

GLATFELTER P H CO
Form 10-Q
May 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

96 South George Street, Suite 520

York, Pennsylvania 17401

(Address of principal executive offices)

(717) 225-4711

(Registrant's telephone number, including area code)

| | | | |
|------------------------|--|---------------------------------|--|
| Commission file number | Exact name of registrant as specified in its charter | IRS Employer Identification No. | State or other jurisdiction of incorporation or organization |
| 1-03560 | P. H. Glatfelter Company | 23-0628360 | Pennsylvania |

N/A

(Former name or former address, if changed since last report)

Edgar Filing: GLATFELTER P H CO - Form 10-Q

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 at the past 90 days. Yes No .

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

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

| | |
|--|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| (Do not check if a smaller reporting company) | |
| Emerging growth company | |
| If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. | |

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

Common Stock outstanding on April 25, 2018 totaled 43,698,464 shares.

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

REPORT ON FORM 10-Q

For the QUARTERLY PERIOD ENDED

March 31, 2018

Table of Contents

Page Page

PART I - FINANCIAL INFORMATION

| | | |
|--------|---------------------------------------|---|
| Item 1 | <u>Financial Statements</u> | |
| | <u>Condensed Consolidated</u> | |
| | <u>Statements of Income for the</u> | |
| | <u>three months ended March 31,</u> | |
| | <u>2018 and 2017 (unaudited)</u> | 2 |
| | <u>Condensed Consolidated</u> | |
| | <u>Statements of Comprehensive</u> | |
| | <u>Income for the three months</u> | |
| | <u>ended March 31, 2018 and 2017</u> | |
| | <u>(unaudited)</u> | 3 |
| | <u>Condensed Consolidated</u> | |
| | <u>Balance Sheets as of March 31,</u> | |
| | <u>2018 and December 31, 2017</u> | |
| | <u>(unaudited)</u> | 4 |
| | <u>Condensed Consolidated</u> | |
| | <u>Statements of Cash Flows for</u> | |
| | <u>the three months ended</u> | |
| | <u>March 31, 2018 and 2017</u> | |
| | <u>(unaudited)</u> | 5 |
| | <u>Notes to Condensed</u> | |
| | <u>Consolidated Financial</u> | |
| | <u>Statements (unaudited)</u> | 6 |
| 1. | <u>Organization</u> | 6 |
| 2. | <u>Accounting</u> | |
| | <u>Policies</u> | 6 |
| 3. | <u>Revenue</u> | 7 |
| 4. | <u>Gain on</u> | 8 |
| | <u>Disposition of</u> | |
| | <u>Plant,</u> | |
| | <u>Equipment and</u> | |

| | | |
|--------|--|----|
| 5. | <u>Timberlands</u> <u>Earnings Per</u> <u>Share</u> | 8 |
| 6. | <u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u> | 9 |
| 7. | <u>Income Taxes</u> | 10 |
| 8. | <u>Stock-based</u> <u>Compensation</u> | 11 |
| 9. | <u>Retirement</u> <u>Plans and</u> <u>Other Post-</u> <u>Retirement</u> <u>Benefits</u> | 12 |
| 10. | <u>Inventories</u> <u>Capitalized</u> | 12 |
| 11. | <u>Interest</u> <u>Long-term</u> | 12 |
| 12. | <u>Debt</u> | 12 |
| 13. | <u>Fair Value of</u> <u>Financial</u> <u>Instruments</u> | 14 |
| 14. | <u>Financial</u> <u>Derivatives</u> <u>and Hedging</u> <u>Activities</u> | 14 |
| 15. | <u>Commitments,</u> <u>Contingencies</u> <u>and Legal</u> <u>Proceedings</u> | 16 |
| 16. | <u>Segment</u> <u>Information</u> | 19 |
| 17. | <u>Condensed</u> <u>Consolidating</u> <u>Financial</u> <u>Statements</u> | 20 |
| Item 2 | <u>Management's Discussion</u> <u>and Analysis of Financial</u> <u>Condition and Results of</u> <u>Operations</u> | 24 |
| Item 3 | <u>Quantitative and</u> <u>Qualitative Disclosures</u> <u>About Market Risks</u> | 31 |
| Item 4 | <u>Controls and Procedures</u> | 31 |
| | <u>PART II – OTHER</u> <u>INFORMATION</u> | 32 |
| Item 6 | <u>Exhibits</u> | 32 |

SIGNATURES

32

PART I

Item 1 – Financial Statements

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

| | Three months ended | |
|---|--------------------|-----------|
| | March 31 | |
| In thousands, except per share | 2018 | 2017 |
| Net sales | \$410,647 | \$390,713 |
| Energy and related sales, net | 1,428 | 1,129 |
| Total revenues | 412,075 | 391,842 |
| Costs of products sold | 363,169 | 336,213 |
| Gross profit | 48,906 | 55,629 |
| Selling, general and administrative expenses | 37,063 | 34,877 |
| (Gains) losses on dispositions of plant, equipment and timberlands, net | (1,554) | 32 |
| Operating income | 13,397 | 20,720 |
| Non-operating income (expense) | | |
| Interest expense | (5,195) | (4,008) |
| Interest income | 54 | 113 |
| Other, net | 229 | 812 |
| Total non-operating expense | (4,912) | (3,083) |
| Income before income taxes | 8,485 | 17,637 |
| Income tax provision | 2,769 | 6,034 |
| Net income | \$5,716 | \$11,603 |
| Earnings per share | | |
| Basic | \$0.13 | \$0.27 |
| Diluted | 0.13 | 0.26 |
| Cash dividends declared per common share | \$0.13 | \$0.13 |
| Weighted average shares outstanding | | |
| Basic | 43,700 | 43,583 |
| Diluted | 44,567 | 44,493 |

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

GLATFELTER

03.31.18 Form 10-Q

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

| | Three months ended | |
|--|--------------------|----------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Net income | \$5,716 | \$11,603 |
| Foreign currency translation adjustments | 12,747 | 6,065 |
| Net change in: | | |
| Deferred losses on cash flow hedges, net of taxes of \$583 and \$288, respectively | (1,802) | (946) |
| Unrecognized retirement obligations, net of taxes of \$(977) and \$(1,248), respectively | 3,075 | 2,074 |
| Other comprehensive income | 14,020 | 7,193 |
| Comprehensive income | \$19,736 | \$18,796 |

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

- 3 -

GLATFELTER

03.31.18 Form 10-Q

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

| | March 31 | December 31 |
|---|--------------|--------------|
| In thousands | 2018 | 2017 |
| Assets | | |
| Cash and cash equivalents | \$ 117,277 | \$ 116,219 |
| Accounts receivable, net | 183,258 | 174,154 |
| Inventories | 262,947 | 252,064 |
| Prepaid expenses and other current assets | 45,218 | 42,534 |
| Total current assets | 608,700 | 584,971 |
| Plant, equipment and timberlands, net | 870,734 | 865,743 |
| Goodwill | 84,977 | 82,744 |
| Intangible assets, net | 59,168 | 58,859 |
| Other assets | 141,033 | 138,478 |
| Total assets | \$ 1,764,612 | \$ 1,730,795 |
| Liabilities and Shareholders' Equity | | |
| Current portion of long-term debt | \$ 11,607 | \$ 11,298 |
| Accounts payable | 187,661 | 190,478 |
| Dividends payable | 5,689 | 5,678 |
| Environmental liabilities | 26,000 | 28,500 |
| Other current liabilities | 107,739 | 111,222 |
| Total current liabilities | 338,696 | 347,176 |
| Long-term debt | 494,131 | 470,098 |
| Deferred income taxes | 85,025 | 83,571 |
| Other long-term liabilities | 122,768 | 121,022 |
| Total liabilities | 1,040,620 | 1,021,867 |
| Commitments and contingencies | — | — |
| Shareholders' equity | | |
| Common stock | 544 | 544 |
| Capital in excess of par value | 62,359 | 62,594 |
| Retained earnings | 970,736 | 948,411 |
| Accumulated other comprehensive loss | (148,953) | (140,675) |
| | 884,686 | 870,874 |
| Less cost of common stock in treasury | (160,694) | (161,946) |
| Total shareholders' equity | 723,992 | 708,928 |
| Total liabilities and shareholders' equity | \$ 1,764,612 | \$ 1,730,795 |

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

- 4 -

GLATFELTER

03.31.18 Form 10-Q

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| | Three months ended | |
|---|--------------------|-----------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Operating activities | | |
| Net income | \$5,716 | \$11,603 |
| Adjustments to reconcile to net cash provided by operations: | | |
| Depreciation, depletion and amortization | 19,431 | 17,282 |
| Amortization of debt issue costs and original issue discount | 290 | 289 |
| Pension expense, net of unfunded benefits paid | 1,298 | 928 |
| Deferred income tax provision (benefit) | (2,244) | 1,704 |
| (Gains) losses on dispositions of plant, equipment and timberlands, net | (1,554) | 32 |
| Share-based compensation | 1,983 | 1,648 |
| Change in operating assets and liabilities | | |
| Accounts receivable | (6,550) | (11,462) |
| Inventories | (7,795) | (9,907) |
| Prepaid and other current assets | (3,192) | 1,670 |
| Accounts payable | 4,111 | 2,903 |
| Accruals and other current liabilities | (5,286) | (8,874) |
| Other | 1,451 | (255) |
| Net cash provided by operating activities | 7,659 | 7,561 |
| Investing activities | | |
| Expenditures for purchases of plant, equipment and timberlands | (26,568) | (36,783) |
| Proceeds from disposals of plant, equipment and timberlands, net | 1,695 | — |
| Other | (28) | — |
| Net cash used by investing activities | (24,901) | (36,783) |
| Financing activities | | |
| Net borrowings under revolving credit facility | 25,388 | 38,236 |
| Repayment of term loans | (2,902) | (2,190) |
| Payments of dividends | (5,679) | (5,455) |
| Payments related to share-based compensation awards and other | (965) | (112) |
| Net cash provided by financing activities | 15,842 | 30,479 |
| Effect of exchange rate changes on cash | 2,458 | 526 |
| Net increase in cash and cash equivalents | 1,058 | 1,783 |
| Cash and cash equivalents at the beginning of period | 116,219 | 55,444 |
| Cash and cash equivalents at the end of period | \$117,277 | \$57,227 |
| Supplemental cash flow information | | |
| Cash paid for: | | |
| Interest, net of amounts capitalized | \$1,496 | \$293 |

| | | |
|-------------------|-------|-------|
| Income taxes, net | 2,956 | 2,194 |
|-------------------|-------|-------|

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

- 5 -

GLATFELTER

03.31.18 Form 10-Q

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (“Glatfelter”) is a manufacturer of specialty papers and fiber-based engineered materials. Headquartered in York, PA, U.S. operations include facilities in Fort Smith, AR, Spring Grove, PA and Chillicothe and Fremont, OH. International operations include facilities in Canada, Germany, France, the United Kingdom and the Philippines, and sales and distribution offices in the U.S., Russia and China. The terms “we,” “us,” “our,” “the Company,” or “Glatfelter,” refer to P. H. Glatfelter Company and subsidiaries unless the context indicates otherwise. Our products are marketed worldwide, either through wholesale paper merchants, brokers and agents, or directly to customers.

