Liabilities	397.9	424.5
Stockholders Equity		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; none issued or outstanding		
Common stock, $0.10 par value; 100,000,000 shares authorized; 16,078,733 shares issued; 15,307,756 and 14,946,650 shares outstanding at December 31, 2005 and 2004, respectively	1.6	1.6
Additional paid-in-capital	63.8	63.3
Common stock in treasury, at cost, 770,977 and 1,132,083 shares at December 31, 2005 and 2004, respectively	(15.6)	(22.3)
Retained earnings	281.8	271.5
Unearned compensation on restricted stock	(0.3)	(0.5)
Accumulated other comprehensive loss, net of tax	(38.4)	(21.0)
Total Stockholders Equity	292.9	292.6
Total Liabilities and Stockholders Equity	$ 690.8	$ 717.1

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

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

For the Years Ended December 31, 2005, 2004 and 2003

	Common Stock Issued		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		Shares	Amount				
Balance, December 31, 2002	**16,078,733**	**$1.6**	**$61.1**	**1,131,415**	**$(18.2)**	**$218.4**	**$(0.5)**	**$(61.1)**	**$201.3**
Net income						34.5			34.5
Adjustments to minimum pension liability								(3.9)	(3.9)
Adjustments to unrealized foreign currency translation								30.7	30.7
Comprehensive income									61.3
Dividends declared ($0.60 per share)						(8.9)			(8.9)
Purchases of treasury stock				221,691	(5.1)				(5.1)
Restricted stock issuances			0.2	(18,000)	0.3		(0.5)		
Amortization of unearned compensation							0.3		0.3
Stock issued to directors as compensation				(2,724)	0.1				0.1
Tax benefit of options exercised			0.1						0.1
Issuance of shares for options exercised			0.1	(56,917)	1.0				1.1
Balance, December 31, 2003	**16,078,733**	**1.6**	**61.5**	**1,275,465**	**(21.9)**	**244.0**	**(0.7)**	**(34.3)**	**250.2**
Net income						36.4			36.4
Adjustments to minimum pension liability								(3.1)	(3.1)
Changes in fair value of derivative instruments								0.1	0.1
Adjustments to unrealized foreign currency translation								16.3	16.3
Comprehensive income									49.7
Dividends declared ($0.60 per share)						(8.9)			(8.9)
Purchases of treasury stock				273,356	(8.0)				(8.0)
Restricted stock issuances			0.1	(6,000)	0.1		(0.1)		0.1
Amortization of unearned compensation							0.3		0.3
Stock issued to directors as compensation				(2,592)	0.1				0.1
Tax benefit of options exercised			1.0						1.0
Tax benefit of restricted stock vesting			0.2						0.2
Issuance of shares for options exercised			0.5	(408,146)	7.4				7.9
Balance, December 31, 2004	**16,078,735**	**1.6**	**63.3**	**1,132,083**	**(22.3)**	**271.5**	**(0.5)**	**(21.0)**	**292.6**
Net income						19.4			19.4
Adjustments to minimum pension liability								(0.2)	(0.2)
Adjustments to unrealized foreign currency translation								(17.2)	(17.2)
Comprehensive income									2.0

Dividends declared ($0.60 per share)						(9.1)			(9.1)
Purchases of treasury stock				29,270	(1.0)				(1.0)
Restricted stock issuances				(2,500)					
Amortization of unearned compensation							0.2		0.2
Stock issued to directors as compensation			0.1	(8,175)	0.2				0.3
Tax benefit of options exercised			0.9						0.9
Tax benefit of restricted stock vesting			0.1						0.1
Issuance of shares for options exercised			(0.6)	(379,701)	7.5				6.9
Balance, December 31, 2005	**16,078,733**	**$ 1.6**	**$ 63.8**	**770,977**	**$ (15.6)**	**$ 281.8**	**$ (0.3)**	**$ (38.4)**	**$ 292.9**

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

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

	For the Years Ended December 31, 2005	2004	2003
Operations			
Net income	$ 19.4	$ 36.4	$ 34.5
Non-cash items included in net income			
Depreciation and amortization	39.5	36.5	30.7
Amortization of deferred revenue	(7.4)	(5.7)	(6.0)
Deferred income tax provision	1.9	2.1	4.2
Minority interest in earnings of subsidiaries	5.8	7.0	4.9
Other items	(6.5)	1.6	(4.3)
Changes in operating working capital			
Accounts receivable	(11.8)	2.3	(9.7)
Inventories	(5.5)	(15.4)	(7.8)
Prepaid expenses	(4.0)	0.2	1.2
Accounts payable	(2.1)	(1.6)	14.5
Accrued expenses	3.4	(3.0)	9.2
Accrued income taxes	5.4	(3.7)	(5.8)
Net changes in operating working capital	(14.6)	(21.2)	1.6
Cash Provided by Operations	38.1	56.7	65.6
Investing			
Capital spending	(18.8)	(46.7)	(92.0)
Capitalized software costs	(1.0)	(2.2)	(3.9)
Acquisitions, net of cash acquired	(11.9)	(8.4)	
Other	(5.0)	1.0	(3.6)
Cash Used for Investing	(36.7)	(56.3)	(99.5)
Financing			
Cash dividends paid to SWM stockholders	(9.1)	(8.9)	(8.9)
Cash dividends paid to minority owners	(3.6)	(3.8)	(10.4)
Changes in short-term debt	7.7		13.1
Proceeds from issuances of long-term debt	4.2	24.6	48.0
Payments on long-term debt	(5.9)	(11.6)	(16.7)
Purchases of treasury stock	(1.0)	(8.0)	(5.1)
Proceeds from exercise of stock options	6.9	7.9	1.1
Cash Provided by (Used for) Financing	(0.8)	0.2	21.1
Effect of Exchange Rate Changes on Cash		0.2	1.2
Increase (Decrease) in Cash and Cash Equivalents	0.6	0.8	(11.6)
Cash and Cash Equivalents at beginning of year	4.5	3.7	15.3
Cash and Cash Equivalents at end of year	$ 5.1	$ 4.5	$ 3.7

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

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

Note 1. Nature of Business

We are a multinational diversified producer of premium specialty papers headquartered in the United States of America and are the world s largest supplier of fine papers to the tobacco industry. We manufacture and sell paper and reconstituted tobacco products to the tobacco industry as well as specialized paper products for use in other applications. Tobacco industry products comprised approximately 92 to 93 percent of our consolidated net sales in each of the years 2005, 2004 and 2003. The primary products in the group include cigarette, plug wrap and tipping papers used to wrap various parts of a cigarette, or Cigarette Papers, and reconstituted tobacco leaf, or RTL, which is used as a blend with virgin tobacco in cigarettes, reconstituted tobacco wrappers and binders for cigars and paper products used in cigarette packaging. These products are sold directly to the major tobacco companies or their designated converters in North and South America, western and eastern Europe, Asia and elsewhere.

We are the premier manufacturer of high porosity papers, which are used in manufacturing ventilated cigarettes, and the leading independent producer of reconstituted tobacco leaf used in producing blended cigarettes. We conduct business in over 90 countries and currently operate 11 production locations worldwide, with mills in the United States, France, the Philippines, Indonesia and Brazil.

Our manufacturing facilities have a long history of producing paper dating back to 1545. Our domestic mills led the development of the North American tobacco-related papers manufacturing industry, which was originated by Peter J. Schweitzer, Inc. that began as an importer of cigarette papers from France in 1908.

As used in this 2005 Annual report on Form 10-K, unless the context indicates otherwise, references to we, us, our, SWM, Schweitzer-Maudu or similar terms include Schweitzer-Mauduit International, Inc. and our consolidated subsidiaries.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. We believe the estimates and assumptions used in the preparation of these consolidated financial statements are reasonable, based upon currently available facts and known circumstances, but recognize that actual results may differ from those estimates and assumptions as a result of a number of factors, including those discussed elsewhere in this report and in our other public filings from time to time.

Our wholly-owned direct subsidiaries are Schweitzer-Mauduit Canada, Inc., or SM-Canada, Schweitzer-Mauduit Spain, S.L., or SM-Spain, a holding company organized under the Spanish holding company regime and the primary foreign investment holding company for SWM, and Schweitzer-Mauduit International China, Limited, or SM-China, a holding company incorporated in Hong Kong. We indirectly through SM-Spain have subsidiaries in France, the Philippines, Indonesia and Brazil. SM-Spain owns directly 100 percent of Schweitzer-Mauduit Holding S.A.R.L., a French holding company, or SMH, and together SM-Spain and SMH own 100 percent of 2 holding companies, Schweitzer-Mauduit Industries S.A.R.L., a French corporation, or SMI, which holds our investment in the French reconstituted tobacco

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

operations, and Schweitzer-Mauduit France S.A.R.L., a French corporation, or SMF, which holds our French, Philippine and Indonesian paper operations. SMI owns directly 72 percent of the issued and outstanding shares of LTR Industries S.A., a French corporation, or LTRI. SMF, directly or indirectly, owns 100 percent of 3 principal French operating subsidiaries, Papeteries de Mauduit S.A.S., or PdM, Papeteries de Malaucène S.A.S., or PdMal, and Papeteries de Saint-Girons S.A.S., or PdStG, 100 percent of PDM Philippines Industries, Inc., or PPI, and 100 percent of P.T. PDM Indonesia, or PT PDM. SM-Spain also owns directly 99.99 percent of the issued and outstanding shares of Schweitzer-Mauduit do Brasil S.A., our Brazilian paper operations, or SWM-B. We did not have any unconsolidated subsidiaries, joint ventures or special purpose entities as of December 31, 2005.

On June 30, 2005, PDM Philippines Industries, Inc., a wholly-owned indirect subsidiary and an affiliated company, acquired the tobacco-related paper manufacturing assets of KCPI, a Philippines company, and associated land and water rights. The acquired assets included buildings, production equipment and related utilities, support assets and inventories. The total acquisition cost was $11.9 million, attributable to property, plant and equipment and inventories in the amounts of $6.8 million and $5.1 million, respectively. No goodwill or other intangible assets were recorded as a result of this acquisition. PPI began production and sales as a part of SWM in July 2005. The impact of this acquisition on the accompanying consolidated financial statements was not material.

During 2005, we announced execution of an agreement to form a joint venture to build a new state-of-the-art paper mill to produce tobacco-related papers in China. Construction is expected to take approximately 2 years, and the mill is expected to begin operations in early 2008. The joint venture would produce both cigarette papers and porous plug wrap in partnership with the China National Tobacco Corporation, or CNTC, which is the principal operating company under China s State Tobacco Monopoly Administration. CNTC and a wholly-owned subsidiary of Schweitzer-Mauduit will each own 50 percent of the joint venture. Governmental approval for the Chinese joint venture was obtained in late 2005 and we are in the process of finalizing financing and obtaining various governmental permits. Project spending, including both capital expenditures and working capital requirements, is expected to total approximately $100 million. The joint venture is expected to have a capital structure of approximately one-third equity and two-thirds debt, with project financing being obtained by the joint venture itself.

In February 2004, SMF acquired the outstanding stock of P.T. Kimsari Paper Indonesia, or Kimsari, a specialty paper manufacturer located in Medan, Sumatra, Indonesia. SMF paid $8.4 million, net of cash acquired, for the outstanding shares of Kimsari and renamed the business P.T. PDM Indonesia. Property, plant and equipment and goodwill were recorded as a result of this acquisition in the amounts of $6.0 million and $1.7 million, respectively, with the remainder of the purchase price being for working capital. The operating results of P.T. PDM Indonesia were included in the Consolidated Statements of Income since the beginning of February 2004. The impact of this acquisition on the accompanying consolidated financial statements was not material.

Principles of Consolidation

The consolidated financial statements include the accounts of Schweitzer-Mauduit International, Inc. and our wholly owned, controlled majority-owned and financially controlled subsidiaries. Minority interest represents minority stockholders proportionate share of the equity in SWM-B and LTRI. All significant intercompany balances and transactions have been eliminated.

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. In the Consolidated Statements of Cash Flow, amounts relating to currency translation have been excluded from changes in operating working capital. Historically these amounts have not been significant when aggregated, however, recent increases in working capital and fluctuations in foreign currency exchange rates have increased the value related to each category of working capital. The net effects of the reclassifications on the Consolidated Statement of Cash Flow for the year ended December 31, 2004 were to reduce Cash Provided by Operations by $0.6 million, reduce Cash Used for Investing by $0.4 million, and on a separate line report the Effect of Exchange Rate Changes on Cash of $0.2 million. The net effects of the reclassifications on the Consolidated Statement of Cash Flow for the year ended December 31, 2003 were to increase Cash Provided by Operations by $0.8 million, increase Cash Used for Investing by $2.0 million, and on a separate line report the Effect of Exchange Rate Changes on Cash of $1.2 million.

Revenue Recognition

We recognize revenue and the related accounts receivable when the following 4 criteria are met: (1) persuasive evidence of an arrangement exists; (2) ownership has transferred to the customer; (3) the selling price is fixed or determinable; and (4) collectibility is reasonably assured. Determination of criteria (4) is based on our judgment regarding the collectibility of our accounts receivable. Generally, we recognize revenue when we ship our manufactured product and title and risk of loss passes to our customer in accordance with the terms of sale of the product. Revenue is recorded at the time of shipment for terms designated f.o.b., or free on board, shipping point. For sales transactions designated f.o.b. destination, revenue is recorded when the product is delivered to the customer s delivery site, at which time title and risk of loss are transferred. Provisions for discounts, returns, allowances, customer rebates and other adjustments are provided for in the same period the related revenue is recorded. Deferred revenue represents advance payments from customers which are earned based upon a mutually agreed-upon amount per unit of future product sales.