2. ACCOUNTING POLICIES

Basis of Presentation The unaudited condensed consolidated financial statements (“financial statements”) include the accounts of Glatfelter and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission pertaining to interim financial statements. In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2017 Annual Report on Form 10-K.

Reclassification As a result of adopting the provisions of Accounting Standards Update (“ASU”) No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost we reclassified certain amounts of periodic benefit expense for previously reported periods from Cost of products sold and Selling, general and administrative expense to Non Operating Expense. As a result of applying the ASU, Costs of products sold for the first quarter of 2017 was increased by \$1.3 million and Selling, general and administrative expenses were reduced by \$0.2 million and the offsetting net reclassification reduced Non-operating expense by \$1.1 million.

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of

contingencies as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes the estimates and assumptions used in the preparation of these financial statements are

reasonable, based upon currently available facts and known circumstances, but recognizes that actual results may differ from those estimates and assumptions.

Revenue Recognition We adopted ASU No. 2014-09, Revenue from Contracts with Customers in the first quarter of 2018. This ASU clarifies the principles for recognizing revenue and establishes expanded disclosure requirements; however, the adoption of ASU No. 2014-09 had no impact on the timing or amount of revenue recognized for any period presented. Refer to Note 3 for additional information about the disaggregation of our net sales.

Our revenue is earned primarily from the manufacture and sale of specialty papers and engineered materials (“product sales”). Revenue is earned pursuant to contracts, supply agreements and other arrangements with a wide variety of customers. Our performance obligation is to produce a specified product according to technical specifications and, in substantially all instances, to deliver the product. Revenue from product sales is earned at a point in time. We recognize revenue on product sales when we have satisfied our performance obligation and control of the product has passed to the customer thereby entitling us to payment. With respect to substantially all arrangements for product sales, this is deemed to occur when title transfers in accordance with specified shipping terms.

The prices are fixed at the time the sales arrangement is entered into and payment terms are customary for similar arrangements in our industry. Many of our agreements include customary provisions for volume rebates, discounts and similar incentives. In addition, we are obligated for products that fail to meet agreed upon specification. Provisions for such items are estimated and recorded as sales deductions in the period in which the related revenue is recognized.

Revenue from power sales and renewable energy credits is recorded under the caption “Energy and related sales, net” in the condensed consolidated statements of income and is recognized upon fulfillment of our performance obligation which is generally upon meeting capacity commitments or delivery of REC certificates. Revenue from energy sales is recognized when electricity is delivered to the customer. Prices for power sales and renewable energy credits are fixed at the time of sale and payment is generally due within normal terms and conditions customary for the industry.

- 6 -

GLATFELTER

03.31.18 Form 10-Q

Certain costs associated with the production of electricity, such as fuel, labor, depreciation and maintenance are netted against energy sales for presentation on the condensed consolidated statements of income.

Recently Issued Accounting Pronouncements In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income. (“ASU No. 2018-02”).” In December 2017, Tax Cuts and Jobs Act (“TCJA”) was passed into law and, among other provisions, reduced the statutory federal tax rate from 35% to 21%. The change in the tax rate impacted the carrying value of deferred tax assets and liabilities. ASU No. 2018-02 allows a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for stranded tax effects resulting from the TCJA. We elected to adopt ASU No. 2018-02 in the first quarter of 2018, and we reclassified \$22.3 million of net deferred tax benefits from AOCI to retained earnings.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU will require organizations such as us that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance will be effective for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. We are in the process of assessing the impact this standard will have on us and expect to follow a modified retrospective method provided for under the standard.

In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments that changes the impairment model for most financial instruments, including trade receivables from an incurred loss method to a new forward-looking approach, based on expected losses. Under the new guidance, an allowance is recognized based on an estimate of expected credit losses. This standard is effective for us in the first quarter of 2020 and must be adopted using a modified retrospective transition approach. We are currently assessing the impact this standard may have on our results of operations and financial position.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities" (“ASU No. 2017-12”), which simplifies the application of hedge accounting and more closely aligns hedge accounting with an entity’s risk management strategies. ASU No. 2017-12 also amends the manner in which hedge effectiveness may be performed and changes the presentation of hedge ineffectiveness in the financial statements. ASU No. 2017-12 is effective for us beginning January 1, 2019, with early adoption permitted. ASU No. 2017-12 requires a cumulative-effect adjustment for certain items upon adoption. We are

currently evaluating the impact the adoption of ASU No. 2017-12 will have on our consolidated financial statements.

3.REVENUE

The following tables set forth disaggregated information pertaining to our net sales:

| | Three months ended | |
|-----------------------|--------------------|----------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Composite Fibers | | |
| Food & beverage | \$70,397 | \$62,602 |
| Wallcovering | 28,132 | 22,455 |
| Technical specialties | 20,958 | 17,707 |

Edgar Filing: GLATFELTER P H CO - Form 10-Q

| | | |
|----------------------------|-----------|-----------|
| Composite laminates | 9,398 | 8,839 |
| Metallized | 12,713 | 13,500 |
| | 141,598 | 125,103 |
| | | |
| Advanced Airlaid Materials | | |
| Feminine hygiene | 48,473 | 42,424 |
| Specialty wipes | 7,767 | 6,050 |
| Adult incontinence | 4,432 | 3,644 |
| Home care | 4,027 | 2,758 |
| Other | 4,910 | 4,962 |
| | 69,609 | 59,838 |
| | | |
| Specialty Papers | | |
| Carbonless & forms | 71,870 | 77,072 |
| Engineered products | 49,951 | 48,162 |
| Envelope & converting | 37,905 | 42,857 |
| Book publishing | 38,558 | 37,173 |
| Other | 1,156 | 508 |
| | 199,440 | 205,772 |
| | | |
| TOTAL | \$410,647 | \$390,713 |

- 7 -

GLATFELTER

03.31.18 Form 10-Q

| Three months ended | | |
|------------------------------------|------------------|------------------|
| March 31 | | |
| In thousands | 2018 | 2017 |
| Composite Fibers | | |
| Europe, Middle East and Africa | \$94,782 | \$83,547 |
| Americas | 24,048 | 23,059 |
| Asia Pacific | 22,768 | 18,497 |
| | 141,598 | 125,103 |
| Advanced Air laid Materials | | |
| Europe, Middle East and Africa | 36,228 | 29,729 |
| Americas | 32,815 | 29,921 |
| Asia Pacific | 566 | 188 |
| | 69,609 | 59,838 |
| Specialty Papers | | |
| Americas | 197,829 | 204,774 |
| Other | 1,611 | 998 |
| | 199,440 | 205,772 |
| TOTAL | \$410,647 | \$390,713 |

4. GAINS (LOSSES) ON DISPOSITION OF PLANT, EQUIPMENT AND TIMBERLANDS

During the three months ended March 31, 2018 and 2017 we completed the following sales of assets:

| Dollars in thousands | Acres | Proceeds | Gain (loss) |
|----------------------|-------|----------|-------------|
| 2018 | | | |
| Timberlands | 426 | \$ 1,156 | \$ 1,115 |
| Other | n/a | 539 | 439 |
| Total | | \$ 1,695 | \$ 1,554 |
| 2017 | | | |
| Other | n/a | \$ - | \$(32) |
| Total | | \$ - | \$(32) |

5. EARNINGS PER SHARE

The following table sets forth the details of basic and diluted earnings per share ("EPS"):

| | Three months ended | |
|---|--------------------|----------|
| | March 31 | |
| In thousands, except per share | 2018 | 2017 |
| Net income | \$5,716 | \$11,603 |
| Weighted average common shares outstanding used in basic EPS | 43,700 | 43,583 |
| Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs | 867 | 910 |
| Weighted average common shares outstanding and common share equivalents used in diluted EPS | 44,567 | 44,493 |
| Earnings per share | | |
| Basic | \$0.13 | \$0.27 |
| Diluted | 0.13 | 0.26 |

The following table sets forth potential common shares outstanding that were not included in the computation of diluted EPS for the period indicated, because their effect would be anti-dilutive:

| | March 31 | |
|--------------------|----------|------|
| In thousands | 2018 | 2017 |
| Three months ended | 587 | 592 |

- 8 -

GLATFELTER

03.31.18 Form 10-Q

6. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months ended March 31, 2018 and 2017.

| In thousands | Currency translation adjustments | Unrealized gain (loss) on cash flow hedges | Change in pensions | Change in other postretirement defined benefit plans | Total |
|---|----------------------------------|--|--------------------|--|-------------|
| Balance at January 1, 2018 | \$ (41,839) | \$ (4,092) | \$ (98,295) | \$ 3,551 | \$(140,675) |
| Amount reclassified for adoption of ASU No. 2018-02 | | | (23,297) | 999 | (22,298) |
| Balance as adjusted at January 1, 2018 | (41,839) | (4,092) | (121,592) | 4,550 | (162,973) |
| Other comprehensive income | | | | | |
| before reclassifications (net of tax) | 12,747 | (3,217) | — | — | 9,530 |
| Amounts reclassified from accumulated | | | | | |
| other comprehensive income (net of tax) | — | 1,415 | 3,164 | (89) | 4,490 |
| Net current period other comprehensive | | | | | |
| income (loss) | 12,747 | (1,802) | 3,164 | (89) | 14,020 |
| Balance at March 31, 2018 | \$ (29,092) | \$ (5,894) | \$ (118,428) | \$ 4,461 | \$(148,953) |
| Balance at January 1, 2017 | \$ (100,448) | \$ 1,500 | \$ (110,656) | \$ 4,998 | \$(204,606) |
| Other comprehensive income | | | | | |
| before reclassifications (net of tax) | 6,065 | (255) | — | — | 5,810 |
| Amounts reclassified from accumulated | | | | | |
| other comprehensive income (net of tax) | — | (691) | 2,190 | (116) | 1,383 |
| Net current period other comprehensive | | | | | |
| income (loss) | 6,065 | (946) | 2,190 | (116) | 7,193 |
| Balance at March 31, 2017 | \$ (94,383) | \$ 554 | \$ (108,466) | \$ 4,882 | \$(197,413) |

Reclassifications out of accumulated other comprehensive income and into the condensed consolidated statements of income were as follows:

| | Three months ended | | |
|----------------------------|--------------------|------|-----------------------------------|
| | March 31 | | |
| In thousands | 2018 | 2017 | |
| Description | | | Line Item in Statements of Income |
| Cash flow hedges (Note 13) | | | |

Edgar Filing: GLATFELTER P H CO - Form 10-Q

| | | | |
|--|---------|----------|------------------------|
| (Gains) losses on cash flow hedges | \$1,959 | \$(931) | Costs of products sold |
| Tax expense (benefit) | (544) | 240 | Income tax provision |
| Net of tax | 1,415 | (691) | |
| Retirement plan obligations (Note 8) | | | |
| Amortization of deferred benefit pension plans | | | |
| Prior service costs | 780 | 704 | Other, net |
| Actuarial losses | 3,390 | 2,822 | Other, net |
| | 4,170 | 3,526 | |
| Tax benefit | (1,006) | (1,336) | Income tax provision |
| Net of tax | 3,164 | 2,190 | |
| Amortization of deferred benefit other plans | | | |
| Prior service costs | (45) | (45) | Other, net |
| Actuarial gains | (73) | (143) | Other, net |
| | (118) | (188) | |
| Tax expense | 29 | 72 | Income tax provision |
| Net of tax | (89) | (116) | |
| Total reclassifications, net of tax | \$4,490 | \$1,383 | |

- 9 -

GLATFELTER

03.31.18 Form 10-Q

7. INCOME TAXES

Effects of the Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("TCJA") was signed into U.S. law. Among other things, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21% beginning in 2018 and requires companies to pay a one-time transition tax on previously unremitted earnings of non-U.S. subsidiaries that were previously tax deferred. ASC Topic 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017.