Freight Costs

The cost of delivering finished goods to our customers is recorded as a component of cost of sales. 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 revenue.

Foreign Currency Translation

The income statements of foreign entities are translated into U.S. dollars at average exchange rates prevailing during the periods in accordance with Statement of Financial Accounting Standards, or SFAS, No. 52 *Foreign Currency Translation*. The balance sheets of these entities are translated at period-end exchange rates, and the differences from historical exchange rates are reflected in a separate component of accumulated other comprehensive income (loss) as unrealized foreign currency translation adjustments. Foreign currency gains and losses arising from settlement of transactions in non-local currencies and remeasurement of non-local currency denominated monetary assets and liabilities are included in other income (expense), net.

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

Foreign currency risks arise from transactions and commitments denominated in non-local currencies. These transactions and commitments may include the purchase of inventories or property, plant and equipment, the sale of products and the repayment of loans. Such gains (losses) included in other income (expense), net were $1.0 million, $1.1 million and ($1.0) million in 2005, 2004 and 2003, respectively.

We selectively hedge our foreign currency risks when it is practicable and cost effective to do so. The instruments are purchased from well-known money center banks, insurance companies or government agencies (counterparties). Usually the contracts extend for no more than 12 months, although their contractual term has been as long as 24 months. Credit risks with respect to the counterparties, and the foreign currency risks that would not be hedged if the counterparties fail to fulfill their obligations under the contracts, are minimal in view of the financial strength of the counterparties.

Gains and losses on instruments that hedge firm commitments are deferred and included in the basis of the underlying hedged items. Premiums paid for options are amortized ratably over the life of the option. All other gains and losses are included in period income or expense based on the period-end market price of the instrument.

There were outstanding forward contracts, which were held for purposes other than trading, maturing at various dates in 2006 and 2005, to purchase approximately $29 million and $26 million of various foreign currencies at December 31, 2005 and December 31, 2004, respectively. These contracts were designated as cash flow hedges of foreign currency transactions to fix our local currency cash flow. These contracts had not given rise to any significant net deferred gains or losses as of December 31, 2005 and December 31, 2004, and their fair values approximated their carrying value.

Cash and Cash Equivalents

We consider all highly liquid, unrestricted investments with remaining maturities of 3 months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are summarized as follows (dollars in millions):

	December 31, 2005	2004
Trade	$ 77.1	$ 74.6
Other	23.2	23.6
Less allowance for doubtful accounts and sales discounts	(0.5)	(0.5)
Total	$ 99.8	$ 97.7

Inventories

Inventories are valued at the lower of cost, using the First-In, First-Out, or FIFO, and weighted average methods, or market. Our inventoriable costs primarily include pulp, chemicals, direct labor, utilities, maintenance, depreciation, finishing supplies and an allocation of mill overhead costs. Machine start-up costs or abnormal machine shut downs are expensed in the period incurred and are not inventoried. Market, with respect to all inventories, is replacement cost or net realizable value. We review inventories at least quarterly to determine the necessity of write-offs for excess, obsolete or unsaleable inventory. We

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

estimate reserves for inventory obsolescence and shrinkage based on our judgment of future realization. These reviews require us to assess customer and market demand.

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

	December 31, 2005	2004
Raw materials	$ 40.9	$ 47.8
Work in process	17.0	12.9
Finished goods	45.1	40.1
Supplies and other	20.0	18.8
Total	$ 123.0	$ 119.6

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Interest is capitalized as a component of the cost of construction for large projects. Expenditures for betterments are capitalized whereas normal repairs and maintenance are expensed as incurred. Depreciable property is depreciated on the straight-line method for financial reporting purposes. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the balance sheet, and any gain or loss on the transaction is normally included in cost of products sold. The depreciable lives for the principal asset categories are as follows:

Asset Category	Depreciable Life
Machinery and Equipment	5 to 20 years
Buildings	20 to 40 years
Building and Leasehold Improvements	Lesser of 20 years or remaining life of the relevant building or lease

Property, plant and equipment consisted of the following (dollars in millions):

	December 31, 2005	2004
Land and improvements	$ 16.7	$ 14.5
Buildings and improvements	121.2	129.9
Machinery and equipment	618.7	625.8
Construction in progress	6.1	24.2
Gross Property	762.7	794.4
Less: Accumulated Depreciation	348.7	341.2
Property, Plant and Equipment, net	$ 414.0	$ 453.2

Depreciation expense was $35.8 million, $32.4 million and $27.1 million for the years ended December 31, 2005, 2004 and 2003.

Impairment of Long-Lived Assets

The Company accounts for long-lived assets, other than goodwill with an indefinite useful life, in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived*

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

Assets. The carrying value of long-lived assets is reviewed periodically to determine if events or circumstances have changed which may indicate that the assets may be impaired or the useful life may need to be changed. We consider internal and external factors relating to each asset, including expectation of future profitability, undiscounted cash flow and our plans with respect to the operations. SFAS No. 144 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the estimated undiscounted cash flows are not sufficient to recover the assets net carrying amounts. The impairment loss is measured by comparing the estimated fair value of the asset, usually based on discounted cash flows, to its net carrying amount.

Environmental Spending

Environmental spending is capitalized if such spending qualifies as property, plant and equipment, substantially increases the economic value or extends the useful life of an asset. All other such spending is expensed as incurred, including fines and penalties incurred in connection with environmental violations. Environmental spending relating to an existing condition caused by past operations is expensed. Liabilities are accrued when environmental assessments or remedial efforts are probable, and the costs can be reasonably estimated. Generally, timing of these accruals coincides with completion of a feasibility study or commitment to a formal plan of action.

Other Assets

Other assets consisted of the following (dollars in millions):

	December 31	
	2005	**2004**
Deferred income tax benefits	$ 12.0	$ 10.3
Capitalized software	7.2	10.1
Goodwill	2.8	2.8
Other assets	12.1	9.0
Total	$ 34.1	$ 32.2

Capitalized Software Costs

We capitalize certain purchases of software and software design and installation costs in connection with major projects of software development for internal use. These costs are included in Other Assets on the consolidated balance sheet and are amortized on the straight-line method for financial reporting purposes over the estimated useful life not to exceed 7 years. Costs associated with business process redesign, end-user training, system start-up and ongoing software maintenance are expensed as incurred. Amortization of capitalized software was $3.6 million, $4.1 million and $3.6 million for the years ended December 31, 2005, 2004 and 2003.

Goodwill and Other Intangible Assets

Effective January 1, 2002, we adopted SFAS, No. 142, *Goodwill and Other Intangible Assets*, eliminating the periodic charge to earnings for goodwill amortization for 2002 and future years. In addition, as required by SFAS No. 142, we are required to perform a goodwill impairment test at least annually. Our most recent impairment test was performed during the fourth quarter of 2005 and did not result in an impairment charge. Goodwill is included in Other Assets on the consolidated balance sheet for our 1998

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acquisition in Brazil and our 2004 acquisition in Indonesia and consisted of the following (dollars in millions):

	December 31	
	2005	2004
Schweitzer-Mauduit do Brasil S.A. (Brazilian Segment)	$ 1.1	$ 1.1
P.T. PDM Indonesia (French Segment)	1.7	1.7
Total Goodwill	$ 2.8	$ 2.8

Other Assets

Other assets consist of various non-current assets including water rights, deferred pension costs, business tax receivables in Brazil and rabbi trust investments in conjunction with our U.S. deferred compensation plan.

Accrued Expenses

Accrued expenses consisted of the following (dollars in millions):

	December 31	
	2005	2004
Accrued salaries, wages and employee benefits	$ 38.9	$ 41.9
Other accrued expenses	32.8	34.8
Total	$ 71.7	$ 76.7

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. In accordance with SFAS No. 109, deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Valuation allowances are recognized to reduce deferred tax assets to the amount that is more likely than not to be realized. In assessing the likelihood of realization, we consider estimates of future taxable income.

In France, SMF and its subsidiaries form a consolidated income tax group, SMH and SMI form a separate consolidated income tax group, while LTRI separately files its own income tax return.

Comprehensive Income

We account for comprehensive income according to the provisions of SFAS No. 130, *Reporting Comprehensive Income* which establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income includes net income, as well as charges and credits directly to stockholders equity, which are excluded from net

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

income. We have presented comprehensive income in the consolidated statements of changes in stockholders equity and comprehensive income.

Components of accumulated other comprehensive income (loss) are as follows (dollars in millions):

	December 31, 2005	2004
Minimum pension liability adjustments, net of income tax of $13.6 and $13.5 million at December 31, 2005 and 2004, respectively	$ (22.8)	$ (22.6)
Unrealized foreign currency translation adjustments	(15.6)	1.6
Accumulated other comprehensive loss	$ (38.4)	$ (21.0)

Changes in the components of accumulated other comprehensive income (loss) are as follows (dollars in millions):

	December 31, 2005			2004			2003		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Minimum pension liability adjustments	$ (0.3)	$ 0.1	$ (0.2)	$ (4.9)	$ 1.8	$ (3.1)	$ (6.1)	$ 2.2	$ (3.9)
Unrealized fair value of derivative instruments				0.1		0.1	0.1	(0.1)	
Unrealized foreign currency translation adjustments	(17.2)		(17.2)	16.3		16.3	30.7		30.7
Total	$ (17.5)	$ 0.1	$ (17.4)	$ 11.5	$ 1.8	$ 13.3	$ 24.7	$ 2.1	$ 26.8

Treasury Stock

Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the weighted-average cost basis.

Share-Based Incentive Compensation

SFAS No. 123 *Accounting for Stock Based Compensation* defines a fair value based method of accounting for stock compensation, including stock options, to employees. This statement provides entities a choice of recognizing related compensation expense by adopting the fair value method or to measure compensation using the intrinsic value method under Accounting Principles Bulletin, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees* . We have elected to continue to measure compensation cost for stock compensation based on the intrinsic value method under APB Opinion No. 25. Payments in the form of our shares made to third parties, including our outside directors, are recorded at fair value based on the market value of our common stock at the time of payment. Under APB Opinion No. 25, because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, requires presentation of pro forma net income and earnings per share as if we had accounted for our employee stock compensation under the fair value method of that statement.

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Fair values of options granted are estimated as of the grant date using a Black-Scholes option pricing model. The following assumptions were used for valuing options granted:

	For the Years Ended December 31,					
	2005		2004		2003	
Risk-free interest rate	4.50	%	4.58	%	4.23	%
Expected dividend yield	2.12	%	2.54	%	3.10	%
Expected option lives	10 year		10 year		10 year	
Expected volatility	20	%	29	%	33	%

On December 9, 2005, the Board of Directors accelerated the vesting of certain unvested and out-of-the-money stock options previously awarded to employees and officers that have exercise prices above $30.00 per share. As a result, options to purchase approximately 300,000 shares of our common stock vested immediately, but no underlying shares will be transferable by officers prior to the original vesting schedule. In order to prevent unintended personal benefits to the company s officers, restrictions will be imposed on any shares received through the exercise of accelerated options held by those individuals. These restrictions will prevent the sale of any shares received from the exercise of an accelerated stock option prior to the earlier of the original vesting date of the option or the individual s termination of employment. Accelerated stock options held by the company s officers represent approximately 90 percent of the total accelerated options.

For purposes of the pro forma disclosures, the estimated fair value of the stock compensation is amortized to expense over the vesting period. Under the fair value method, our net income and earnings per share would have been the pro forma amounts indicated below (dollars in millions):

	For the Years Ended December 31,		
	2005	2004	2003
Net Income			
As reported	$ 19.4	$ 36.4	$ 34.5
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effects	1.5	1.2	1.1
Pro forma	$ 17.9	$ 35.2	$ 33.4
Basic net income per share			
As reported	$ 1.28	$ 2.45	$ 2.34
Pro forma	$ 1.18	$ 2.37	$ 2.27
Diluted net income per share			
As reported	$ 1.26	$ 2.36	$ 2.28
Pro forma	$ 1.16	$ 2.28	$ 2.21

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 151, *Inventory Costs an amendment of ARB No. 43, Chapter 4 (FAS 151)*, or SFAS 151. SFAS 151 amends the guidance in Accounting Research Bulletin, or ARB, No. 43, Chapter 4, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS 151 requires that these costs be recognized as current period charges regardless of whether they are

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

abnormal. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of manufacturing be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect this new standard to have a material effect on our consolidated financial position or results of operations.

In December 2004, FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, or SFAS 123, and supersedes APB Opinion No. 25. SFAS 123R requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. The accounting provisions of SFAS 123R are effective for reporting periods beginning after December 15, 2005. This statement requires companies to calculate the fair value of stock options granted to employees, and amortize that amount over the option s vesting period as an expense through the income statement. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. See Share-Based Incentive Compensation above for the pro forma net income and net income per share amounts for fiscal 2003 through fiscal 2005, where we used a fair-value-based method under SFAS 123 to measure compensation expense for employee stock incentive awards. The implementation of this statement will be effective beginning with our first quarter of fiscal 2006. We do not expect the impact of this new pronouncement to be significant to our results of operations.