Given the significance of the legislation, the U.S. Securities and Exchange Commission (the "SEC") staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed.

Our accounting for certain elements of the TCJA was incomplete as of December 31, 2017 and remains incomplete as of March 31, 2018. However, we were able to make reasonable estimates of the effects and therefore, recorded provisional estimates for these items.

During early 2018, the Internal Revenue Service issued additional guidance affecting the computation of our 2017 federal income tax liability. As a result of this and additional analysis, we revised our prior estimates and recorded \$0.2 million of additional tax benefits. The ultimate impact of the TCJA may differ from current estimates, and such differences could be material, due to changes in interpretations or assumptions.

While the TCJA provides for a territorial tax system, beginning in 2018, it includes the global intangible low-taxed income ("GILTI") provision. We elected to account for GILTI tax in the period in which it is incurred. The GILTI provisions require entities to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets.

For the three months ended March 31, 2018, our effective tax rate increased by approximately 10% as a result of the GILTI provisions due to our utilization of U.S. federal tax loss carryforward, which restricts our ability to recognize the associated foreign tax credits and a deduction of up to 50% of the GILTI income. Since we are using U.S. federal tax loss

carryforwards, there is no impact to cash taxes related to the GILTI provisions.

Income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The effects of income taxes are measured based on enacted tax laws and rates.

As of March 31, 2018 and December 31, 2017, we had \$27.8 million and \$26.9 million of gross unrecognized tax benefits. As of March 31, 2018, if such benefits were to be recognized, approximately \$17.6 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

Edgar Filing: GLATFELTER P H CO - Form 10-Q

We, or one of our subsidiaries, file income tax returns with the United States Internal Revenue Service, as well as various state and foreign authorities.

The following table summarizes, by major jurisdiction, tax years that remain subject to examination:

| Jurisdiction | Open Tax Years | |
|------------------------|--------------------------------|-------------------------|
| | Examinations not yet initiated | Examination in progress |
| United States | | |
| Federal | 2014 - 2017 | N/A |
| State | 2013 - 2017 | 2014 – 2016 |
| Canada ⁽¹⁾ | 2010-2013; 2017 | 2014 – 2016 |
| Germany ⁽¹⁾ | 2016 - 2017 | 2011 – 2015 |
| France | 2015 - 2017 | 2012 |
| United Kingdom | 2016 - 2017 | N/A |
| Philippines | 2015, 2017 | 2016 |

(1) includes provincial or similar local jurisdictions, as applicable

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the lapse of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to \$4.9 million. Substantially all of this range relates to tax positions taken in Germany and the U.S.

- 10 -

GLATFELTER

03.31.18 Form 10-Q

We recognize interest and penalties related to uncertain tax positions as income tax expense. The following table summarizes information related to interest and penalties on uncertain tax positions:

| | | |
|---------------------------|--------------------------|-------|
| | Three months ended | |
| | March 31 | |
| In millions | 2018 | 2017 |
| Interest expense (income) | \$0.1 | \$0.1 |
| Penalties | — | — |

| | | |
|--------------------------|---------------------|------------------------|
| | March 31 2018 | December 31 2017 |
| Accrued interest payable | \$ 0.9 | \$ 0.8 |

8.STOCK-BASED COMPENSATION

The P. H. Glatfelter Amended and Restated Long Term Incentive Plan (the “LTIP”) provides for the issuance of Glatfelter common stock to eligible participants in the form of restricted stock units, restricted stock awards, non-qualified stock options, performance shares, incentive stock options and performance units.

Pursuant to terms of the LTIP, we have issued to eligible participants restricted stock units, performance share awards and stock only stock appreciation rights.

Restricted Stock Units (“RSU”) and Performance Share Awards (“PSAs”) Awards of RSUs and PSAs are made under our LTIP. The RSUs vest on the passage of time, generally on a graded scale over a three, four, and five-year period, or in certain instances the RSUs were issued with five year cliff vesting. PSAs are issued to members of management and vesting is based on achievement of cumulative financial performance targets covering a two year period followed by an additional one-year service period. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than targeted depending on actual financial performance. In addition, beginning in 2018, PSA awards include a modifier based on the three-year total shareholder return relative to a broad market index. For RSUs the grant date fair value of the awards, or the closing price per common share on the date of the award, is used to determine the amount of expense to be recognized over the applicable service period. For PSAs, the grant date fair value is estimated using a lattice model. The significant inputs include the stock price, volatility, dividend yield, and risk free rate of return. Settlement of RSUs and PSAs will be made in shares of our common stock currently held in treasury.

Edgar Filing: GLATFELTER P H CO - Form 10-Q

The following table summarizes RSU and PSA activity during periods indicated:

| Units | 2018 | 2017 |
|-----------------------|-----------|-----------|
| Balance at January 1, | 929,386 | 679,038 |
| Granted | 312,555 | 290,880 |
| Forfeited | (70,719) | (90,801) |
| Shares delivered | (69,372) | — |
| Balance at March 31, | 1,101,850 | 879,117 |

The amount granted in 2018 and 2017 includes 181,653 and 157,064, respectively, of PSAs exclusive of reinvested dividends.

The following table sets forth aggregate RSU and PSA compensation expense for the periods indicated:

| | March 31 | |
|--------------------|----------|---------|
| In thousands | 2018 | 2017 |
| Three months ended | \$1,804 | \$1,039 |

Stock Only Stock Appreciation Rights (“SOSARs”) Under terms of the SOSAR, a recipient receives the right to a payment in the form of shares of common stock equal to the difference, if any, in the fair market value of one share of common stock at the time of exercising the SOSAR and the exercise price. The SOSARs vest ratably over a three year period and have a term of ten years. No SOSARs were awarded during the first quarters of 2018 or 2017.

The following table sets forth information related to outstanding SOSARS for the three months ended March 31;

| | 2018 | | 2017 | |
|---------------------------|------------|------------|-----------|------------|
| | | Wtd Avg | | Wtd Avg |
| | | Exercise | | Exercise |
| SOSARS | Shares | Price | Shares | Price |
| Outstanding at January 1, | 2,561,846 | \$ 17.87 | 2,736,616 | \$ 17.64 |
| Granted | — | — | — | — |
| Exercised | (138,423) | 12.98 | (33,050) | 14.65 |
| Canceled / forfeited | (20,994) | 18.76 | (17,420) | 18.38 |
| Outstanding at March 31, | 2,402,429 | \$ 18.14 | 2,686,146 | \$ 17.67 |

The following table sets forth SOSAR compensation expense for the periods indicated:

Edgar Filing: GLATFELTER P H CO - Form 10-Q

| | March 31 | |
|--------------------|----------|--------|
| In thousands | 2018 | 2017 |
| Three months ended | \$ 179 | \$ 609 |

- 11 -

GLATFELTER

03.31.18 Form 10-Q

9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

The following tables provide information with respect to the net periodic costs of our pension and post-retirement medical benefit plans.

| | Three months ended | |
|--|--------------------|----------------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Pension Benefits | | |
| Service cost | \$2,859 | \$2,721 |
| Interest cost | 5,589 | 5,907 |
| Expected return on plan assets | (10,839) | (10,831) |
| Amortization of prior service | | |
| cost | 780 | 704 |
| Amortization of unrecognized | | |
| loss | 3,390 | 2,822 |
| Total net periodic benefit cost | \$1,779 | \$1,323 |
| Other Benefits | | |
| Service cost | \$307 | \$295 |
| Interest cost | 451 | 485 |
| Amortization of prior | | |
| service credit | (45) | (45) |
| Amortization of | | |
| actuarial gain | (73) | (143) |
| Total net periodic | | |
| benefit cost | \$640 | \$592 |

In the first quarter of 2018, we adopted the provisions of ASU No. 2017-07 which requires entities to present the service cost component of net periodic benefit costs in operating profit along with other employee compensation costs. All other components of net periodic benefit costs are to be presented below the determination of operating income in "Other, net".

10. INVENTORIES

Inventories, net of reserves, were as follows:

| | March 31 | December 31 |
|-------------------------|-----------|-------------|
| In thousands | 2018 | 2017 |
| Raw materials | \$63,024 | \$60,806 |
| In-process and finished | 122,432 | 116,678 |
| Supplies | 77,491 | 74,580 |
| Total | \$262,947 | \$252,064 |

11. CAPITALIZED INTEREST

The following table sets forth details of interest incurred, capitalized and expensed:

| | Three months ended | |
|------------------------|--------------------|---------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Interest cost incurred | \$5,591 | \$4,597 |
| Interest capitalized | 396 | 589 |
| Interest expense | \$5,195 | \$4,008 |

Capitalized interest primarily relates to spending for the Airlaid capacity expansion project in 2017 and 2018 and the Specialty Papers' environmental compliance project in 2017.