In March 2005, the FASB issued FASB Interpretation, or FIN, No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*, which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably estimated. We were required to adopt the provisions of FIN No. 47 no later than the end of our 2005 fiscal year. The adoption of this Interpretation did not have any material impact on our consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by the statement) to prior periods financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will adopt SFAS No. 154 as of the beginning of fiscal 2006 and do not expect that the adoption of SFAS No. 154 will have a material impact on our consolidated financial position or results of operations.

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

Note 3. Debt

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

	December 31, 2005	2004
Credit Agreement		
5-Year Revolver		
U. S. Dollar Revolver	$ 45.0	$ 45.0
Euro Revolver	23.7	27.1
364-Day Revolver		
U. S. Dollar Revolver	10.0	10.0
Euro Revolver		
French Employee Profit Sharing	16.3	19.8
Bank Overdrafts	12.3	9.0
Other	6.4	3.0
Total Debt	113.7	113.9
Less: Current debt	30.0	50.9
Long-Term Debt	$ 83.7	$ 63.0

Credit Agreement

On January 31, 2002, we entered into an unsecured credit agreement with a group of banks, or the Credit Agreement, providing 5-year and 364-day revolving loan facilities. Under the Credit Agreement, we and SMF as of December 31, 2005 had 5-year and 364-day revolving loan facilities available totaling up to 58 million euros (or $68.7 million using the December 31, 2005 currency exchange rate), or the Euro Credit Facility, and we had 5-year and 364-day revolving loan facilities available totaling up to $60.0 million, or the U.S. Credit Facility, and, together with the Euro Credit Facility, the Credit Facilities.

As of December 31, 2005, the Euro Credit Facility consisted of a 5-year revolving credit facility in the amount of up to 50 million euros (or $59.2 million using the December 31, 2005 currency exchange rate), or the 5-Year Euro Revolver, and a renewable 364-day revolving credit facility in an amount of up to 8 million euros (or $9.5 million using the December 31, 2005 currency exchange rate), or the 364-Day Euro Revolver. We guarantee borrowings by SMF under the Euro Credit Facility. We also have the ability to borrow under the Euro Credit Facility although we do not currently anticipate doing so.

As of December 31, 2005, the U.S. Credit Facility consisted of a 5-year revolving credit facility in the amount of up to $45.0 million, or the 5-Year U.S. Revolver, and, together with the 5-Year Euro Revolver, the 5-Year Revolvers, and a renewable 364-day revolving credit facility available to us in an amount of up to $15.0 million, or the 364-Day U.S. Revolver, and, together with the 364-Day Euro Revolver, the 364-Day Revolvers. The terms of the Credit Agreement provide us with flexibility to utilize cash balances to pay down the 5-Year Revolvers and subsequently draw on those facilities again when needed.

On January 26, 2006, we entered into Amendment No. 4 to the Credit Agreement. Under the Amendment, we renewed our 364-Day Revolver, extending these facilities from January 26, 2006 to January 25, 2007. This Amendment also decreased the applicable margin with respect to certain amounts available to us under the 364-Day Revolvers.

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Under the Credit Agreement, the interest rate under the 5-Year U.S. Revolver is the sum of (a) either 0.70 percent per annum or 0.80 percent per annum, or the Applicable Margin, determined by reference to our Net Debt to Equity Ratio, as defined in the Credit Agreement, plus (b) the London interbank offered rate for U.S. dollar deposits, or LIBOR. Under the Credit Agreement, the interest rate under the 5-Year Euro Revolver is the sum of the Applicable Margin plus the euro zone interbank offered rate for euro deposits, or EURIBOR. The interest rates under the 364-Day Revolvers are determined using the same formula for the respective 5-Year Revolvers except that the Applicable Margin is either 0.45 percent per annum or 0.55 percent per annum, determined by reference to our Net Debt to Equity Ratio, as defined in the Credit Agreement. The weighted average effective interest rates on our 5-Year Revolvers were 3.7 percent, 2.4 percent and 2.5 percent for the years ended December 31, 2005, 2004 and 2003, respectively.

The Credit Agreement contains representations and warranties which are customary for facilities of this type and covenants and provisions that, among other things, require us to maintain certain defined financial ratios (a minimum Tangible Net Worth, a maximum Net Debt to Equity Ratio and a maximum Net Debt to Adjusted EBITDA Ratio, all as defined in the Credit Agreement). At December 31, 2005, our Tangible Net Worth was $68.9 million above the minimum permitted amount while Net Debt was $27.6 million less than the maximum permitted amount under the most restrictive covenant. We do not currently anticipate any change in business conditions of a nature that would cause us to violate our covenants under the Credit Agreement.

5-Year Revolvers. At December 31, 2005, we had $104.2 million available on our 5-Year Revolvers in the United States and France under the Credit Agreement, of which $68.7 million was outstanding at December 31, 2005. These facilities permit borrowing at competitive interest rates and are available for general corporate purposes. We pay commitment fees on the unused portion of these 5-Year Revolvers at an annual rate of 0.35 percent and may cancel all or a portion of the unused facilities without penalty at any time prior to their expiration date of January 31, 2007.

364-Day Revolvers. At December 31, 2005, we had $24.5 million available on our 364-Day Revolvers in the United States and France under the Credit Agreement, of which $10.0 million was outstanding at December 31, 2005. These facilities permit borrowing at competitive interest rates and are available for general corporate purposes. Effective January 26, 2006, we renewed these short-term facilities to January 25, 2007. We pay commitment fees on the unused portion of these 364-Day Revolvers at an annual rate of 0.25 percent and may cancel all or a portion of the unused facilities without penalty at any time prior to their expiration.

French Employee Profit Sharing

At both December 31, 2005 and 2004, long-term debt other than the 5-Year Revolvers primarily consisted of obligations of the French operations related to government-mandated profit sharing. Each year, representatives of the workers at each of the French businesses can make an election for the profit sharing amounts from the most recent year ended as to whether to invest the funds in a financial institution or to invest the funds with their respective employer. To the extent that funds are invested with us, these amounts bear interest at the 5-year treasury note rate in France, 3.79 percent and 4.47 percent at December 31, 2005 and 2004, respectively, and are generally payable in the fifth year subsequent to the year the profit sharing is accrued.

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Bank Overdraft and Other

We also had other uncommitted bank credit facilities, or bank overdrafts, available totaling $33.1 million, of which $12.3 million was outstanding at December 31, 2005 and reported as current debt on the consolidated balance sheet. No commitment fees are paid on the unused portion of these facilities.

Other credit facilities consist of French segment debt from governmental and professional institutions primarily related to environmental capital improvements and in Brazil from governmental financing programs and bank institutions advancement on secured receivables. The French segment debt has deferred capital repayment terms and interest rates of zero percent. The Brazilian segment debt has interest rates ranging from 4 to 20 percent.

Principal Repayment

Under our Credit Agreement, we select an interest period for each of our borrowings under our 5-Year Revolvers. Being a revolving credit arrangement, we can repay such borrowings and borrow again at a subsequent date if we choose to do so, providing us flexibility and efficient use of any excess cash. We expect to continue to file notices of continuation related to our 5-Year Revolvers borrowings outstanding at December 31, 2005 such that those amounts are not expected to be repaid prior to the January 31, 2007 expiration date of the Credit Agreement, and therefore presented those obligations as expected to be repaid in 2007. Following are the expected maturities for our debt obligations as of December 31, 2005 (dollars in millions):

2006	$ 30.0
2007	72.4
2008	4.2
2009	3.6
2010	3.0
Thereafter	0.5
	$ 113.7

Fair Value of Debt

At December 31, 2005 and 2004, the estimated fair value of our current and long-term debt approximated the carrying amount. These fair values were based on quoted market prices for the same or similar debt or on current rates offered to us for obligations with the same maturities.

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Note 4. Income Taxes

An analysis of the provision (benefit) for income taxes follows (dollars in millions):

	For the Years Ended December 31, 2005	2004	2003
Current income taxes			
U.S. Federal	$ 0.4	$ 2.1	$ 1.2
U.S. State	0.1	0.3	0.2
Foreign	8.0	7.6	6.4
	8.5	10.0	7.8
Deferred income taxes:			
U.S. Federal	(1.1)	(5.8)	(3.2)
U.S. State	(0.2)	(0.8)	(0.4)
Foreign	3.2	8.7	7.8
	1.9	2.1	4.2
Total	$ 10.4	$ 12.1	$ 12.0

Income before income taxes included income of $40.7 million in 2005, $60.8 million in 2004 and $54.8 million in 2003 from operations outside the United States.

A reconciliation of income taxes computed at the U.S. federal statutory income tax rate to the provision for income taxes is as follows (dollars in millions):

	For the Years Ended December 31, 2005 Amount	Percent	2004 Amount	Percent	2003 Amount	Percent
Tax at U.S. statutory rate	$ 12.5	35.0 %	$ 19.4	35.0 %	$ 18.0	35.0 %
Adjustments of U.S. foreign tax credits and corresponding valuation allowances	1.6	3.4	(1.5)	(2.7)	(3.2)	(6.2)
Decreased French tax rate for 2005 and beyond			(1.0)	(1.8)		
Favorable court decision in French tax bond case			(0.7)	(1.3)		
Other foreign taxes, net	(3.2)	(9.0)	(3.5)	(6.3)	(2.4)	(4.7)
Other, net	(0.5)	(0.2)	(0.6)	(1.1)	(0.4)	(0.8)
Provision for income taxes	$ 10.4	29.2 %	$ 12.1	21.8 %	$ 12.0	23.3 %

The comparison of our effective income tax rate in 2005 compared with 2004 was impacted by adjustments in 2005 and 2004 to valuation allowances recorded against deferred income tax assets. The 2005 provision resulted from the effects of a domestic loss in 2005 on foreign tax credit carryforwards, the benefit of which is not currently expected to be fully realized prior to expiration of the credits. The comparison was also impacted by the adjustments to 2004 related to the change in French statutory tax rate enacted in 2004 and a benefit related to a favorable court decision in a French tax bond case.

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

The comparison of our effective income tax rate in 2004 compared with 2003 was impacted by adjustments in 2004 to valuation allowances recorded against deferred income tax assets as a result of realization of foreign tax credit carryforwards utilized in our 2003 U.S. federal income tax return and changes in our expectations as to the realization of such assets due to changes in estimates of our U.S. income tax situation and an increase in the carryforward period of foreign tax credits from 5 years to 10 years provided in the American Jobs Creation Act of 2004. Additionally, we recorded income tax benefits from a decrease in the French statutory corporate income tax rate enacted in December 2004, which decreased from 35.3 percent for 2004 to 34.8 percent in 2005 and to 34.3 percent in 2006 and beyond, that reduced the net deferred income tax liability and from the recovery of prior year taxes in France related to a favorable November 2004 court ruling.

Included in the $3.2 million, $3.5 million and $2.4 million favorable effects of other foreign taxes, net in 2005, 2004 and 2003, respectively, were net benefits of $2.5 million, $3.0 million and $1.6 million, respectively, from restructuring of our foreign operations implemented in the second quarter of 2003, which provides net foreign tax deductions for which income tax benefits have been recognized.

We consider the undistributed earnings of certain foreign subsidiaries to be indefinitely reinvested or plan to repatriate such earnings only when tax-effective to do so. Accordingly, no provision for U.S. federal and state income taxes has been made thereon. Upon distribution of those earnings in the form of dividends, loans to the U.S. parent, or otherwise, we could be liable for both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to foreign tax authorities. Determination of the amount of unrecognized deferred U.S. tax liability is not practicable because of the complexities associated with its hypothetical calculation.

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Deferred income tax assets (liabilities) were comprised of the following (dollars in millions):

	December 31, 2005	December 31, 2004
Current deferred income tax assets attributable to:		
Inventories	$ 1.3	$ 0.1
Postretirement and other employee benefits	1.3	1.7
Other accrued liabilities	2.7	3.0
Other	2.0	1.0
Net current deferred income tax assets	$ 7.3	$ 5.8
Noncurrent deferred income tax assets attributable to:		
Operating loss and tax credit carryforwards	$ 11.2	$ 10.8
Postretirement and other employee benefits	16.5	16.6
Accumulated depreciation and amortization	(12.8)	(14.8)
Valuation allowances	(5.3)	(5.8)
Other	2.4	3.5
Net noncurrent deferred income tax assets	$ 12.0	$ 10.3
Noncurrent deferred income tax liabilities attributable to:		
Accumulated depreciation and amortization	$ (54.0)	$ (55.7)
Operating loss and tax credit carryforwards	15.9	15.5
Postretirement and other employee benefits	2.2	3.4
Other	(4.3)	(2.5)
Net noncurrent deferred income tax liabilities	$ (40.2)	$ (39.3)

The net noncurrent deferred income tax assets relate to the U.S., Philippines and Spanish tax jurisdictions and the net noncurrent deferred income tax liabilities relate to the French, Brazilian, Indonesian and Canadian tax jurisdictions. Total deferred income tax assets were $59.5 million and $54.7 million at December 31, 2005 and 2004, respectively. Total deferred income tax liabilities were $80.4 million and $77.9 million at December 31, 2005 and 2004, respectively.

Under French tax law, net operating loss carryforwards, or NOLs, incurred through December 31, 1994 by SMF subsidiaries unrelated to our businesses were retained by SMF as of January 1, 1995 following SMF s distribution of those subsidiaries to Kimberly-Clark in the 1995 spin-off of Schweitzer-Mauduit. In addition to SMF s remaining NOLs, NOLs were generated during 2003, 2004 and 2005 by the SMH tax group in France, by SWM-B in 2005 and by SM-Spain since its formation in 1997.

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

The following summarizes the changes in our NOLs and the related noncurrent deferred income tax asset and valuation allowance for the years ended December 31, 2005, 2004 and 2003 (dollars in millions):

	NOLs	Total Asset	Valuation Allowance	Net Asset
Amount at December 31, 2002	$ 67.0	$ 23.7	$ (8.2)	$ 15.5
French valuation allowance adjustments, net	(13.1)	(4.6)	6.9	2.3
2003 utilization, net of generated	(14.5)	(5.2)		(5.2)
Currency translation effect	11.0	3.8	(1.1)	2.7
Amount at December 31, 2003	50.4	17.7	(2.4)	15.3
2004 utilization, net of generated	(1.3)	(0.5)	(0.1)	(0.6)
Decrease in French income tax rate		(0.4)		(0.4)
Currency translation effect	4.0	1.5	(0.3)	1.2
Amount at December 31, 2004	53.1	18.3	(2.8)	15.5
2005 generated, net of utilization	7.9	2.6	(0.1)	2.5
Currency translation effect	(6.8)	(2.5)	0.4	(2.1)
Amount at December 31, 2005	$ 54.2	$ 18.4	$ (2.5)	$ 15.9

Under current tax laws governing the tax jurisdictions in which we have NOLs, remaining NOLs in France and Brazil carry forward indefinitely and NOLs in Spain expire the later of 10 years subsequent to the year generated or 10 years subsequent to the first year of taxable income in Spain (which was 2000). Of the $54.2 million of NOLs still available at December 31, 2005, $5.7 million, $0.9 million, $0.2 million and $0.4 million will expire in 2010, 2012, 2014 and 2015, respectively, if not utilized against taxable income in Spain. The remaining $47.0 million of NOLs are in France and Brazil and have no expiration date. Valuation allowances related to NOLs in Spain totaled $2.5 million as of December 31, 2005, fully reserving the related deferred tax asset in Spain and reducing the net assets to zero, the amount which is estimated to be realizable through utilization of the NOLs. Although realization is not assured, we believe it is more likely than not that the net deferred tax asset of $15.9 million, all of which relates to the NOLs in France and Brazil, will be realized. However, that amount could change if, among other considerations, estimates of future taxable income or income tax regulations or interpretations change during the carryforward periods.

The following table summarizes the deferred income tax assets related to operating loss (shown above) and tax credit carryforwards and associated valuation allowances as of December 31, 2005 (dollars in millions):

	Total Asset	Valuation Allowance	Net Asset
Net operating loss carryforwards	$ 18.4	$ (2.5)	$ 15.9
Foreign tax credit carryforwards	3.1	(1.5)	1.6
Federal research and U.S. states tax credit carryforwards	2.7	(1.3)	1.4
Federal AMT credit carryforwards	2.9		2.9
	$ 27.1	$ (5.3)	$ 21.8

In addition to the NOLs above, we have generated foreign tax credits in excess of the amount of foreign tax credits utilized in our U.S. federal income tax returns, as well as federal research credits, certain state credits, primarily for investments in fixed assets in those states, and federal alternative minimum tax, or

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AMT, credits. The amount of cumulative excess foreign tax credits, including estimates of credits expected to be generated and utilized in 2005, totaled $3.1 million at December 31, 2005. These credits carryforward 10 years from the date generated based on provisions of the American Jobs Creation Act of 2004, and because of this extended carryforward period, and the current and forecasted profitability of our U.S. business operations, we currently foresee being able to realize a financial benefit from a portion of these foreign tax credits prior to their expiration. These assets were partially reserved at December 31, 2005 with a valuation allowance of $1.5 million. The federal research credits and various U.S. state credits are estimated to total $2.7 million as of December 31, 2005, of which we have estimated that $1.4 million of these credits will be realized prior to their expiration and thus have a valuation allowance of $1.3 million at December 31, 2005. Our federal AMT credits, related to our filed 2004 and prior year tax returns, totaled $2.9 million at December 31, 2005. These federal AMT credits carry forward indefinitely and no valuation allowance has been recorded.

Note 5. Postretirement and Other Benefits

North American Pension and Postretirement Healthcare and Life Insurance Benefits

The U.S. segment has defined benefit retirement plans that cover substantially all full-time employees. Retirement benefits are based on either a cash balance benefit formula or a final average pay formula for certain employees who were grandfathered and retained retirement benefits under the terms of the plan prior to amendment of the plan to include a cash balance benefit formula. For employees under the cash balance formula, we annually credit to the employee s account balance a retirement contribution credit, which is a percentage of the employee s earnings based on age and years of vesting service in the plan, and an interest credit, based on the average yield for 30-year treasury bills. For employees under the final average pay formula, retirement benefits are based on years of service and generally on the average compensation earned in the highest 5 of the last 15 years of service.

In July 2005, the decision was made and communicated to all affected U.S. salaried employees that benefits related to our defined benefit pension plan in the United States would be frozen as of December 31, 2005. This action is expected to reduce our annual pension expense and pension fund contribution requirements. The plan has not been terminated and benefits accrued as of December 31, 2005 will continue to be paid in accordance with the plan terms. Allowable employee contributions and our employer matching percentage for our defined contribution, or 401(k), plan were modified to partially offset the resulting salaried employee pension benefit reduction.

The action included suspending the plan so U.S. salaried employees do not earn additional benefits for future service (years or earnings) beginning January 1, 2006. This suspension of additional benefits for future service qualified this action for curtailment under SFAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

This action necessitated a remeasurement of our accumulated benefit obligation under our U.S. pension plan and resulted in a curtailment gain in 2005. As part of this interim remeasurement, we decreased our discount rate assumption from 5.75 percent to 5.25 percent to reflect recent changes in the market interest rates. Turnover and retirement assumptions were modified to reflect a recently completed demographic assumption study of SWM. Additionally, the mortality table assumption was also reviewed and updated to a more current mortality table. Annual investment rate of return and wage rate increase assumptions remained consistent with those previously disclosed.

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In accordance with GAAP, we calculated our curtailment gain by first remeasuring our plan assets and projected benefit obligation, or PBO, as of the date of the curtailment, excluding the effects of the curtailment, but including the effects of the changes in assumptions. We then had the plan assets and the PBO remeasured using the effects of the curtailment. This enabled us to isolate the effect of the curtailment on the PBO, without affecting the measurement for any change in the actuarial assumptions since the prior measurement date.

Our Canadian retirement benefit plan assets and liabilities are immaterial and therefore are not included in the following disclosures. Our U.S. employee pension plans accounted for approximately 70 percent of our total pension plan assets and total accumulated benefit obligations, as of December 31, 2005.

As of December 31, 2005, there were a total of 537 active employees covered by the plan s final average pay benefit formula and 223 active employees covered by the plan s cash balance benefit formula. There were also a total of 261 plan participants collecting monthly benefits under the plan s final average pay benefit formula.

The U.S. segment also has unfunded healthcare and life insurance benefit plans which cover substantially all of our retirees. Certain employees, who were grandfathered and retained benefits under the terms of our plans prior to certain past amendments, receive retiree healthcare coverage at rates we subsidize. For other eligible employees, retiree healthcare coverage access is offered at full cost to the retiree. The postretirement healthcare plans include a limit on our share of costs for current and future retirees. Our retiree life insurance plans are noncontributory. Our Canadian postretirement benefits liability is immaterial and therefore is not included in the following disclosures.

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We use a measurement date of December 31 for our pension and other postretirement healthcare and life insurance benefit plans. The funded status of these U.S. plans as of December 31, 2005 and 2004 was as follows (our postretirement healthcare and life insurance benefit plans are unfunded) (dollars in millions):

	Pension Benefits		Healthcare and Life Insurance Benefits	
	2005	2004	2005	2004
Change in Projected Benefit Obligation:				
Projected benefit obligation at beginning of year	$ 107.5	$ 95.7	$ 14.7	$ 14.2
Service cost	2.7	2.7	0.3	0.3
Interest cost	6.4	6.0	0.8	0.9
Actuarial losses	4.6	7.1	0.1	0.8
Plan amendments			(0.6)	
Participant contributions			0.3	0.2
Curtailment benefit	(4.3)			
Gross benefits paid	(4.2)	(4.0)	(1.9)	(1.7)
Projected benefit obligation at end of year	$ 112.7	$ 107.5	$ 13.7	$ 14.7
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$ 67.5	$ 62.8	$	$
Actual return on plan assets	4.7	6.9		
Employer contributions	9.4	1.8	1.6	1.5
Participant contributions			0.3	0.2
Gross benefits paid	(4.2)	(4.0)	(1.9)	(1.7)
Fair value of plan assets at end of year	$ 77.4	$ 67.5	$	$
Funded status at end of year	$ (35.3)	$ (40.0)	$ (13.7)	$ (14.7)
Unrecognized actuarial losses	37.4	38.1	2.2	2.1
Unrecognized prior service cost and net transition obligation	(0.2)	(1.1)	(0.9)	(0.6)
Net accrued asset (liability)	$ 1.9	$ (3.0)	$ (12.4)	$ (13.2)
Amounts recognized in the balance sheet consist of:				
Accrued asset (liability)	$ 1.9	$ (3.0)	$ (12.4)	$ (13.2)
Additional minimum liability	(29.1)	(27.5)		
Accumulated other comprehensive loss	29.1	27.5		
Net asset (liability) recognized in the balance sheet	$ 1.9	$ (3.0)	$ (12.4)	$ (13.2)

The projected and accumulated pension benefit obligations exceeded the fair value of pension plan assets for all of our U.S. defined benefit pension plans as of December 31, 2005 and 2004, as follows (dollars in millions):

	2005	2004
Projected benefit obligation	$ 112.7	$ 107.5
Accumulated benefit obligation	104.6	97.6
Fair value of plan assets	77.4	67.5

Assumptions are used to determine our benefit obligations. The rate used to discount our projected future benefit obligations back to a present value is called the discount rate. The discount rate fluctuates from

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year to year based on current market interest rates for high-quality fixed-income investments. We also evaluate the expected average duration of our pension obligations in determining our discount rate. A change in the discount rate assumption of 0.25 percent would change our estimated 2006 U.S. pension expense by approximately $0.2 million. An assumed long-term rate of compensation increase is also used to determine the projected benefit obligations. The weighted average assumptions used to determine benefit obligations as of December 31, 2005 and 2004 were as follows:

	Pension Benefits		Healthcare and Life Insurance Benefits	
	2005	2004	2005	2004
Discount rate	5.75 %	5.75 %	5.75 %	5.75 %
Rate of compensation increase	3.50 %	3.50 %		

For purposes of measuring the postretirement healthcare benefit obligation, the following assumptions were used at December 31, 2005 and 2004:

	2005	2004
Health care cost trend rate assumed for next year	8.00 %	8.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2009	2008

A 1-percentage point increase or decrease in the healthcare cost trend rate would have a nominal effect on the total of the service and interest cost components of the postretirement benefit obligation, as well as the total postretirement benefit obligation, at December 31, 2005.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Act, was enacted. The Act established a prescription drug benefit under Medicare, known as Medicare Part D, and a federal subsidy for sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. We have concluded that the Act will not have a significant effect on the cost of our postretirement medical plans.

The components of net pension and postretirement healthcare and life insurance benefit costs for U.S. employees for the years ended December 31, 2005, 2004 and 2003 were as follows (dollars in millions):

	Pension Benefits			Healthcare and Life Insurance Benefits		
	2005	2004	2003	2005	2004	2003
Service cost	$ 2.7	$ 2.7	$ 2.4	$ 0.3	$ 0.3	$ 0.2
Interest cost	6.4	6.0	5.6	0.7	0.9	0.9
Expected return on plan assets	(6.7)	(6.2)	(6.0)			
Amortizations and other	2.9	1.8	0.5	(0.1)	(0.1)	(0.1)
Curtailment credit	(0.8)					
Net periodic benefit cost	$ 4.5	$ 4.3	$ 2.5	$ 0.9	$ 1.1	$ 1.0

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Assumptions are used to determine net periodic benefit costs. In addition to the discount rate and rate of compensation increase, which are used to determine benefit obligations, an expected long-term rate of return on plan assets is also used to determine net periodic pension benefit costs. The expected long-term rate of return on plan assets is used to reduce the expected gross periodic cost of our benefits by that amount expected to be earned on assets of the plan. The expected long-term target rate of return on plan assets is based upon our projected investment mix of plan assets, the assumption that future returns will be close to the historical long-term rate of return experienced for equity and fixed income securities and a 10 to 15 year investment horizon, so that fluctuations in the interim should be viewed with appropriate perspective. A change in the long-term rate of return assumption of 0.25 percent would change our estimated 2006 U.S. pension expense by approximately $0.2 million. The weighted average assumptions used to determine net periodic benefit costs for the years ended December 31, 2005, 2004 and 2003 were as follows:

	Pension Benefits			Healthcare and Life Insurance Benefits		
	2005	2004	2003	2005	2004	2003
Discount rate	5.75 %	6.00 %	6.50 %	5.75 %	6.00 %	6.50 %
Expected long-term rate of return on plan assets	9.00 %	9.00 %	8.75 %			
Rate of compensation increase	3.50 %	3.50 %	3.50 %			

Our investment strategy with respect to our U.S. pension plan assets is to maximize the return on investment of plan assets at an acceptable level of risk and to assure the plans fiscal health. The primary goal of our pension plans is to maintain the highest probability of assuring future benefit payments to participants while providing growth of capital in real terms. To achieve this goal, the investment philosophy is to protect plan assets from large investment losses, particularly over time, while growing the assets as fast as prudently possible. While there cannot be complete assurance that the objectives will be realized, we believe that the likelihood of realizing the objectives is reasonably high based upon this investment philosophy. We have an investment committee that meets formally on a periodic basis to review the portfolio returns and to determine asset mix targets. U.S. pension plan assets target allocation by asset category for 2006 and actual allocation by asset category at December 31, 2005 and 2004 were as follows:

Asset Category	2006 Target	at December 31, 2005	at December 31, 2004
Cash and cash equivalents	0 %	3 %	0 %
Equity securities*	65	66	65
Fixed income securities	25	21	25
Other	10	10	10
Total	100 %	100 %	100 %

* Target allocation for equity securities for 2006 includes 10 percent in international equity securities and 10 percent in domestic small company equity securities with the balance of the allocation in domestic large company equity securities. None of our pension plan assets are targeted for investment in SWM stock, except that it is possible that one or more mutual funds held by the plan could hold shares of SWM.