12. LONG-TERM DEBT

Long-term debt is summarized as follows:

| | March 31 | December 31 |
|--|-----------|-------------|
| In thousands | 2018 | 2017 |
| Revolving credit facility, due Mar. 2020 | \$196,588 | \$171,200 |
| 5.375% Notes, due Oct. 2020 | 250,000 | 250,000 |
| 2.40% Term Loan, due Jun. 2022 | 7,481 | 7,710 |
| 2.05% Term Loan, due Mar. 2023 | 32,883 | 33,607 |
| 1.30% Term Loan, due Jun. 2023 | 9,241 | 9,423 |
| 1.55% Term Loan, due Sep. 2025 | 11,324 | 11,390 |

Edgar Filing: GLATFELTER P H CO - Form 10-Q

| | | |
|--|-----------|-----------|
| Total long-term debt | 507,517 | 483,330 |
| Less current portion | (11,607) | (11,298) |
| Unamortized deferred issuance costs | (1,779) | (1,934) |
| Long-term debt, net of current portion | \$494,131 | \$470,098 |

On March 12, 2015, we amended our revolving credit agreement with a consortium of banks (the “Revolving Credit Facility”) which increased the amount available for borrowing to \$400 million, extended the maturity of the facility to March 12, 2020, and instituted a revised interest rate pricing grid. On February 1, 2017, the Revolving Credit Facility was further amended to, among other things, change the definition of earnings before interest, taxes, depreciation and amortization (“EBITDA”) for purposes of calculating covenant compliance.

For all US dollar denominated borrowings under the Revolving Credit Facility, the borrowing rate is, at our option, either, (a) the bank’s base rate which is equal to the greater of i) the prime rate; ii) the federal funds rate plus 50 basis points; or iii) the daily Euro-rate plus 100 basis points plus an applicable spread over either i), ii) or iii) ranging from 12.5 basis points to 100 basis points based on the Company’s leverage ratio and its corporate credit ratings determined by Standard & Poor’s Rating Services and Moody’s Investor Service, Inc. (the “Corporate Credit Rating”); or (b) the daily Euro-rate plus an applicable margin ranging from 112.5 basis points to 200 basis points based on the Company’s leverage ratio and the Corporate Credit Rating. For non-US dollar denominated borrowings, interest is based on (b) above.

- 12 -

GLATFELTER

03.31.18 Form 10-Q

The Revolving Credit Facility contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios including: i) maximum net debt to EBITDA ratio (the “leverage ratio”); and ii) a consolidated EBITDA to interest expense ratio. The most restrictive of our covenants is a maximum leverage ratio of 3.5x. As of March 31, 2018, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 2.8x. A breach of these requirements would give rise to certain remedies under the Revolving Credit Facility, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

On October 3, 2012, we completed a private placement offering of \$250.0 million aggregate principal amount of 5.375% Senior Notes due 2020 (the “5.375% Notes”). The 5.375% Notes, which are now publically registered, are fully and unconditionally guaranteed, jointly and severally, by PHG Tea Leaves, Inc., Mollanvick, Inc., Glatfelter Composite Fibers N. A., Inc., Glatfelter Advanced Materials N.A., LLC., and Glatfelter Holdings, LLC (the “Guarantors”). Interest on the 5.375% Notes is payable semiannually in arrears on April 15 and October 15.

The 5.375% Notes are redeemable, in whole or in part, at any time on or after October 15, 2016 at the redemption prices specified in the applicable Indenture. These Notes and the guarantees of the notes are senior obligations of the Company and the Guarantors, respectively, rank equally in right of payment with future senior indebtedness of the Company and the Guarantors and will mature on October 15, 2020.

The 5.375% Notes contain various covenants customary to indebtedness of this nature including limitations on i) the amount of indebtedness that may be incurred; ii) certain restricted payments including common stock dividends; iii) distributions from certain subsidiaries; iv) sales of assets; v) transactions amongst subsidiaries; and vi) incurrence of liens on assets. In addition, the 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the Revolving Credit Facility at maturity or a default under the Revolving Credit Facility that accelerates the debt outstanding thereunder. As of March 31, 2018, we met all of the requirements of our debt covenants.

Glatfelter Gernsbach GmbH & Co. KG (“Gernsbach”), a wholly-owned subsidiary of ours, entered into a series of borrowing agreements with IKB Deutsche Industriebank AG, Düsseldorf (“IKB”) as summarized below:

| | Original | Interest | |
|----------------------|-----------|----------|-----------|
| Amounts in thousands | Principal | Rate | Maturity |
| Borrowing date | | | |
| Apr. 11, 2013 | €42,700 | 2.05 % | Mar. 2023 |
| Sep. 4, 2014 | 10,000 | 2.40 % | Jun. 2022 |
| Oct. 10, 2015 | 2,608 | 1.55 % | Sep. 2025 |
| Apr. 26, 2016 | 10,000 | 1.30 % | Jun. 2023 |
| May 4, 2016 | 7,195 | 1.55 % | Sep. 2025 |

Each of the borrowings require quarterly repayments of principal and interest and provide for representations, warranties and covenants customary for financings of these types. The financial covenants contained in each of the IKB loans, which relate to the minimum ratio of consolidated EBITDA to consolidated interest expense and the

maximum ratio of consolidated total net debt to consolidated adjusted EBITDA, are calculated by reference to our Revolving Credit Facility.

P. H. Glatfelter Company guarantees all debt obligations of its subsidiaries. All such obligations are recorded in these condensed consolidated financial statements.

Letters of credit issued to us by certain financial institutions totaled \$5.2 million as of March 31, 2018 and December 31, 2017. The letters of credit, which reduce amounts available under our revolving credit facility, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

- 13 -

GLATFELTER

03.31.18 Form 10-Q

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts reported on the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value. The following table sets forth carrying value and fair value of long-term debt:

| In thousands | March 31, 2018 | | December 31, 2017 | |
|--------------------|----------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Variable rate debt | \$196,588 | \$196,588 | \$171,200 | \$171,200 |
| Fixed-rate bonds | 250,000 | 253,980 | 250,000 | 253,823 |
| 2.40% Term loan | 7,481 | 7,637 | 7,710 | 7,889 |
| 2.05% Term loan | 32,883 | 33,318 | 33,607 | 34,122 |
| 1.30% Term Loan | 9,241 | 9,177 | 9,423 | 9,370 |
| 1.55% Term loan | 11,324 | 11,229 | 11,390 | 11,320 |
| Total | \$507,517 | \$511,929 | \$483,330 | \$487,724 |

As of March 31, 2018, and December 31, 2017, we had \$250.0 million of 5.375% fixed rate bonds. These bonds are publicly registered, but thinly traded. The fair value of financial derivatives is set forth below in Note 14.

14. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

As part of our overall risk management practices, we enter into financial derivatives primarily designed to either i) hedge foreign currency risks associated with forecasted transactions – “cash flow hedges”; or ii) mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and foreign currency denominated receivables and payables – “foreign currency hedges.”

Derivatives Designated as Hedging Instruments - Cash Flow Hedges We use currency forward contracts as cash flow hedges to manage our exposure to fluctuations in the currency exchange rates on certain forecasted production costs or capital expenditures expected to be incurred. Currency forward contracts involve fixing the exchange for delivery of a specified amount of foreign currency on a specified date. As of March 31, 2018, the maturity of currency forward contracts ranged from one month to 18 months.

We designate certain currency forward contracts as cash flow hedges of forecasted raw material purchases, certain production costs or capital expenditures with exposure to changes in foreign currency exchange rates. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges of foreign exchange risk is deferred as a component of accumulated other comprehensive income in the accompanying condensed consolidated balance sheets. With respect to hedges of forecasted raw material purchases or production costs, the amount deferred is subsequently reclassified into costs of products sold in the period that inventory produced using the

hedged transaction affects earnings. For hedged capital expenditures, deferred gains or losses are reclassified and included in the historical cost of the capital asset and subsequently affect earnings as depreciation is recognized. The ineffective portion of the change in fair value of the derivative is recognized directly to earnings and reflected in the accompanying condensed consolidated statements of income as non-operating income (expense) under the caption "Other, net."

We had the following outstanding derivatives that were used to hedge foreign exchange risks associated with forecasted transactions and designated as hedging instruments:

| In thousands | March 31 2018 | December 31 2017 |
|---------------------------------|---------------------|------------------------|
| Derivative | | |
| Sell/Buy - sell notional | | |
| Philippine Peso / British Pound | — | 19,047 |
| Euro / British Pound | 12,887 | 13,586 |
| Euro / U.S. Dollar | — | 1,048 |
| U.S. Dollar / Euro | 248 | 946 |
| Sell/Buy - buy notional | | |
| Euro / Philippine Peso | 902,076 | 890,096 |
| British Pound / Philippine Peso | 785,659 | 797,496 |
| U.S. Dollar / Euro | 1,390 | 4,253 |
| Euro / U.S. Dollar | 64,098 | 60,519 |
| U.S. Dollar / Canadian Dollar | 32,152 | 32,265 |
| British Pound / Euro | — | 335 |

Derivatives Not Designated as Hedging Instruments - Foreign Currency Hedges We also enter into forward foreign exchange contracts to mitigate the impact changes in currency exchange rates have on balance sheet monetary assets and liabilities. None of these contracts are designated as hedges for financial accounting purposes and, accordingly, changes in value of the foreign exchange forward contracts and in the offsetting underlying on-balance-sheet transactions are reflected in the accompanying condensed consolidated statements of income under the caption "Other, net."

- 14 -

GLATFELTER

03.31.18 Form 10-Q

The following sets forth derivatives used to mitigate the impact changes in currency exchange rates have on balance sheet monetary assets and liabilities:

| | March | |
|-----------------------------|--------|----------|
| | 31 | December |
| In thousands | 2018 | 31 2017 |
| Derivative | | |
| Sell/Buy - sell notional | | |
| U.S. Dollar / Euro | - | - |
| U.S. Dollar / British Pound | 17,500 | 17,500 |
| British Pound / Euro | 1,000 | 1,000 |
| Canadian / U.S. dollar | 2,500 | - |
| Sell/Buy - buy notional | | |
| Euro / U.S. Dollar | 4,000 | 4,500 |
| British Pound / Euro | 9,000 | 13,000 |

These contracts have maturities of one month from the date originally entered into.

Fair Value Measurements The following table summarizes the fair values of derivative instruments for the period indicated and the line items in the accompanying condensed consolidated balance sheets where the instruments are recorded:

| | March | | March | |
|---|----------------|----------|---------------------|----------|
| | 31 | December | 31 | December |
| In thousands | 2018 | 31 2017 | 2018 | 31 2017 |
| Prepaid Expenses | | | | |
| | and Other | | Other | |
| Balance sheet caption | Current Assets | | Current Liabilities | |
| Designated as hedging: | | | | |
| Forward foreign currency exchange contracts | \$138 | \$ 1,066 | \$5,955 | \$ 4,787 |
| Not designated as hedging: | | | | |
| Forward foreign currency exchange contracts | \$276 | \$ 151 | \$147 | \$ 43 |

The amounts set forth in the table above represent the net asset or liability giving effect to rights of offset with each counterparty. The effect of netting the amounts presented above did not have a material effect on our consolidated financial position.