We expect the following estimated undiscounted future pension and postretirement healthcare and life insurance benefit payments, which are to be made from pension plan and employer assets, net of amounts

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that will be funded from retiree contributions, and which reflect expected future service, as appropriate (dollars in millions):

	Pension Benefits	Healthcare and Life Insurance Benefits
2006	$ 5.1	$ 1.3
2007	5.5	1.2
2008	5.9	1.2
2009	6.5	1.2
2010	6.7	1.1
2011-2015	43.4	5.5

Although we will not be required to make cash contributions to our U.S. pension plan trust in 2006, we currently expect to contribute approximately $5 to $8 million during 2006 in order to help improve the funded status of these U.S. plans. We also expect to pay approximately $1.3 million during 2006 to cover our U.S. postretirement healthcare and life insurance benefit payments.

French Pension Benefits

In France, employees are covered under a government-administered program. Also, our French operations sponsor retirement indemnity plans, which pay a lump sum retirement benefit to all of our permanent employees who retire. In addition, our French operations sponsor a supplemental executive pension plan, which is designed to provide a retirement benefit up to 65 percent of final earnings, depending upon years of service, and the formula for which the employee is eligible. As of December 31, 2005, there were a total of 174 active and 9 retired employees in the supplemental executive pension plan. Plan assets are principally invested in the general asset portfolio of a French insurance company. We currently expect to contribute approximately $5 to $7 million to our French pension plans during 2006 in order to help improve the funded status of these plans.

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We use a measurement date of December 31 for our French pension plans. The funded status of these plans as of December 31, 2005 and 2004 was as follows (dollars in millions):

	2005	2004
Change in Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 45.6	$ 38.5
Service cost	1.7	1.8
Interest cost	1.9	1.9
Actuarial losses	0.1	1.7
Participant contributions		
Gross benefits paid	(0.9)	(1.6)
Currency translation effect	(5.8)	3.3
Projected benefit obligation at end of year	$ 42.6	$ 45.6
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 26.3	$ 16.0
Actual return on plan assets	1.3	0.9
Employer contributions	4.3	9.0
Participant contributions		
Gross benefits paid	(0.9)	(1.6)
Currency translation effect	(3.5)	2.0
Fair value of plan assets at end of year	$ 27.5	$ 26.3
Funded status at end of year	$ (15.1)	$ (19.3)
Unrecognized actuarial losses	17.6	20.6
Unrecognized prior service cost and net transition obligation	0.7	1.0
Net accrued asset	$ 3.2	$ 2.3
Amounts recognized in the balance sheet consist of:		
Accrued asset	$ 3.2	$ 2.3
Additional minimum liability	(9.4)	(12.5)
Intangible asset	0.6	0.9
Accumulated other comprehensive loss	8.2	8.5
Net asset (liability) recognized in the balance sheet	$ 2.6	$ (0.8)

The projected and accumulated pension benefit obligations exceeded the fair value of pension plan assets for all of our French defined benefit pension plans as of December 31, 2005 and 2004, as follows (dollars in millions):

	2005	2004
Projected benefit obligation	$ 42.6	$ 45.6
Accumulated benefit obligation	33.7	36.4
Fair value of plan assets	27.5	26.3

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The weighted average assumptions used to determine our French pension benefit obligations as of December 31, 2005 and 2004 were as follows:

	2005	2004
Discount rate	4.30 %	5.75 %
Rate of compensation increase	3.00 %	3.50 %

The components of net periodic pension costs for French employees for the years ended December 31, 2005, 2004 and 2003 were as follows (dollars in millions):

	2005	2004	2003
Service cost	$ 1.7	$ 1.8	$ 1.5
Interest cost	1.9	1.9	1.7
Expected return on plan assets	(1.4)	(1.0)	(0.8)
Amortizations and other	0.9	1.0	0.8
Net periodic pension cost	$ 3.1	$ 3.7	$ 3.2

The weighted average assumptions used to determine net periodic benefit costs for the French pension plans for the years ended December 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Discount rate	5.75 %	5.25 %	5.37 %
Expected long-term rate of return on plan assets	4.75 %	5.50 %	5.25 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %

Other Foreign Pension Benefits

In Brazil and Indonesia, employees are covered under a government-administered program. In the Philippines, the employee pension and postretirement benefits are not significant and therefore are not included.

Other Benefits

Substantially all of our U.S. employees have been given the opportunity to participate in a voluntary retirement savings plan. Under the plan, we match a portion of employee contributions. Employees may reallocate their respective account balances, including any balances in our common stock, amongst any number of the available investment choices under the plan provisions on a daily basis. Our cost under the plan reflected in the accompanying consolidated income statements was $1.0 million for 2005, 2004 and 2003. At December 31, 2005 and 2004, 500,000 shares of our common stock were reserved for issuance under the plan, none of which had been issued as of December 31, 2005. The shares may, at our option, be used to satisfy our liability for matching contributions.

We also provide U.S. executives, certain other key personnel and our directors the opportunity to participate in deferred compensation plans. Those participating employees can elect to defer a portion of their salaries and certain other compensation. Those participating directors can elect to defer their meeting fees, as a cash deferral, as well as their quarterly retainer fees, as deferred stock unit credits. Our liability balance under these plans totaled $3.7 million and $3.5 million at December 31, 2005 and 2004, respectively, which is included on the consolidated balance sheet in Other Liabilities. In connection with

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these plans, as well as our supplemental retirement and severance plans, we have a grantor trust into which we have contributed funds toward our future obligations under the various plans. Grantor trust investments are primarily in company-owned life insurance policies. The balance of grantor trust assets totaled $3.9 million and $3.2 million at December 31, 2005 and 2004, respectively, which is included in Other Assets on the consolidated balance sheet.

In accordance with French law, certain salaried employees in France may accumulate unused regular vacation and supplemental hours of paid leave that can be credited to an individual s Compte Epargne Temps, or CET. The CET account may grow over an individual s career and the hours accumulated may be withdrawn upon retirement or under other special circumstances at the individual s then current rate of pay. The balance of our liability for this program reflected in the accompanying consolidated balance sheet in Other Liabilities was $5.1 million at December 31, 2005 and 2004.

Note 6. Stockholders Equity

Our Certificate of Incorporation authorizes the issuance of up to 100,000,000 shares of common stock, par value $0.10 per share, and 10,000,000 shares of preferred stock, par value $0.10 per share. Each share of outstanding common stock and common stock issued after the date of this report will have attached to it, 1 right to purchase from us one one-hundredth (1/100) of a share of a series of preferred stock designated as the Series A Junior Participating Preferred Stock, or the Series A Preferred Stock, or a Right. Each Right entitles a shareholder to purchase from us one one-hundredth (1/100) of a share of the Series A Preferred Stock at a price of $65 per one one-hundredth (1/100) of a share, subject to certain anti-dilution adjustments. The Rights, however, become exercisable only at such time as a person or group acquires, or commences a public tender or exchange offer for, 15 percent or more of our common stock. The Rights have certain anti-takeover effects since they may cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our Board of Directors. The Rights should not interfere with any merger or other business combination approved by the Board of Directors since we may redeem them at $0.01 per Right at any time until a person or group has obtained beneficial ownership of 15 percent or more of the voting stock. The Rights will expire October 1, 2010, unless redeemed earlier by us.

The Series A Preferred Stock will be non-redeemable and, unless otherwise provided in connection with the creation of a subsequent series of preferred stock, will be subordinate to any other series of our preferred stock. Each share of Series A Preferred Stock will be entitled to receive when, as and if declared, a quarterly dividend in an amount equal to the greater of $1 per share or 100 times the cash dividends declared on our common stock. In addition, the Series A Preferred Stock is entitled to 100 times any non-cash dividends (other than dividends payable in shares of common stock or a subdivision of the outstanding shares of common stock) declared on the common stock, in like kind. In the event of liquidation, the holders of the Series A Preferred Stock will be entitled to receive a liquidation payment in an amount equal to the greater of $100 per share or 100 times the payment made per share of common stock. Each share of Series A Preferred Stock will have 100 votes, voting together with the common stock. In the event of any merger, consolidation or other transaction in which common shares are exchanged, each share of Series A Preferred Stock will be entitled to receive 100 times the amount received per share of common stock. The rights of the Series A Preferred Stock as to dividends, liquidation and voting are protected by antidilution provisions.

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Equity Participation Plan

Our Equity Participation Plan provides that eligible employees may be granted stock options which, when exercised, give the recipient the right to purchase our common stock at a price no less than the fair market value (as defined in the Equity Participation Plan) of such stock at grant date. Options awarded under the Equity Participation Plan only become exercisable after specified periods of employment after the grant thereof (30 percent after the first year, 30 percent after the second year and the remaining 40 percent after the third year). Generally, such options expire 10 years subsequent to the date of grant.

On December 9, 2005, the Board of Directors accelerated the vesting of certain unvested and out-of-the-money stock options previously awarded to employees and officers that have exercise prices above $30.00 per share. As a result, options to purchase approximately 300,000 shares of our common stock vested immediately, but no underlying shares will be transferable by officers prior to the original vesting schedule. In order to prevent unintended personal benefits to the company s officers, restrictions will be imposed on any shares received through the exercise of accelerated options held by those individuals. These restrictions will prevent the sale of any shares received from the exercise of an accelerated stock option prior to the earlier of the original vesting date of the option or the individual s termination of employment. Accelerated stock options held by the company s officers represent approximately 90 percent of the total accelerated options. The Equity Participation Plan expired in 2005 and was not renewed. Stock options are not expected to be granted after 2005.

The following table presents stock option activity for the years 2005, 2004 and 2003:

	2005		2004		2003	
	Options	**Weighted-Average Exercise Price**	**Options**	**Weighted-Average Exercise Price**	**Options**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	1,360,393	$ 21.54	1,585,639	$ 19.99	1,418,506	$ 19.20
Granted	200,100	32.79	187,900	30.24	228,200	24.60
Forfeited	(18,200)	29.10	(5,000)	23.19	(4,150)	19.05
Exercised	(379,701)	18.12	(408,146)	19.49	(56,917)	19.03
Outstanding at end of year	1,162,592	24.48	1,360,393	21.54	1,585,639	19.99
Options exercisable at year-end	1,054,312	$ 24.44	904,943	$ 19.02	1,087,874	$ 18.52
Weighted-average per share fair value of options granted during the year	$ 8.64		$ 9.86		$ 7.83	

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The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$13.00 to $15.91	195,027	3.1 years	$ 15.57	195,027	$ 15.57
$19.35 to $20.90	122,644	5.0	19.39	122,644	19.39
$22.70 to $28.02	486,121	6.6	23.86	377,841	23.58
$30.17 to $34.55	358,800	8.4	31.89	358,800	31.89
$13.00 to $34.55	1,162,592	6.4 years	$ 24.48	1,054,312	$ 24.44

Restricted Stock Plan

Effective December 1999, we established a Restricted Stock Plan which is intended to promote our long-term financial success by attracting and retaining outstanding executive personnel and to motivate such personnel by means of restricted stock grants. The Compensation Committee of our Board of Directors selects participants and establishes the terms of any grant of restricted stock. Our Restricted Stock Plan provides that such a grant immediately transfers ownership rights in shares of our common stock to the recipient of the grant, including the right to vote the shares and to receive dividends thereon, at a share price established by the Compensation Committee in its discretion. The recipient s continued ownership of and right to freely transfer the restricted stock is subject to such conditions on transferability and to such risks of forfeiture as are established by the Compensation Committee at the time of grant, which may include continued employment with us for a defined period, achievement of specified management performance objectives or other conditions established by the Compensation Committee. The number of shares, which may be issued under this Restricted Stock Plan, is limited to the lesser of 1,000,000 shares or the number of treasury shares held by us as of the date of any grant. No single participant may be awarded, in the aggregate, more than 50 percent of the shares authorized to be issued under the Restricted Stock Plan. As of December 31, 2005, 86,500 restricted shares had been issued under the Restricted Stock Plan most of which do not vest until 4 years of service from the date of the grant. As of December 31, 2005, 28,500 shares of issued restricted stock were not yet vested. The number of shares available for future awards is limited, as of December 31, 2005, to 913,500.

Basic and Diluted Shares Reconciliation

A reconciliation of the average number of common shares outstanding used in the calculations of basic and diluted net income per share follows (in thousands):

	December 31, 2005	2004	2003
Average number of common shares outstanding	15,150.1	14,842.0	14,738.3
Dilutive effect of:			
stock options	248.6	499.9	318.1
restricted stock	34.7	61.6	66.6
directors deferred stock compensation	17.0	18.8	15.3
Average number of common and potential common shares outstanding	15,450.4	15,422.3	15,138.3

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There were stock options outstanding that were not included in the calculation of diluted net income per share because their exercise price was greater than the average market price of the Company s common stock during the respective periods, as summarized below (shares in thousands):

	December 31, 2005	2004	2003
Average number of share equivalents not included	336.1	4.8	115.1
Weighted-average option price per share	$31.04	$33.78	$24.91
Expiration date of options	2008 to 2015	2008 to 2014	2006 to 2013
Options outstanding at year-end not included	590.0	3.5	6.5

Note 7. Commitments and Contingencies

Leases

Future minimum obligations under non-cancelable operating leases having an initial or remaining term in excess of one year as of December 31, 2005 are less than $1.1 million annually over the next 5 years and thereafter. Rental expense under operating leases was $6.4 million for 2005, $4.9 million for 2004 and $4.3 million for 2003.

Other Commitments

A vendor of PdM operates a calcium carbonate plant on-site at the Quimperle, France mill. Under the terms of the agreement, which is currently scheduled to expire at the end of 2009, the annual minimum contractual commitment is at a quantity and price which would require $3.2 million of calcium carbonate purchases. Under this agreement, the net raw material price expected to be paid is less than the net price at which the raw material could otherwise be purchased, and thus the commitment is not expected to result in a loss. Our purchases for the mill in Quimperle were less than the minimum annual commitment level during 2002, which resulted in a dispute over invoice prices. PdM undertook efforts to mitigate the issues associated with the use of the slurry-form calcium carbonate, which is produced at the plant, such that PdM purchased the minimum annual commitment in 2003, 2004 and 2005. During 2004, a tentative agreement was reached with this vendor. This tentative agreement resolves disputed invoices regarding prior year per unit prices of calcium carbonate and extends the current agreement for an additional 5 years beyond the current 2009 expiration. During 2005, PdM paid the agreed upon amount to settle the disputed invoices, however the contract extension is still under negotiation at December 31, 2005.

In March 2004, LTRI, our 72 percent indirectly owned subsidiary in France, entered into an agreement with an energy cogeneration supplier whereby the supplier will construct and operate a cogeneration facility at the LTRI mill and supply steam which will be used in the operation of the mill. In April 2004, a similar agreement was entered into with the same supplier to install and operate a cogeneration facility at PdM. These agreements are expected to reduce the energy cost of these mills. The construction phase of the LTRI cogeneration facility was completed late in 2005 and the construction of the PdM cogeneration facility should be completed in late 2006, with the supplier bearing the capital cost of both projects. Following start-up of these facilities, LTRI and PdM will be committed to purchasing minimum annual amounts of steam generated by each of these facilities for a period of 15 years under the agreements. These minimum annual commitments together will total approximately $3 million. LTRI s and PdM s

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
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current and expected requirements for steam are at levels that exceed the minimum levels under the respective contracts.

We enter into certain other immaterial contracts from time to time for the purchase of certain raw materials. We also enter into certain contracts for the purchase of equipment and related costs in connection with our ongoing capital projects, which, at December 31, 2005, totaled $0.4 million.

At our U.S. segment s Lee Mills facility, we operate a machine that is owned by Kimberly-Clark. Ownership of the machine was retained by Kimberly-Clark in the 1995 spin-off of Schweitzer-Mauduit, International, Inc. as it is operated solely for the purpose of producing a proprietary product used as an in-process material by Kimberly-Clark. Under the contract for its continued operation, we essentially invoice Kimberly-Clark the actual costs of operating the machine, including allocations of indirect and fixed overhead costs. While the current term of the contract was scheduled to expire in December 2009, Kimberly-Clark gave notice of early termination on January 27, 2006, which under the contract began an 18 month termination period for the contract now ending in August 2007. While certain of the costs currently invoiced to Kimberly-Clark can be eliminated, we may be unable to eliminate a portion of the approximately $2 million of indirect and fixed overhead costs that are currently absorbed by that operation.

As of December 31, 2005, we had issued guarantee instruments in connection with certain agreements and as required by regulatory agencies in connection with certain of our ongoing obligations, as follows: (i) We issued a surety bond to the State of Massachusetts beginning in 1998 in the principal amount of $1.5 million related to our ongoing obligation for post-closure monitoring and maintenance of a landfill site. This surety bond has been replaced with a letter of credit for the same principal amount effective April 2003. We have a liability recorded at December 31, 2005 of $0.4 million based on our current estimate of the remaining costs to perform such post-closure care. (ii) Since 1995, we have issued an annual letter of credit to an insurance company, the current principal amount of which was $1.7 million as of December 31, 2005, in connection with our administration of our workers compensation claims in the United States, for which we have recorded a liability of $1.7 million at December 31, 2005. (iii) We began issuing a letter of credit to the Township of East Brunswick, New Jersey beginning in 1988, the current principal amount of which was $0.5 million as of December 31, 2005, in connection with our long-term obligation related to the municipality s recovery of the cost of installation of a water line to our Spotswood mill, for which we have a recorded liability of $0.4 million at December 31, 2005. (iv) We have certain other letters of credit and surety bonds outstanding at December 31, 2005, which are not material either individually or in the aggregate.

Litigation

Imposto sobre Circulação de Mercadorias e Serviços, or ICMS, a form of value-added tax in Brazil, was assessed to SWM-B in December of 2000. SWM-B received 2 assessments from the tax authorities of the State of Rio de Janeiro for unpaid ICMS taxes from January 1995 through November 2000, which together with interest and penalties totaled approximately $13.6 million based on the foreign currency exchange rate at December 31, 2000, collectively the Assessment.

The Assessment concerned the accrual and use by SWM-B of ICMS tax credits generated from the production and sale of certain non-tobacco related grades of paper sold domestically that are immune from the tax to offset ICMS taxes otherwise owed on the sale of products that are not immune. One of the 2 assessments, estimated at December 31, 2000 at approximately $9.1 million, related in part to tax periods that predated our acquisition of Pirahy and is covered in part by an indemnification from the sellers of

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

Pirahy, or Assessment 1 (case number 01121532-4). The second assessment pertains exclusively to periods that SWM-B owned the Pirahy mill, or Assessment 2 (case number 01121533-2). While SWM-B is primarily responsible for the full payment of the Assessment in the event of an ultimate unfavorable outcome, SWM-B is not aware of any difficulties that would be encountered in obtaining reimbursement of that portion of any payment resulting from Assessment 1 from the previous owner under the indemnification.

SWM-B contests the Assessment based on Article 150, VI of the Brazilian Federal Constitution of 1988, which grants immunity from ICMS taxes to papers used in the production of books, newspapers and periodicals, or immune papers, and the raw material inputs used to produce immune papers. SWM-B further contends that the statutory provision relied on by the State of Rio de Janeiro to argue that ICMS tax credits generated in the course of the production of immune papers must be reversed rather than applied to other ICMS taxes owed violates the Brazilian Federal Constitution and the legal principle of non-cumulativity for ICMS tax set forth in Article 155, Section 2, II, of the Brazilian Federal Constitution of 1988. Additionally, SWM-B contends that the statutory provisions relied on by the government do not address immunity from the incidence of the ICMS tax, but are addressed to exception from the tax. This distinction is central to SWM-B s further contention that the only exceptions permitted to the constitutionally mandated principle of non-cumulativity are for exemptions from tax and no exceptions from this principle are permitted in cases of immunity from tax.

The State of Rio de Janeiro tax authorities, based on appeals of the Assessment, reduced the original amount of Assessment 1 by approximately $1.6 million and denied our appeal of Assessment 2. Following these decisions at the administrative level, judicial actions captioned Schweitzer-Mauduit do Brasil S.A. vs State of Rio de Janeiro were filed in the Judiciary Branch of the 11th Public Treasury Court of the State of Rio de Janeiro to annul the tax and to enjoin enforcement pending final adjudication of the Assessment. The courts issued injunctions, which were upheld on appeal, against enforcement of the Assessment without the requirement for any bond or posting of other collateral by SWM-B, pending final determination of SWM-B s action to annul the tax debits.

In August and November 2003, the judges hearing the challenges in the State of Rio de Janeiro ruled in SWM-B s favor in its suits to vacate Assessment 2 and Assessment 1, respectively (and case numbers 2001.001.064544-6 and 2001.001.115144-5, respectively), affirming the bases of SWM-B s legal challenges of the Assessment. The State of Rio de Janeiro automatically appealed these favorable decisions. With regard to Assessment 2, in May 2004, the 1st Civil Chamber of the Court of Appeals of the State of Rio de Janeiro entered an order, published in June 2004, granting the State of Rio de Janeiro s appeal of the lower court s decision annulling Assessment 2 against SWM-B. The appellate court reached its decision based on a majority vote of the 3-judge panel, with 1 judge issuing a written dissenting opinion. Based on this dissenting opinion, in June 2004, SWM-B appealed to a different civil chamber. In March 2005, the 11th Civil Chamber of the Court of Appeals of the State of Rio de Janeiro also denied SWM-B s appeal based on a majority vote. In June 2005, SWM-B appealed to the Superior Court of Justice and the Federal Supreme Court of Brazil. In November 2005, SWM-B filed a preliminary injunction at the Superior Court of Justice in order to prevent the enforcement of Assessment 2. The Superior Court of Justice granted SWM-B an order to suspend the enforcement of Assessment 2 until the ruling of the case by the Court. With regard to Assessment 1, in August 2004, the 9th Civil Chamber of the Court of Appeals of the State of Rio de Janeiro entered an order, published in October 2004, denying the State of Rio de Janeiro s appeal of the lower court s decision annulling Assessment 1 against SWM-B. The State of Rio de Janeiro

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

appealed this favorable decision to the Superior Court of Justice, which denied the appeal in August 2005. The State of Rio de Janeiro is now expected to appeal to the Federal Supreme Court of Brazil.

SWM-B continues to vigorously contest the Assessment and believes that the Assessment will ultimately be resolved in its favor. However, since the final resolution involves presentation of the matter to the Supreme Court of Brazil, it is not likely to be finally resolved for several years. Based on the foreign currency exchange rate at December 31, 2005, the Assessment, as reduced in August 2001, totaled approximately $17.1 million as of December 31, 2005, of which approximately $7.9 million is covered by the above-discussed indemnification. No liability has been recorded in our consolidated financial statements for the Assessment based on our evaluation that SWM-B is more likely than not to prevail in its challenge of the Assessment under the facts and law as presently understood.

In February 2004, SWM-B filed suit against the State of Rio de Janeiro in the 11th Court of Public sitting in Rio de Janeiro, Case No. 2004.001.02206-6, to recover ICMS credits previously reversed in 2000 following receipt of the Assessment. After the Assessment was filed against us, SWM-B changed its procedures and did not utilize ICMS tax credits through the end of production and sale of immune papers during 2001. As a result of having received the August and November 2003 favorable lower court rulings to the above Assessment 2 and Assessment 1, respectively, SWM-B petitioned the court for permission to offset overpaid ICMS taxes against current tax liabilities. The amount of the claim totals approximately $1.7 million, based on the foreign currency exchange rate at December 31, 2005. During March 2004, the court rejected SWM-B s claim, which decision SWM-B has appealed. As of December 31, 2005, no asset has been recorded for this potential recovery.

The Social Contribution for the Program of Social Integration, or PIS Semestralidade the matter of Schweitzer-Mauduit do Brasil v. Federal Union in the Federal Regional Tribunal sitting in Rio de Janeiro, Case Number 2000.51.001617-8 (October 2, 2002).

SWM-B filed a declaratory action in the 15th Federal Court sitting in Rio de Janeiro in January 2000 seeking recovery of tax credits for payments of PIS during the period March 1989 through September 1995. SWM-B s claim to these credits arose from the abrogation of Decree Laws 2,445/88 and 2,449/88 on October 9, 1995 by Federal Senate Resolution No. 49. As a result of the abrogation of the two Decree Laws, taxpayers who paid PIS on the basis of such laws were entitled both to register credits for the amounts of such PIS payments and to recover the amount of the credits against similar current tax liabilities. When the subject lawsuit was filed, the method recognized under Brazilian law for the recovery of a tax credit was either to file a refund application with the appropriate tax authority or to offset the amount of the tax credit against current obligations relating to the same type of tax. SWM-B offset the amount of PIS it paid in the period March 1989 through September 1995 with the PIS due between April 1999 and April 2003. SWM-B filed the subject declaratory action to (i) declare its right to recover the PIS contribution it paid based on a calculation made in accordance with Complementary Law 07/70 (in force before the abrogated Decree Laws) concerning the time frame and rate of recovery; (ii) avoid any tax assessment due to the credits SWM-B had already recovered through offset; and (iii) to request recognition of inflation losses suffered by SWM-B in the calculation of the credit amount, which also involves the various rates of inflation that should apply.