The following table summarizes the amount of income or (loss) from derivative instruments recognized in our results of operations for the periods indicated and the line items in the accompanying condensed consolidated statements of

income where the results are recorded:

| | Three months ended | |
|--|--------------------|-------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Designated as hedging: | | |
| Forward foreign currency exchange contracts: | | |
| Effective portion – cost of products sold | \$(1,959) | \$931 |
| Ineffective portion – other – net | (322) | 50 |
| Not designated as hedging: | | |
| Forward foreign currency exchange contracts: | | |
| Other – net | \$297 | \$21 |

The impact of activity not designated as hedging was substantially all offset by the remeasurement of the underlying on-balance-sheet item.

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair values of the foreign exchange forward contracts are considered to be Level 2. Foreign currency forward contracts are valued using foreign currency forward and interest rate curves. The fair value of each contract is determined by comparing the contract rate to the forward rate and discounting to present value. Contracts in a gain position are recorded in the condensed consolidated balance sheets under the caption “Prepaid expenses and other current assets” and the value of contracts in a loss position is recorded under the caption “Other current liabilities.”

A rollforward of fair value amounts recorded as a component of accumulated other comprehensive income (loss) is as follows:

| In thousands | 2018 | 2017 |
|---|-----------|---------|
| Balance at January 1, | \$(5,640) | \$1,882 |
| Deferred (losses) gains on cash flow hedges | (4,344) | (303) |
| Reclassified to earnings | 1,959 | (931) |
| Balance at March 31, | \$(8,025) | \$648 |

We expect substantially all of the amounts recorded as a component of accumulated other comprehensive income will be recorded as a component of the capital asset or realized in results of operations within the next 12 to 18 months and the amount ultimately recognized will vary depending on actual market rates.

03.31.18 Form 10-Q

Credit risk related to derivative activity arises in the event the counterparty fails to meet its obligations to us. This exposure is generally limited to the amounts, if any, by which the counterparty's obligations exceed our obligation to them. Our policy is to enter into contracts only with financial institutions which meet certain minimum credit ratings.

15. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River - Neenah, Wisconsin

Background. We have significant uncertainties associated with environmental claims arising out of the presence of polychlorinated biphenyls ("PCBs") in sediments in the lower Fox River, on which our former Neenah facility was located, and in the Bay of Green Bay Wisconsin (collectively, the "Site"). Since the early 1990s, the United States, the State of Wisconsin and two Indian tribes (collectively, the "Governments") have pursued a cleanup of a 39-mile stretch of river from Little Lake Butte des Morts into Green Bay and natural resource damages ("NRDs").

The Site has been subject to certain studies, demonstration projects and interim cleanups. The permanent cleanup, known as a "remedial action" under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), consists of sediment dredging, installation of engineered caps and placement of sand covers in various areas in the bed of the river.

The United States originally notified several entities that they were potentially responsible parties ("PRPs"); however, after giving effect to settlements reached with the Governments, the remaining PRPs exposed to continuing obligations to implement the remainder of the cleanup consist of us, Georgia Pacific Consumer Products, L.P. ("Georgia Pacific") and NCR Corporation ("NCR").

The United States Environmental Protection Agency ("EPA") has divided the Site into five "operable units", including the most upstream portion of the Site on which our facility was located ("OU1") and four downstream reaches of the river and bay ("OU2-5").

We and WTM I Company ("WTM I"), one of the PRPs, implemented the remedial action in OU1 under a consent decree with the Governments; Menasha Corporation made a financial contribution to that work. That project began in 2004 and the work is complete, other than on-going monitoring and maintenance. We and WTM I have recently executed documents for the withdrawal of WTM I from the entity we jointly formed for the performance of the OU1 work and releasing all claims between us related to the Site, subject to approval of the court overseeing WTM I's bankruptcy.

For OU2-5, work has proceeded primarily under a Unilateral Administrative Order ("UAO") issued in November 2007 by the EPA to us and seven other respondents. The majority of that work to date has been funded or conducted by parties other than us. Prior to the UAO, we contributed to a project in that area. Since the issuance of the UAO we have conducted about \$13.4 million of cleanup work under the UAO in 2015 and 2016. The cleanup is expected to continue through 2019. However, as discussed below, under a consent decree between the United States, Wisconsin, NCR and Appvion, we are not responsible for any additional cleanup at the Site.

Litigation and Settlement. In 2008, in an allocation action, NCR and Appvion sued us and many other defendants in an effort to allocate among the liable parties the costs of cleaning up this Site and compensating the Governments for

their costs and the natural resource trustees for NRDs. This case has been called the “Whiting litigation.” After several summary judgment rulings and a trial, the trial court entered judgment in the Whiting Litigation allocating to NCR 100% of the costs of (a) the OU2-5 cleanup, (b) NRDs, (c) past and future costs incurred by the Governments in OU2-5, and (d) past and future costs incurred by any of the other parties net of an appropriate equitable adjustment for insurance recoveries.

On appeal, the United States Court of Appeals for the Seventh Circuit affirmed the district court’s ruling, holding that if knowledge and fault were the only equitable factors governing allocation of costs and NRDs at the Site, NCR would owe 100% of all costs and damages in OU2-5, but would not have a share of costs in OU1 -- which is upstream of the outfall of the facilities for which NCR is responsible -- solely as an “arranger for disposal” of PCB-containing waste paper by recycling it at our mill. However, the court of appeals vacated the judgment and remanded the case for the district court’s further consideration of whether any other equitable factors might cause the district court to alter its allocation to something less than 100% to NCR.

In 2010, in an enforcement action, the Governments sued us and other defendants for (a) an injunction to require implementation of the cleanup ordered by the 2007 UAO, (b) recovery of the Governments’ past and future costs of response, (c) recovery of NRDs, and (d) recovery of a declaration of liability for the Site. After appeals, the Governments did not obtain an injunction and they withdrew their claims for NRDs. The Governments obtained a declaration of our liability to comply with the 2007 UAO. The Governments’ costs claims remained pending.

On January 17, 2017, the United States filed a consent decree with the federal district court among the United States, Wisconsin, NCR, and Appvion (the “NCR/Appvion consent decree”) under which NCR would agree to complete the remaining cleanup and both NCR and Appvion would agree not to seek to recover from us or anyone else any amounts

- 16 -

GLATFELTER

03.31.18 Form 10-Q

they have spent or will spend, and we and others would be barred from seeking claims against NCR or Appvion. On March 29, 2017, the United States moved for entry of a somewhat revised version of the NCR/Appvion consent decree, which the federal district court entered on August 23, 2017. Under the consent decree, if it were to withstand appeal, we would only face exposure to: (i) government past oversight costs, (ii) government future oversight costs, (iii) long term monitoring and maintenance, and (iv) depending on the reason, a further remedy if necessary in the event the currently ordered remedy fails, over 30 or more years, to achieve its objectives. As the result of earlier settlements, Georgia Pacific is only jointly liable with us to the Governments for monitoring and maintenance costs incurred in the most downstream three miles of the river ("OU4b") and the bay of Green Bay ("OU5").

In addition, we and Georgia Pacific had claims against each other to reallocate the costs that we have each incurred or will incur. We have settled those claims. Under this settlement, Georgia Pacific has agreed to implement the monitoring and maintenance in OU4b and OU5 and we would be responsible for monitoring and maintenance of all other upstream Operable Units. We paid Georgia Pacific \$9.5 million in August 2017.

The NCR/Appvion consent decree and our settlement with Georgia Pacific resulted in all claims among the responsible parties being barred, waived, or withdrawn. Accordingly, on October 10, 2017, the federal district court approved a stipulation dismissing all remaining claims in the Whiting litigation. Therefore, unless certain limited circumstances occur permitting reassertion of claims, we are not subject to claims for reallocation of costs or damages incurred by any of the other parties and we cannot seek contribution or reallocation from them.

On October 20, 2017, we appealed the district court's approval of the NCR/Appvion consent decree. We contend that the court did not do what was required to properly conclude that the NCR/Appvion consent decree was substantially fair to us. We contend that the consent decree was unfair to us because the costs we have already incurred and the costs that we would have to incur were the NCR/Appvion consent decree to remain in effect would exceed our fair share of costs for this site. If we prevail on appeal, the circumstances that caused us to prevail would lead us to anticipate that, while all costs would again be subject to reallocation, that reallocation would be in our favor.

Cost estimates. The proposed NCR/Appvion consent decree, as revised, states that all parties combined have spent more than \$1 billion through March 2017 towards remedial actions and NRDs, of which we have contributed approximately \$75 million. In addition, work to complete the remaining site remedy under the UAO was anticipated to cost approximately \$200 million at the beginning of the 2017

remediation season. We believe NCR to have completed a full season of work in 2017 and to be commencing work for the 2018 season. So long as the NCR/Appvion consent decree remains in effect, we are not exposed to reallocation of any of those amounts, and no other party will be exposed to reallocation of any of the amounts that we have incurred or may incur in the future.

So long as the NCR/Appvion consent decree remains in effect, we (and not NCR) would remain responsible for the Governments' unreimbursed past costs. Many parties have entered into settlements with the Governments over time, including us, that have called for payments of cash or in-kind provision of natural resource restoration projects. Certain amounts were allocated to the United States and the State to reimburse their costs, and other amounts were allocated to the Natural Resource Damages Assessment and Restoration ("NRDAR") Fund to pay for natural resource damages assessment, if any, and restoration projects. The Governments may not recover costs from us that anyone has reimbursed previously. As of the end of 2015, the United States claims to have incurred about \$32.7 million in unreimbursed recoverable costs including prejudgment interest, an amount that we dispute. The State had no unreimbursed recoverable costs, and now claims to have had on hand approximately \$4.6 million of unspent settlement money, a claim that we also dispute. Further, the NRDAR Fund had received what the Governments claim to have been approximately \$105 million in settlement payments, of which more than \$60 million remained unspent. On February 5, 2018, the district court decided that the Governments' recovery of costs would be reduced by the funds

held by the State at the end of 2015 and by any amount by which the Governments had applied settlement payments to natural resource damages in excess of the actual amount of natural resource damages. We contend that the natural resource restoration projects already constructed fully compensate the public for any natural resource damages, and therefore that the entire unspent balance in the NRDAR Fund remains as an off-set, an amount likely to exceed all of the Governments' past and future costs of response. The Governments have sought reconsideration of that decision. No date has yet been set for trial of the issue. If at trial the actual amount of NRDs were determined to be more than the Governments have collected in settlements, we might be exposed to that shortfall.

So long as the NCR/Appvion consent decree remains in effect, we would also remain subject to our remaining obligations under the OU1 consent decree, which now consist of long term monitoring and maintenance that we expect earlier contributions to the OU1 escrow account to fund these costs. Furthermore, we, along with Georgia Pacific, but not NCR, would be responsible for long term monitoring and maintenance required pursuant to the Lower Fox River 100% Remedial Design Report dated December 2009 – Long Term Monitoring Plan (the “Plan”). The Plan requires long term monitoring of each of OU2 through OU5 over a period of at

- 17 -

GLATFELTER

03.31.18 Form 10-Q

least 30 years. The monitoring activities consist of, among others, testing fish tissue, sampling water quality and sediment, and inspections of the engineered caps. Each operable unit is required to be monitored; however, because of our settlement with Georgia Pacific, our obligations are in OU1-OU4a. In the first quarter of 2018, we entered into a fixed-price, 30 year agreement with a third party for the performance of all of our monitoring and maintenance obligations in OU1 through the upper four miles of OU4 (“OU4a”) with limited exceptions, such as, for extraordinary amounts of cap maintenance or replacement. Our obligation under this agreement is included in our total reserve for the Site. The portion of this agreement that pertains to OU1 will be paid out of the previously funded OU1 escrow account.

Reserves for the Site. Our reserve for all remaining claims against us relating to PCB contamination is set forth below:

| | Three months ended | |
|-----------------------|--------------------|----------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Balance at January 1, | \$43,144 | \$52,788 |
| Payments | (2,536) | (85) |
| Accruals | - | - |
| Balance at March 31, | \$40,608 | \$52,703 |

The payments set forth above primarily represent cash paid under the recently-entered long-term monitoring and maintenance agreement. Of our total reserve for the Fox River, \$26.0 million is recorded in the accompanying March 31, 2018 condensed consolidated balance sheet under the caption

“Environmental liabilities” and the remaining \$14.6 million is recorded under the caption “Other long term liabilities.”

Range of Reasonably Possible Outcomes. Based on our analysis of all available information, including but not limited to decisions of the courts, official documents such as records of decision, discussions with legal counsel, cost estimates for future monitoring and maintenance and other post-remediation costs to be performed at the Site, we believe it is reasonably possible that our costs associated with the Fox River matter could exceed the aggregate amounts accrued by amounts ranging from insignificant to approximately \$30 million. We believe the likelihood of an outcome in the upper end of the monetary range is less than other possible outcomes within the range and the possibility of an outcome in excess of the upper end of the monetary range is remote.

Summary. Our current assessment is we will be able to manage this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our debt covenants. Moreover, there can be no assurance our reserves will be adequate to provide for future obligations related to this matter, or our share of costs and/or damages will not exceed our available resources, or those obligations will not have a material adverse effect on our consolidated financial position, liquidity or results of operations and might result in a default under our loan covenants

- 18 -

GLATFELTER

03.31.18 Form 10-Q

16. SEGMENT INFORMATION

The following tables set forth financial and other information by business unit for the period indicated:

| Three months ended March 31 | Advanced Airlaid | | | | Specialty Papers | | Other and Unallocated | | Total | |
|--|------------------|----------|-----------|---------|------------------|----------|-----------------------|-----------|----------|----------|
| Dollars in millions | Composite Fibers | | Materials | | Papers | | Unallocated | | Total | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$ 141.6 | \$ 125.1 | \$ 69.6 | \$ 59.8 | \$ 199.4 | \$ 205.8 | \$ — | \$ — | \$ 410.6 | \$ 390.7 |
| Energy and related sales, net | — | — | — | — | 1.4 | 1.1 | — | — | 1.4 | 1.1 |
| Total revenue | 141.6 | 125.1 | 69.6 | 59.8 | 200.8 | 206.9 | — | — | 412.1 | 391.8 |
| Cost of products sold | 114.7 | 99.6 | 59.7 | 50.5 | 186.5 | 179.9 | 2.3 | 6.2 | 363.2 | 336.2 |
| Gross profit (loss) | 26.9 | 25.5 | 9.9 | 9.3 | 14.3 | 27.0 | (2.3) | (6.2) | 48.9 | 55.6 |
| SG&A | 11.6 | 11.1 | 2.7 | 2.2 | 11.9 | 13.5 | 10.9 | 8.1 | 37.1 | 34.9 |
| (Gains) losses on dispositions of plant, equipment and timberlands, net | — | — | — | — | — | — | (1.6) | — | (1.6) | — |
| Total operating income (loss) | 15.3 | 14.4 | 7.2 | 7.1 | 2.4 | 13.5 | (11.6) | (14.3) | 13.4 | 20.7 |
| Non-operating expense | — | — | — | — | — | — | (4.9) | (3.1) | (4.9) | (3.1) |
| Income (loss) before income taxes | \$ 15.3 | \$ 14.4 | \$ 7.2 | \$ 7.1 | \$ 2.4 | \$ 13.5 | \$ (16.5) | \$ (17.4) | \$ 8.5 | \$ 17.6 |
| Supplementary Data | | | | | | | | | | |
| Net tons sold (thousands) | 40.0 | 38.8 | 26.3 | 24.8 | 188.4 | 197.2 | — | — | 254.8 | 260.8 |
| Depreciation, depletion and amortization | \$ 7.4 | \$ 6.8 | \$ 2.8 | \$ 2.3 | \$ 8.1 | \$ 7.2 | \$ 1.1 | \$ 1.0 | \$ 19.4 | \$ 17.3 |
| Capital expenditures | 5.1 | 4.7 | 13.2 | 10.6 | 6.5 | 18.3 | 1.8 | 3.2 | 26.6 | 36.8 |

The sum of individual amounts set forth above may not agree to the consolidated financial statements included herein due to rounding.

Business Units Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses

change. The costs incurred by support areas not directly aligned with the business unit are allocated primarily based on an estimated utilization of support area services or are included in “Other and Unallocated” in the Business Unit Performance table.

Management evaluates results of operations of the business units before retirement expenses, certain corporate level costs, and the effects of certain gains or losses not considered to be related to the core business operations. Management believes that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption “Other and Unallocated.” In the evaluation of business unit results, management does not use any measures of total assets. This presentation is aligned with the management and operating structure of our company. It is also on this basis that the Company’s performance is evaluated internally and by the Company’s Board of Directors.

- 19 -

GLATFELTER

03.31.18 Form 10-Q

17. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Our 5.375% Notes issued by P. H. Glatfelter Company (the “Parent”) are fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries, PHG Tea Leaves, Inc., Mollanvick, Inc., Glatfelter Composite Fibers N. A., Inc. (“CFNA”), Glatfelter Advance Materials N.A., Inc. (“GAMNA”), and Glatfelter Holdings, LLC. The guarantees are subject to certain customary release provisions including i) the designation of such subsidiary as an unrestricted or excluded subsidiary; (ii) in connection with any sale or disposition of the capital stock of the subsidiary guarantor; or (iii) upon our exercise of our legal defeasance option or our covenant defeasance option, all of which are more fully described in the Indenture dated as of October 3, 2012 and the First Supplemental Indenture dated as of October 27, 2015, among us, the Guarantors and US Bank National Association, as Trustee, relating to the 5.375% Notes.

The following presents our condensed consolidating statements of income, including comprehensive income, for the three months ended March 31, 2018 and 2017, our condensed consolidating balance sheets as of March 31, 2018 and December 31, 2017, and our condensed consolidating cash flows for the three months ended March 31, 2018 and 2017.

Condensed Consolidating Statement of Income for the three months ended March 31, 2018

| | Parent | | Non | Adjustments/ | |
|--|------------|------------|------------|--------------|--------------|
| In thousands | Company | Guarantors | Guarantors | Eliminations | Consolidated |
| Net sales | \$ 199,439 | \$ 20,013 | \$ 216,135 | \$ (24,940) | \$ 410,647 |
| Energy and related sales, net | 1,428 | — | — | — | 1,428 |
| Total revenues | 200,867 | 20,013 | 216,135 | (24,940) | 412,075 |
| Costs of products sold | 191,165 | 18,265 | 178,679 | (24,940) | 363,169 |
| Gross profit | 9,702 | 1,748 | 37,456 | — | 48,906 |
| Selling, general and administrative expenses | 20,437 | 2,005 | 14,621 | — | 37,063 |
| Gain on dispositions of plant equipment and timberlands, net | (438) | (1,115) | (1) | — | (1,554) |
| Operating income (loss) | (10,297) | 858 | 22,836 | — | 13,397 |
| Other non-operating income (expense) | | | | | |
| Interest expense | (5,682) | (455) | (428) | 1,370 | (5,195) |
| Interest income | 146 | 1,244 | 34 | (1,370) | 54 |
| Equity in earnings of subsidiaries | 21,233 | 22,255 | — | (43,488) | — |
| Other, net | (2,413) | (3,263) | 5,905 | — | 229 |
| Total other non-operating income (expense) | 13,284 | 19,781 | 5,511 | (43,488) | (4,912) |
| Income before income taxes | 2,987 | 20,639 | 28,347 | (43,488) | 8,485 |
| Income tax provision (benefit) | (2,729) | (594) | 6,092 | — | 2,769 |
| Net income | 5,716 | 21,233 | 22,255 | (43,488) | 5,716 |
| Other comprehensive income | 14,020 | 11,036 | 12,035 | (23,071) | 14,020 |
| Comprehensive income | \$ 19,736 | \$ 32,269 | \$ 34,290 | \$ (66,559) | \$ 19,736 |

03.31.18 Form 10-Q

Condensed Consolidating Statement of Income for the three months ended March 31, 2017

| | Parent | | Non | Adjustments/ | |
|--|-----------|------------|------------|--------------|--------------|
| In thousands | Company | Guarantors | Guarantors | Eliminations | Consolidated |
| Net sales | \$205,771 | \$ 19,533 | \$ 185,887 | \$ (20,478) | \$ 390,713 |
| Energy and related sales, net | 1,129 | — | — | — | 1,129 |
| Total revenues | 206,900 | 19,533 | 185,887 | (20,478) | 391,842 |
| Costs of products sold | 185,246 | 18,586 | 152,859 | (20,478) | 336,213 |
| Gross profit | 21,654 | 947 | 33,028 | — | 55,629 |
| Selling, general and administrative expenses | 20,162 | 74 | 14,641 | — | 34,877 |
| Loss on dispositions of plant equipment and timberlands, net | 32 | — | — | — | 32 |
| Operating income | 1,460 | 873 | 18,387 | — | 20,720 |
| Other non-operating income (expense) | | | | | |
| Interest expense | (4,661) | (113) | (504) | 1,270 | (4,008) |
| Interest income | 149 | 1,161 | 73 | (1,270) | 113 |
| Equity in earnings of subsidiaries | 13,617 | 13,852 | — | (27,469) | — |
| Other, net | 1,584 | (2,206) | 1,434 | — | 812 |
| Total other non-operating income (expense) | 10,689 | 12,694 | 1,003 | (27,469) | (3,083) |
| Income before income taxes | 12,149 | 13,567 | 19,390 | (27,469) | 17,637 |
| Income tax provision (benefit) | 546 | (50) | 5,538 | — | 6,034 |
| Net income | 11,603 | 13,617 | 13,852 | (27,469) | 11,603 |
| Other comprehensive income | 7,193 | 5,102 | 5,014 | (10,116) | 7,193 |
| Comprehensive income | \$ 18,796 | \$ 18,719 | \$ 18,866 | \$ (37,585) | \$ 18,796 |