SWM-B received a favorable decision on its request for a preliminary injunction in July 2002. This decision was confirmed on appeal in December 2004. In June 2005, the government filed a motion to amend the decision rendered in the appeal, which was denied. It was expected that the Federal Union would also file appeals to the Superior Court of Justice and ultimately to the Supreme Court of Brazil. In November 2005,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the ruling in SWMB s favor was confirmed and this litigation was transited in rem judicatam and was sent back to the 15th Federal Court sitting in Rio de Janeiro to be filed. There is no other possibility for any further appeal by the government, therefore SWM-B recorded a net gain of $1.3 million in the fourth quarter of 2005.

Imposto sobre Produtos Industrializados*,* or IPI, a form of federal value-added tax in Brazil. Schweitzer-Mauduit do Brasil v. Federal Union, Federal Regional Tribunal sitting in Rio de Janeiro, Case number 2004.51.04.000502-4 (March 5, 2004).

SWM-B instituted this action in order to recover credits on past and future purchases of raw materials that are exempt from IPI taxes or that carry an IPI tax rate of 0 . The recovery would be in the form of presumed credits that could be applied to offset other IPI tax liabilities. The action for recovery is based on the principle in Brazilian law of non-cumulative taxes. The Brazilian Supreme Court decided favorably in the case of materials with tax exemption. They considered that the acquisition of exempt material generated the right to the credit as if there was no exemption. The legal thesis would be the same for non-taxed materials and 0 taxed materials.

Independent of SWM-B s action, the Brazilian Department of Justice has prepared a brief contesting the Supreme Court s decisions on IPI credits, arguing for reversal on the grounds that the Supreme Court s decisions on the IPI presumed tax credits effectively fashioned new law concerning the application of the principle of the non-cumulation of taxes and did not interpret existing law, such action being outside the jurisdiction of the court. While the government s arguments may be well founded, it is considered unlikely that the Supreme Court will reverse itself on these recent rulings which passed with a strong majority vote of the judges. However, a number of new judges have joined the Supreme Court and there are significant social implications to the potential lost revenue for the government.

SWM-B received a favorable ruling on the merits of its claim. The only unfavorable aspect of the decision was a denial of SWM-B s claim to include purchases of electricity and natural gas as raw materials on which it could generate credits. SWM-B petitioned the court to amend its ruling in this regard and the court denied SWM-B s petition. SWM-B appealed this decision to the Federal Tribunal, where the case is presently pending. The potential recovery of IPI credits, depending upon several contested factors, could be in the range of $10 million to $20 million, which amounts we consider a gain contingency and have not recorded in our consolidated financial statements. We believe that we have a good chance of recovery. However, the final resolution of this matter may entail judicial proceedings up to and including presentation of the matter to the Supreme Court of Brazil and is not likely to be finally resolved for several years.

Indemnification Matters

In connection with our spin-off from Kimberly-Clark in 1995 and pursuant to the resulting Transfer, Contribution and Assumption Agreement and the related Distribution Agreement between us and Kimberly-Clark dated October 23, 1995, we undertook to indemnify and hold Kimberly-Clark harmless from claims and liabilities related to the businesses transferred to us that were not identified as excluded liabilities in the above-mentioned agreements. To date, no claims which we deem material to our financial condition or results of operations have been tendered to us under this indemnification that have not been previously disclosed. As of the date of these financial statements, there are no claims pending under this indemnification that we deem to be material.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES
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General Matters

We are involved in certain other legal actions and claims arising in the ordinary course of business. Management believes that such litigation and claims will be resolved without a material adverse effect on our consolidated financial statements.

Environmental Matters

Our operations are subject to federal, state and local laws, regulations and ordinances relating to various environmental matters. The nature of our operations expose us to the risk of claims with respect to environmental matters, and there can be no assurance that material costs or liabilities will not be incurred in connection with such claims. While we have incurred in the past several years, and will continue to incur, capital and operating expenditures in order to comply with environmental laws and regulations, we believe that our future cost of compliance with environmental laws, regulations and ordinances, and our exposure to liability for environmental claims and our obligation to participate in the remediation and monitoring of certain hazardous waste disposal sites, will not have a material adverse effect on our financial condition or results of operations. However, future events, such as changes in existing laws and regulations, or unknown contamination of sites owned, operated or used for waste disposal by us (including contamination caused by prior owners and operators of such sites or other waste generators) may give rise to additional costs which could have a material adverse effect on our financial condition or results of operations.

We incur spending necessary to meet legal requirements and otherwise relating to the protection of the environment at our facilities in the United States, France, the Philippines, Indonesia, Brazil and Canada. For these purposes, we incurred total capital expenditures of $1.0 million in 2005, and anticipate that we will incur approximately $1 million in 2006 and approximately $2 million in 2007, of which no material amount is the result of environmental fines or settlements. The foregoing capital expenditures are not expected to reduce our ability to invest in other appropriate and necessary capital projects and are not expected to have a material adverse effect on our financial condition or results of operations.

Note 8. Segment Information

General Information

We operate and manage 3 reportable segments: United States, or U.S., France and Brazil. These segments are based on the geographical location of our manufacturing operations. These business segments manufacture and sell cigarette, plug wrap and tipping papers used to wrap various parts of a cigarette, reconstituted tobacco products and paper products used in cigarette packaging, as well as certain non-tobacco industry products. While the products are similar in each segment, they vary based on customer requirements and the manufacturing capabilities of each of the operations. The Philippine and Indonesian financial results are included in the French business segment because the results of the Philippine and Indonesian operations are not material for segment reporting purposes and since the products of the Philippine and Indonesian businesses are coordinated with sales of our French operations in southeast Asia. Sales by a segment into markets primarily served by a different segment occur where specific product needs cannot be cost-effectively met by the manufacturing operations domiciled in that segment.

Tobacco industry products comprised 92 to 93 percent of our consolidated net sales in the periods presented. The non-tobacco industry products are a diverse mix of products, certain of which represent commodity paper grades produced to maximize machine operations.

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

Information about Sales, Profit and Assets

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (see Note 2). We primarily evaluate segment performance and allocate resources based on operating profit (loss), that represents revenue less operating and nonmanufacturing expenses, and cashflow.

For purposes of the segment disclosure in the following tables, the term United States includes operations in the United States and Canada. The Canadian operations only produce flax fiber used as a raw material in the U.S. operations. The term France includes operations in France, the Philippines beginning in 2005 and Indonesia beginning in 2004 because the results of the Philippine and Indonesian operations, which were acquired in June 2005 and February 2004, respectively, are not material for segment reporting purposes and their sales are integrated with sales of our French operations in southeast Asia. Sales of products between segments are made at market prices and elimination of these sales is referred to in the following tables as intersegment sales. Expense amounts not associated with segments are referred to as unallocated expenses. Assets reported by segment represent assets which are directly used by that segment. Unallocated items and eliminations, net include immaterial balances of our holding company in Spain.

(dollars in millions)	**Net Sales**					
	2005		**2004**		**2003**	
France	$ 416.0	62.1 %	$ 427.0	65.0 %	$ 352.9	62.3 %
United States	215.2	32.1	196.5	29.9	183.1	32.3
Brazil	60.2	9.0	50.2	7.6	44.9	7.9
Subtotal	691.4	103.2	673.7	102.5	580.9	102.5
Intersegment sales by						
France	(13.6)	(2.0)	(11.2)	(1.7)	(11.2)	(2.0)
United States	(1.1)	(0.2)	(1.1)	(0.2)	(0.7)	(0.1)
Brazil	(6.9)	(1.0)	(3.9)	(0.6)	(2.1)	(0.4)
Subtotal	(21.6)	(3.2)	(16.2)	(2.5)	(14.0)	(2.5)
Consolidated	$ 669.8	100.0 %	$ 657.5	100.0 %	$ 566.9	100.0 %

	Operating Profit						**Total Assets**			
	2005		**2004**		**2003**		**2005**		**2004**	
France	$ 44.6	113.5 %	$ 60.1	104.1 %	$ 53.6	99.4 %	$ 388.3	56.2 %	$ 425.1	59.3 %
United States	(0.7)	(1.8)	0.9	1.6	2.0	3.7	230.0	33.3	229.0	31.9
Brazil	0.6	1.5	4.5	7.8	5.2	9.7	72.5	10.5	63.0	8.8
Subtotal	44.5	113.2	65.5	113.5	60.8	112.8	690.8	100.0	717.1	100.0
Unallocated items and eliminations, net	(5.2)	(13.2)	(7.8)	(13.5)	(6.9)	(12.8)				
Consolidated	$ 39.3	100.0 %	$ 57.7	100.0 %	$ 53.9	100.0 %	$ 690.8	100.0 %	$ 717.1	100.0 %

	Capital Spending						**Depreciation and Amortization**					
	2005		**2004**		**2003**		**2005**		**2004**		**2003**	
France	$ 11.6	61.7 %	$ 21.2	45.4 %	$ 77.8	84.6 %	$ 21.2	53.7 %	$ 20.0	54.8 %	$ 14.7	47.9 %
United States	4.6	24.5	12.7	27.2	8.3	9.0	14.6	37.0	14.4	39.5	14.2	46.2
Brazil	2.6	13.8	12.8	27.4	5.9	6.4	3.7	9.3	2.1	5.7	1.8	5.9
Consolidated	$ 18.8	100.0 %	$ 46.7	100.0 %	$ 92.0	100.0 %	$ 39.5	100.0 %	$ 36.5	100.0 %	$ 30.7	100.0 %

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

Information about Geographic Areas

Long-lived assets, excluding deferred income tax assets and certain other deferred charges, were $242.3 million, $134.0 million and $44.9 million in France, the United States and Brazil, respectively, as of December 31, 2005, and $278.8 million, $144.0 million and $40.5 million in France, the United States and Brazil, respectively, at December 31, 2004.

For purposes of the geographic disclosure in the following table, net sales are attributed to geographic locations based on the location of our direct customers (dollars in millions).

	Net Sales 2005	2004	2003
Europe and the former Commonwealth of Independent States	$ 286.4	$ 288.4	$ 257.7
United States	163.9	161.0	147.7
Asia/Pacific (including China)	109.2	117.6	81.3
Latin America	67.4	55.9	52.9
Other foreign countries	42.9	34.6	27.3
Consolidated	$ 669.8	$ 657.5	$ 566.9

Note 9. Major Customers

Two of our customers have accounted for a significant portion of our net sales in the periods presented in the financial statements, and the loss of one or both such customers, or a significant reduction in one or both of these customers purchases, could have a material adverse effect on our results of operations. Net sales to Altria Group, Inc., or AGL, including Philip Morris USA Inc. and Philip Morris International Inc., or collectively Philip Morris, together with its affiliates and designated converters, accounted for 33 percent of total consolidated net sales for the year ended December 31, 2005 and 30 percent in each of the years ended December 31, 2004 and 2003. Net sales to British American Tobacco p.l.c., or BAT, including its Brazilian subsidiary Souza Cruz S.A., or Souza Cruz, together with its affiliates and designated converters, accounted for 16, 18 and 19 percent of consolidated net sales for the years ended December 31, 2005, 2004 and 2003, respectively. Each of our segments reported sales to these customers for each of the respective periods reported above.

We had sales to the minority shareholder of LTRI of $27.9 million, $28.6 million and $23.3 million in 2005, 2004 and 2003, respectively.

Our consolidated accounts receivable at December 31, 2005 and 2004 included balances from AGL and BAT, together with their respective affiliates and designated converters. The percentage of these customers balances of consolidated accounts receivable is less than each of their respective percentages of consolidated net sales.

We perform ongoing credit evaluations on all of our customers financial condition and generally do not require collateral or other security to support customer receivables. A substantial portion of our consolidated accounts receivable are due from companies in the tobacco industry which has been and continues to be under substantial pressure from legal, regulatory and tax developments. It is not possible to predict the outcome of such litigation or what effect adverse developments in pending or future litigation, regulatory actions and additional taxes may have on the tobacco industry, its financial liquidity or relationships with its suppliers. Nor is it possible to predict what additional legislation or regulations

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

relating to tobacco products will be enacted, or to what extent, if any, such legislation or regulations might affect the tobacco products industry in general.

Note 10. Supplemental Disclosures

Analysis of Allowances for Doubtful Accounts and Sales Discounts:

	Balance at Beginning of Period (dollars in millions)	Charged to Expense	Write-offs and Discounts	Currency Translation	Balance at End of Period
As of December 31, 2005					
Allowance for doubtful accounts	$ 0.5	$ 0.1	$ (0.1)	$	$ 0.5
Allowance for sales discounts		0.1	(0.1)		
Total	$ 0.5	$ 0.2	$ (0.2)	$	$ 0.5
As of December 31, 2004					
Allowance for doubtful accounts	$ 0.5	$ 0.1	$ (0.1)	$	$ 0.5
Allowance for sales discounts		0.1	(0.1)		
Total	$ 0.5	$ 0.2	$ (0.2)	$	$ 0.5
As of December 31, 2003					
Allowance for doubtful accounts.	$ 0.5	$ 0.1	$ (0.2)	$ 0.1	$ 0.5
Allowance for sales discounts		0.1	(0.1)		
Total	$ 0.5	$ 0.2	$ (0.3)	$ 0.1	$ 0.5

Supplemental Cash Flow Information

	For the Years Ended December 31, 2005 (dollars in millions)	2004	2003
Interest paid	$ 5.7	$ 3.6	$ 3.0
Interest capitalized		0.2	0.7
Income taxes paid(1)	7.1	9.8	9.8

(1) The SMF consolidated tax group paid only nominal amounts of minimum required income taxes in all periods presented due to net operating loss carryforwards retained in the 1995 spin-off.