Condensed Consolidating Balance Sheet as of March 31, 2018

| | Parent | | Non | Adjustments/ | |
|---------------------------------------|--------------|------------|------------|-----------------|--------------|
| In thousands | Company | Guarantors | Guarantors | Eliminations | Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | \$ 1,022 | \$ 1,266 | \$ 114,989 | \$ - | \$ 117,277 |
| Other current assets | 250,524 | 237,841 | 296,093 | (293,035) | 491,423 |
| Plant, equipment and timberlands, net | 370,669 | 87,000 | 413,065 | — | 870,734 |
| Investments in subsidiaries | 842,154 | 667,419 | — | (1,509,573) | — |
| Other assets | 142,088 | — | 143,090 | — | 285,178 |
| Total assets | \$ 1,606,457 | \$ 993,526 | \$ 967,237 | \$ (1,802,608) | \$ 1,764,612 |
| Liabilities and Shareholders' Equity | | | | | |

Edgar Filing: GLATFELTER P H CO - Form 10-Q

| | | | | | |
|--|--------------|------------|------------|-----------------|--------------|
| Current liabilities | \$ 398,152 | \$ 67,660 | \$ 165,919 | \$ (293,035) | \$ 338,696 |
| Long-term debt | 371,036 | 65,000 | 58,095 | — | 494,131 |
| Deferred income taxes | 12,049 | 18,209 | 54,767 | — | 85,025 |
| Other long-term liabilities | 101,228 | 503 | 21,037 | — | 122,768 |
| Total liabilities | 882,465 | 151,372 | 299,818 | (293,035) | 1,040,620 |
| Shareholders' equity | 723,992 | 842,154 | 667,419 | (1,509,573) | 723,992 |
| Total liabilities and shareholders' equity | \$ 1,606,457 | \$ 993,526 | \$ 967,237 | \$ (1,802,608) | \$ 1,764,612 |

- 21 -

GLATFELTER

03.31.18 Form 10-Q

Condensed Consolidating Balance Sheet as of December 31, 2017

| | Parent | | Non | Adjustments/ | |
|---|---------------------|-------------------|-------------------|------------------------|---------------------|
| In thousands | Company | Guarantors | Guarantors | Eliminations | Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | \$ 1,292 | \$ 720 | \$ 114,207 | \$ - | \$ 116,219 |
| Other current assets | 249,293 | 217,822 | 279,626 | (277,989) | 468,752 |
| Plant, equipment and timberlands, net | 375,231 | 80,992 | 409,520 | — | 865,743 |
| Investments in subsidiaries | 829,895 | 653,128 | — | (1,483,023) | — |
| Other assets | 139,552 | — | 140,529 | — | 280,081 |
| Total assets | \$ 1,595,263 | \$ 952,662 | \$ 943,882 | \$ (1,761,012) | \$ 1,730,795 |
| Liabilities and Shareholders' Equity | | | | | |
| Current liabilities | \$ 402,787 | \$ 54,640 | \$ 167,738 | \$ (277,989) | \$ 347,176 |
| Long-term debt | 368,496 | 51,000 | 50,602 | — | 470,098 |
| Deferred income taxes | 14,081 | 16,814 | 52,676 | — | 83,571 |
| Other long-term liabilities | 100,971 | 313 | 19,738 | — | 121,022 |
| Total liabilities | 886,335 | 122,767 | 290,754 | (277,989) | 1,021,867 |
| Shareholders' equity | 708,928 | 829,895 | 653,128 | (1,483,023) | 708,928 |
| Total liabilities and shareholders' equity | \$ 1,595,263 | \$ 952,662 | \$ 943,882 | \$ (1,761,012) | \$ 1,730,795 |

Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2018

| | Parent | | Non | Adjustments/ | |
|--|-----------------|--------------|------------------|--------------|------------------|
| In thousands | Company | Guarantors | Guarantors | Eliminations | Consolidated |
| Net cash provided (used) by | | | | | |
| Operating activities | \$(10,584) | \$(980) | \$ 19,223 | \$ - | \$ 7,659 |
| Investing activities | | | | | |
| Expenditures for purchases of plant, equipment and timberlands | (8,251) | (11,320) | (6,997) | — | (26,568) |
| Proceeds from disposals of plant, equipment and timberlands, net | 539 | 1,156 | — | — | 1,695 |
| Advances of intercompany loans | — | (2,310) | — | 2,310 | — |
| Intercompany capital contributed | — | 20,000 | (20,000) | — | — |
| Other | (28) | — | — | — | (28) |
| Total investing activities | (7,740) | 7,526 | (26,997) | 2,310 | (24,901) |

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Financing activities

| | | | | | |
|---|----------|-----------|------------|----------|------------|
| Net (repayments) borrowings of long-term debt | 2,388 | 14,000 | 6,098 | — | 22,486 |
| Payment of dividends to shareholders | (5,679) | — | — | — | (5,679) |
| Borrowings of intercompany loans | 2,310 | — | — | (2,310) | — |
| Payment of intercompany dividend | 20,000 | (20,000) | — | — | — |
| Payments related to share-based compensation awards and other | (965) | — | — | — | (965) |
| Total financing activities | 18,054 | (6,000) | 6,098 | (2,310) | 15,842 |
| Effect of exchange rate on cash | — | — | 2,458 | — | 2,458 |
| Net increase (decrease) in cash | (270) | 546 | 782 | — | 1,058 |
| Cash at the beginning of period | 1,292 | 720 | 114,207 | — | 116,219 |
| Cash at the end of period | \$ 1,022 | \$ 1,266 | \$ 114,989 | \$ — | \$ 117,277 |

- 22 -

GLATFELTER

03.31.18 Form 10-Q

Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2017

| | Parent | | Non | Adjustments/ | |
|--|-------------|------------|------------|--------------|--------------|
| In thousands | Company | Guarantors | Guarantors | Eliminations | Consolidated |
| Net cash provided (used) by | | | | | |
| Operating activities | \$(19,330) | \$(307) | \$ 27,839 | \$ (641) | \$ 7,561 |
| Investing activities | | | | | |
| Expenditures for purchases of plant, equipment and timberlands | (21,515) | (9,551) | (5,717) | — | (36,783) |
| Repayments from intercompany loans | — | 8,000 | — | (8,000) | — |
| Advances of intercompany loans | — | (8,550) | — | 8,550 | — |
| Intercompany capital contributed | — | (400) | — | 400 | — |
| Total investing activities | (21,515) | (10,501) | (5,717) | 950 | (36,783) |
| Financing activities | | | | | |
| Net (repayments) borrowings of long-term debt | 38,000 | 12,000 | (13,954) | — | 36,046 |
| Payment of dividends to shareholders | (5,455) | — | — | — | (5,455) |
| Repayments of intercompany loans | — | — | (8,000) | 8,000 | — |
| Borrowings of intercompany loans | 8,550 | — | — | (8,550) | — |
| Intercompany capital received | — | — | 400 | (400) | — |
| Payment of intercompany dividend | — | — | (641) | 641 | — |
| Payments related to share-based compensation awards and other | (112) | — | — | — | (112) |
| Total financing activities | 40,983 | 12,000 | (22,195) | (309) | 30,479 |
| Effect of exchange rate on cash | — | — | 526 | — | 526 |
| Net increase in cash | 138 | 1,192 | 453 | — | 1,783 |
| Cash at the beginning of period | 5,082 | 1,461 | 48,901 | — | 55,444 |
| Cash at the end of period | \$ 5,220 | \$ 2,653 | \$ 49,354 | \$ — | \$ 57,227 |

- 23 -

GLATFELTER

03.31.18 Form 10-Q

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2017 Annual Report on Form 10-K.

Forward-Looking Statements This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects and future consolidated financial position or results of operations, made in this Report on Form 10-Q are forward looking. We use words such as "anticipates", "believes", "expects", "future", "intends" and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from such expectations. The following discussion includes forward-looking statements regarding expectations of, among others, shipping volumes, selling prices, input costs, non-cash pension expense, environmental costs, capital expenditures and liquidity, all of which are inherently difficult to predict. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. Accordingly, we identify the following important factors, among others, which could cause our results to differ from any results that might be projected, forecasted or estimated in any such forward-looking statements:

- i. variations in demand for our products including the impact of unplanned market-related downtime, variations in product pricing, or product substitution;
- ii. the impact of competition, both domestic and international, changes in industry production capacity, including the construction of new mills or new machines, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- iii. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- iv. geopolitical events, including the impact of conflicts such as Russia, Ukraine and Philippines;
- v. our ability to develop new, high value-added products;
- vi. changes in the price or availability of raw materials we use, in particular pulpwood, pulp, pulp substitutes, synthetic pulp, colorformers, caustic soda, and abaca fiber;
- vii. changes in energy-related prices and commodity raw materials with an energy component;
- viii. the impact of unplanned production interruption;
- ix. disruptions in production and/or increased costs due to labor disputes;
- x. the impact of exposure to volatile market-based pricing for sales of excess electricity;
- xi. the gain or loss of significant customers and/or on-going viability of such customers;
- xii. cost and other effects of environmental compliance, cleanup, damages, remediation or restoration, or personal injury or property damages related thereto, such as the costs of natural resource restoration or damages related to the presence of polychlorinated biphenyls ("PCBs") in the lower Fox River on which our former Neenah mill was located;
- xiii. adverse results in litigation in the Fox River matter;
- xiv. the impact of war and terrorism;
- xv. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities or changes in pre-tax income and its impact on the valuation of deferred taxes;

xvi.enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation; and

xvii.our ability to finance, consummate and integrate acquisitions.

Introduction We manufacture a wide array of specialty papers and engineered materials. We manage our company along three business units:

◆Composite Fibers with revenue from the sale of single-serve tea and coffee filtration papers, nonwoven wallcovering base materials, metallized products, composite laminate papers, and many technically special papers including substrates for electrical applications;

◆Advanced Airlaid Materials with revenue from the sale of airlaid nonwoven fabric-like materials used in feminine hygiene and adult incontinence products, specialty wipes, home care products and other airlaid applications; and

◆Specialty Papers with revenue from the sale of papers for carbonless and other forms, envelopes, book publishing, and engineered products such as papers for high-speed ink jet printing, office specialty products, greeting cards, packaging, casting, release, transfer, playing card, postal, FDA-compliant food, and other niche specialty applications.