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

Note 11. Quarterly Financial Information (Unaudited)

The following tables summarize our unaudited quarterly financial data for the years ended December 31, 2005 and 2004 (dollars in millions, except per share amounts):

	2005 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net Sales	$ 160.6	$ 168.2	$ 165.7	$ 175.3	$ 669.8
Gross Profit	24.1	26.2	24.4	22.6	97.3
Operating Profit	9.6	10.7	10.7	8.3	39.3
Net Income	$ 5.0	$ 5.8	$ 5.8	$ 2.8	$ 19.4
Net Income Per Share					
Basic	$ 0.33	$ 0.39	$ 0.38	$ 0.18	$ 1.28
Diluted	$ 0.32	$ 0.38	$ 0.37	$ 0.19	$ 1.26

	2004 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net Sales	$ 159.9	$ 161.6	$ 164.1	$ 171.9	$ 657.5
Gross Profit	29.1	29.6	31.6	31.8	122.1
Operating Profit	12.2	14.0	16.7	14.8	57.7
Net Income	$ 6.5	$ 8.7	$ 10.3	$ 10.9	$ 36.4
Net Income Per Share					
Basic	$ 0.44	$ 0.58	$ 0.69	$ 0.74	$ 2.45
Diluted	$ 0.42	$ 0.56	$ 0.67	$ 0.71	$ 2.36

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Stockholders of
Schweitzer-Mauduit International, Inc. and Subsidiaries
Alpharetta, Georgia

We have audited the accompanying consolidated balance sheets of Schweitzer-Mauduit International, Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years ended December 31, 2005, 2004 and 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Schweitzer-Mauduit International, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations, their changes in stockholders equity and their cash flows for the years ended December 31, 2005, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2006 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia
March 3, 2006

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of December 31, 2005, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC s rules and instructions for Form 10-K. Last year the Chief Executive Officer submitted a Section 12(a) CEO Certification to the NYSE and the Chief Executive Officer and Chief Financial Officer submitted the certification required under Section 302 of the Sarbanes-Oxley Act as Exhibits 31.1 and 31.2 to the Form 10-K filed on March 7, 2005.

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Schweitzer-Mauduit International, Inc. have been detected. As of December 31, 2005, we had no material weaknesses based on our tests using the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, our management used the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework,* our management has concluded that, as of December 31, 2005, our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, Deloitte & Touche, LLP, has issued an audit report on our assessment of our internal control over financial reporting, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of
Schweitzer-Mauduit International, Inc. and Subsidiaries
Alpharetta, Georgia

We have audited management s assessment, included in Management s Report on Internal Control Over Financial Reporting, that Schweitzer-Mauduit International, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, changes in stockholders equity, and cash flow for the year ended December 31, 2005 of the Company and our report dated March 3, 2006 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia
March 3, 2006

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) *Documents filed as part of this report:*

1. Consolidated Financial Statements

The following reports and financial statements are filed herewith on the pages indicated:

2. Financial Statement Schedule

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable, and, therefore, have been omitted.

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3. Exhibits

Exhibit Number	**Exhibit**
2.1	Distribution Agreement between Kimberly-Clark Corporation and SWM dated October 23, 1995 (incorporated by reference to Exhibit 2.1 to Form 10/A Amendment 2, dated October 27, 1995).
2.2	Stock Purchase Agreement by and between SWM, Souza Cruz S.A. and Contab Participações Ltda. dated December 16, 1997 for the purchase of Companhia Industrial de Papel Pirahy (incorporated by reference to Exhibit 2.1 to Form 8-K, dated February 2, 1998).
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Form 10, dated September 12, 1995).
3.2	By-Laws, as amended on and through April 24, 2003 (incorporated by reference to Exhibit 3.2 to Form 10-Q for the quarter ended June 30, 2003).
4.1	Form of Common Stock Certificate as of October 1, 2000 (incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended September 30, 2000).
4.2	Rights Agreement Amended and Restated as of October 1, 2000 (incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended September 30, 2000).
10.1	Transfer, Contribution and Assumption Agreement (incorporated by reference to Exhibit 10.1 to Form 10/A Amendment 2, dated October 27, 1995).
10.2	Employee Matters Agreement (incorporated by reference to Exhibit 10.3 to Form 10/A Amendment 2, dated October 27, 1995).
10.3	Tax Sharing Agreement (incorporated by reference to Exhibit 10.4 to Form 10/A Amendment 2, dated October 27, 1995).
10.4	Outside Directors Stock Plan Amended and Restated as of April 24, 2003 (incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 2003).
10.5	Annual Incentive Plan Amended and Restated as of February 25, 1999 (incorporated by reference to Exhibit 10.6 to Form 10-K for the year ended December 31, 1998).
10.6	Equity Participation Plan Amended and Restated as of April 26, 2001 (incorporated by reference to Exhibit 10.6 to Form 10-K for the year ended December 31, 2000).
10.7	Long-Term Incentive Plan effective as of January 1, 2001 (incorporated by reference to Exhibit 10.7 to Form 10-K for the year ended December 31, 2001).
10.8.1	Deferred Compensation Plan, Amended and Restated as of April 21, 2000 (incorporated by reference to Exhibit 10.8.1 to Form 10-Q for the quarter ended March 31, 2000).
10.8.2	Deferred Compensation Plan for Non-Employee Directors, effective April 1, 2000 (incorporated by reference to Exhibit 10.8.2 to Form 10-Q for the quarter ended March 31, 2000).
10.9	Restricted Stock Plan Amended and Restated as of January 17, 2003 (incorporated by reference to Exhibit 10.9 to Form 10-Q for the quarter ended March 31, 2003).
10.10	Supplemental Benefit Plan Amended and Restated as of February 25, 1999 (incorporated by reference to Exhibit 10.11 to Form 10-K for the year ended December 31, 1998).
10.11	Executive Severance Plan Amended and Restated as of February 24, 2000 (incorporated by reference to Exhibit 10.11 to Form 10-Q for the quarter ended March 31, 2000).
10.12.1	Second Amended and Restated Agreement between Philip Morris Incorporated and Schweitzer-Mauduit International, Inc. for Fine Paper Supply, effective as of July 1, 2000 (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2000).

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10.12.2	Amended and Restated Technology Ownership, Technical Assistance and Technology License Agreement by and among Philip Morris Incorporated, Philip Morris Products, Inc. and Schweitzer-Mauduit International, Inc., effective as of July 1, 2000 (incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2000).
10.12.3	Amended and Restated Addendum to Second Amended and Restated Agreement between Philip Morris Incorporated and Schweitzer-Mauduit International, Inc. for Fine Paper Supply effective as of July 1, 2000 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2000).
10.12.4	Amendment No. 1 to the Second Amended and Restated Agreement between Philip Morris Incorporated and Schweitzer-Mauduit International, Inc. for Fine Paper Supply, effective as of May 23, 2002 (incorporated by reference to Exhibit 10 to Form 10-Q for the quarter ended June 30, 2002).
10.12.5	Amendment No. 2 to the Second Amended and Restated Agreement between Philip Morris USA Inc. and Schweitzer-Mauduit International, Inc. for Fine Paper Supply, effective as of April 28, 2003 (incorporated by reference to Exhibit 10.12.5 to Form 10-Q for the quarter ended June 30, 2003).
10.12.6	Amendment No. 3 to the Second Amended and Restated Agreement between Philip Morris USA Inc. and Schweitzer-Mauduit International, Inc. for Fine Paper Supply, effective as of August 11, 2003 (incorporated by reference to Exhibit 10.12.6 to Form 10-K for the year ended December 31, 2003).
10.12.7	Amendment No. 6 to the Second Amended and Restated Agreement between Philip Morris USA Inc. and Schweitzer-Mauduit International, Inc. for Fine Paper Supply, effective as of December 31, 2004 (incorporated by reference to Exhibit 10.12.7 to Form 10-K for the year ended December 31, 2004).
10.12.8	Amendment No. 5 to the Amended and Restated Addendum to Fine Papers Supply Agreement between Philip Morris USA Inc. and Schweitzer-Mauduit International, Inc., effective as of December 31, 2004 (incorporated by reference to Exhibit 10.12.8 to Form 10-K for the year ended December 31, 2004).
* 10.12.9	Amendment No. 7 to the Second Amended and Restated Agreement between Philip Morris USA Inc. and Schweitzer-Mauduit International, Inc. for Fine Paper Supply, effective as of December 31, 2005 .
*10.12.10	Amendment No. 6 to the Amended and Restated Addendum to Fine Papers Supply Agreement between Philip Morris USA Inc. and Schweitzer-Mauduit International, Inc., effective as of December 31, 2005 .
10.13	Supply Agreement between Companhia Industrial de Papel Pirahy and Souza Cruz S.A. dated as of February 2, 1998 (incorporated by reference to Exhibit 10.10.1 to Form 10-K for the year ended December 31, 1998).
10.13.1	Amendment No. 1, dated February 23, 2000, to the Supply Agreement between Schweitzer-Mauduit do Brasil, S.A. (formerly known as Companhia Industrial de Papel Pirahy) and Souza Cruz S.A. (incorporated by reference to Exhibit 10.13.1 to Form 10-Q for the quarter ended March 31, 2000).
10.13.2	Amendment No. 1, dated February 23, 2000, to the Art-Coated Supply Agreement between Schweitzer-Mauduit do Brasil, S.A. (formerly known as Companhia Industrial de Papel Pirahy) and Souza Cruz S.A. (incorporated by reference to Exhibit 10.13.2 to Form 10-Q for the quarter ended March 31, 2000).

10.14.1	Credit Agreement dated January 31, 2002 between the Company, as Borrower and Guarantor, SMF, as Borrower, the Banks named therein and Société Générale, as Agent (incorporated by reference to Exhibit 10.14.6 to Form 10-K for the year ended December 31, 2001).
10.14.2	Amendment No. 1, dated January 30, 2003, to the Credit Agreement (incorporated by reference to Exhibit 10.14.2 to Form 10-K for the year ended December 31, 2002).
10.14.3	Amendment No. 2, dated January 29, 2004, to the Credit Agreement (incorporated by reference to Exhibit 10.14.3 to Form 10-K for the year ended December 31, 2003).
10.14.4	Amendment No. 3, dated January 27, 2005, to the Credit Agreement (incorporated by reference to Exhibit 10.14.4 to Form 10-K for the year ended December 31, 2004).
* 10.14.5	Amendment No. 4, dated January 26, 2006, to the Credit Agreement.
10.15	Deferred Compensation Plan No. 2 for Non-Employee Directors (incorporated by reference to Exhibit 10.15 to Form 10-K for the year ended December 31, 2004).
10.16	Deferred Compensation Plan No. 2, effective January 1, 2005 (incorporated by reference to Exhibit 10.16 to Form 10-K for the year ended December 31, 2004).
* 10.17	Summary of Non-Management Director Compensation.
* 10.18	Summary of Executive Officer Compensation.
10.19	Schweitzer-Mauduit International, Inc. Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.19 to Form 10-K for the year ended December 31, 2004).
10.20	Schweitzer-Mauduit International, Inc. Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.20 to Form 10-K for the year ended December 31, 2004).
10.21	Schweitzer-Mauduit International, Inc. Stock Option Agreement (incorporated by reference to Exhibit 10.21 to Form 10-K for the year ended December 31, 2004).
10.22	Schweitzer-Mauduit International, Inc. Restricted Stock Option Agreement (incorporated by reference to Exhibit 10.22 to Form 10-K for the year ended December 31, 2004).
14.1	Code of Conduct (incorporated by reference to Exhibit 14.1 to Form 10-K for the year ended December 31, 2003).
* 21	Subsidiaries of the Company.
** 23	Consent of Independent Registered Public Accounting Firm.
* 24.1	Powers of Attorney.
** 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
** 31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
** 32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Φ

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* Filed with the Company s Annual Report on Form 10-K for the year ended December 31, 2005, previously filed with the Securities and Exchange Commission on March 6, 2006.

** Filed herewith.

Exhibit has been redacted pursuant to a Confidentiality Request under Rule 24(b)-2 of the Securities Exchange Act of 1934.

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

By: /s/ WAYNE H. DEITRICH
Wayne H. Deitrich
Chairman of the Board and Chief Executive Officer (principal executive officer)

Dated: March 22, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ WAYNE H. DEITRICH Wayne H. Deitrich	Chairman of the Board and Chief Executive Officer (principal executive officer)	March 22, 2006
/s/ PAUL C. ROBERTS Paul C. Roberts	Chief Financial Officer and Treasurer (principal financial officer)	March 22, 2006
/s/ WAYNE L. GRUNEWALD Wayne L. Grunewald	Controller (principal accounting officer)	March 22, 2006
* Claire L. Arnold	Director	March 22, 2006
* K.C. Caldabaugh	Director	March 22, 2006
* Laurent G. Chambaz	Director	March 22, 2006
* Manuel J. Iraola	Director	March 22, 2006
* Richard D. Jackson	Director	March 22, 2006
* Leonard J. Kujawa	Director	March 22, 2006
* Larry B. Stillman	Director	March 22, 2006

*By: /s/ JOHN W. RUMELY, JR. March 22, 2006
John W. Rumely, Jr.
Attorney-In-Fact

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