- 24 -

GLATFELTER

03.31.18 Form 10-Q

RESULTS OF OPERATIONS

Three months ended March 31, 2018 versus the three months ended March 31, 2017

Overview For the first quarter of 2018, net income totaled \$5.7 million, or \$0.13 per diluted share compared with \$11.6 million, or \$0.26 per diluted share in the first quarter of 2017. Adjusted earnings for the first quarter of 2018 were \$8.6 million, or \$0.19 per diluted share compared with \$17.2 million, or \$0.39 per diluted share, for the same period a year ago. Our Composite Fibers and Advanced Airlaid Materials businesses, which combined represented 51.5% of consolidated net sales and 90.4% of business unit operating income, reported higher operating income in the comparison driven by higher shipping volumes, increased selling prices, improved productivity and favorable foreign currency translation. Specialty Papers' results were lower in the comparison primarily due to lower shipping volumes, higher input costs and one-time operational issues.

The following table sets forth summarized consolidated results of operations:

| | Three months ended | |
|--------------------------------|--------------------|-----------|
| | March 31 | |
| In thousands, except per share | 2018 | 2017 |
| Net sales | \$410,647 | \$390,713 |
| Gross profit | 48,906 | 55,629 |
| Operating income | 13,397 | 20,720 |
| Net income | 5,716 | 11,603 |
| Earnings per diluted share | 0.13 | 0.26 |

In addition to the results reported in accordance with GAAP, we evaluate our performance using adjusted earnings and adjusted earnings per diluted share. We disclose this information to allow investors to evaluate our performance exclusive of certain items that impact the comparability of results from period to period and we believe it is helpful in understanding underlying operating trends and cash flow generation. Adjusted earnings consists of net income determined in accordance with GAAP adjusted to exclude the impact of the following:

Costs related to strategic initiatives. These adjustments primarily reflect one-time professional and legal fees incurred directly related to evaluating certain strategic initiatives.

Airlaid capacity expansion costs. These adjustments reflect non-capitalized, one-time costs incurred related to the start-up of a new airlaid production facility in Fort Smith, Arkansas and implementation of a new business system.

Cost optimization actions. This adjustment reflects charges incurred in connection with initiatives to optimize the cost structure of certain business units in response to changes in business conditions. The costs are primarily related to headcount reduction efforts, asset write-offs and certain contract termination costs.

Specialty Papers environmental compliance. These adjustments reflect non-capitalized, one-time costs incurred by the business unit directly related to the compliance with the U.S. EPA Best Available Retrofit Technology rule and the Boiler Maximum Achievable Control Technology rule. This adjustment includes costs incurred during the transition period in which the newly installed equipment was brought on-line.

Timberland sales and related costs. These adjustments exclude gains from the sales of timberlands as these items are not considered to be part of our core business, ongoing results of operations or cash flows. These adjustments are irregular in timing and amount and may significantly impact our operating performance.

U.S. Tax Reform. These adjustments reflect amounts estimating the impact of the Tax Cuts and Jobs Act (“TCJA”) which was signed into law on December 22, 2017. The TCJA includes, among many provisions, a tax on the mandatory repatriation of earnings of the Company’s non-U.S. subsidiaries and a change in the corporate tax rate from 35 % to 21%.

Adjusted earnings and adjusted earnings per diluted share are considered measures not calculated in accordance with GAAP, and therefore are non-GAAP measures. The non-GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with GAAP. The following table sets forth the reconciliation of net income to adjusted earnings for the three months ended March 31, 2018 and 2017:

| | Three months ended March 31 | | | |
|--|-----------------------------|-------------|----------|-------------|
| | 2018 | | 2017 | |
| In thousands, except per share | Amount | Diluted EPS | Amount | Diluted EPS |
| Net income | \$5,716 | \$ 0.13 | \$11,603 | \$ 0.26 |
| Adjustments (pre-tax) | | | | |
| Costs related to strategic initiatives | 2,109 | | - | |
| Airlaid capacity expansion costs | 3,033 | | 1,958 | |
| Cost optimization actions | - | | 2,013 | |
| Specialty Papers' environmental compliance | - | | 2,264 | |
| Timberland sales and related costs | (1,115) | | - | |
| Total adjustments (pre-tax) | 4,027 | | 6,235 | |
| Income taxes (1) | (955) | | (682) | |
| U.S. Tax Reform | (180) | | - | |
| Total after-tax adjustments | 2,892 | 0.06 | 5,553 | 0.12 |
| Adjusted earnings | \$8,608 | \$ 0.19 | \$17,156 | \$ 0.39 |

(1) Tax effect on adjustments calculated based on the incremental effective tax rate of the jurisdiction in which each adjustment originated and the related impact of valuation allowances.

The sum of individual per share amounts set forth above may not agree to adjusted earnings per share due to rounding.

03.31.18 Form 10-Q

Business Unit Performance

| Three months ended March 31 | Composite Fibers | | Advanced Airloid | | Specialty Papers | | Other and Unallocated | | Total | |
|---|------------------|----------|------------------|---------|------------------|----------|-----------------------|-----------|----------|----------|
| | | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Dollars in millions | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$ 141.6 | \$ 125.1 | \$ 69.6 | \$ 59.8 | \$ 199.4 | \$ 205.8 | \$ — | \$ — | \$ 410.6 | \$ 390.7 |
| Energy and related sales, net | — | — | — | — | 1.4 | 1.1 | — | — | 1.4 | 1.1 |
| Total revenue | 141.6 | 125.1 | 69.6 | 59.8 | 200.8 | 206.9 | — | — | 412.1 | 391.8 |
| Cost of products sold | 114.7 | 99.6 | 59.7 | 50.5 | 186.5 | 179.9 | 2.3 | 6.2 | 363.2 | 336.2 |
| Gross profit (loss) | 26.9 | 25.5 | 9.9 | 9.3 | 14.3 | 27.0 | (2.3) | (6.2) | 48.9 | 55.6 |
| SG&A | 11.6 | 11.1 | 2.7 | 2.2 | 11.9 | 13.5 | 10.9 | 8.1 | 37.1 | 34.9 |
| (Gains) losses on dispositions of plant, equipment and timberlands, net | — | — | — | — | — | — | (1.6) | — | (1.6) | — |
| Total operating income (loss) | 15.3 | 14.4 | 7.2 | 7.1 | 2.4 | 13.5 | (11.6) | (14.3) | 13.4 | 20.7 |
| Non-operating expense | — | — | — | — | — | — | (4.9) | (3.1) | (4.9) | (3.1) |
| Income (loss) before income taxes | \$ 15.3 | \$ 14.4 | \$ 7.2 | \$ 7.1 | \$ 2.4 | \$ 13.5 | \$ (16.5) | \$ (17.4) | \$ 8.5 | \$ 17.6 |
| Supplementary Data | | | | | | | | | | |
| Net tons sold (thousands) | 40.0 | 38.8 | 26.3 | 24.8 | 188.4 | 197.2 | — | — | 254.8 | 260.8 |
| Depreciation, depletion and amortization | \$ 7.4 | \$ 6.8 | \$ 2.8 | \$ 2.3 | \$ 8.1 | \$ 7.2 | \$ 1.1 | \$ 1.0 | \$ 19.4 | \$ 17.3 |
| Capital expenditures | 5.1 | 4.7 | 13.2 | 10.6 | 6.5 | 18.3 | 1.8 | 3.2 | 26.6 | 36.8 |

The sum of individual amounts set forth above may not agree to the consolidated financial statements included herein due to rounding.

Business Units Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. The costs incurred by support areas not directly aligned with the business unit are allocated primarily based on an estimated utilization of support area services or are included in “Other and Unallocated” in the Business Unit Performance table.

Management evaluates results of operations of the business units before retirement expenses, certain corporate level costs, and the effects of certain gains or losses not considered to be related to the core business operations.

Management believes that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption “Other and Unallocated.” In the evaluation of business unit results, management does not use any measures of total assets. This presentation is aligned with the management and operating structure of our company. It is also on this basis that the Company’s performance is evaluated internally and by the Company’s Board of Directors.

- 26 -

GLATFELTER

03.31.18 Form 10-Q

Sales and Costs of Products Sold

| Three months ended | | | |
|---------------------------|-----------|-----------|------------|
| In thousands | March 31 | | |
| | 2018 | 2017 | Change |
| Net sales | \$410,647 | \$390,713 | \$19,934 |
| Energy and related | | | |
| sales, net | 1,428 | 1,129 | 299 |
| Total revenues | 412,075 | 391,842 | 20,233 |
| Costs of products sold | 363,169 | 336,213 | 26,956 |
| Gross profit | \$48,906 | \$55,629 | \$(6,723) |
| Gross profit as a percent | | | |
| of Net sales | 11.9 | % 14.2 | % |

The following table sets forth the contribution to consolidated net sales by each business unit:

| Percent of Total | Three months ended | |
|---------------------------|--------------------|--------|
| | March 31 | |
| Business Unit | 2018 | 2017 |
| | | |
| Composite Fibers | 34.5 % | 32.0 % |
| Advanced Airlaid Material | 17.0 | 15.3 |
| Specialty Papers | 48.5 | 52.7 |
| Total | 100.0% | 100.0% |

Net sales totaled \$410.6 million and \$390.7 million in the first three months of 2018 and 2017, respectively. Foreign currency translation favorably impacted the year-over-year comparison by \$21.8 million. On a constant currency basis, Composite Fibers' net sales were essentially flat and Advanced Airlaid Materials' increased by 7.8%. Specialty Papers' net sales declined 3.1% in the year-over-year comparison reflecting the shutdown of a machine in the third quarter of 2017.

Composite Fibers' net sales increased \$16.5 million, or 13.2% primarily due to a 3.2% increase in shipping volumes, a \$16.7 million favorable impact from currency translation and \$0.3 million from higher selling prices.

Composite Fibers' first quarter of 2018 operating income totaled \$15.3 million, an increase of \$0.9 million compared to the year-ago period. The benefit of higher shipping and production volumes together with efficient material usage partially offset the \$3.5 million unfavorable impact from higher raw material prices. The primary drivers are summarized in the following chart:

Advanced Air laid Materials' net sales increased \$9.8 million, or 16.3% primarily due to a 5.9% increase in shipping volumes, a \$5.1 million favorable impact of currency translation and \$0.7 million from higher selling prices.

Operating income for the first quarter of 2018 totaled \$7.2 million, or 1.8% higher than the comparable period a year ago. Higher selling prices were more than offset by higher input costs and other general cost inflation totaling \$1.2 million. The primary drivers are summarized in the following chart:

Specialty Papers' net sales decreased \$6.3 million, or 3.1%, reflecting the shutdown of a machine in the third quarter of 2017, partially offset by a more favorable mix of products sold.

Specialty Papers' operating income totaled \$2.4 million in the first quarter of 2018, a decrease of \$11.2 million compared with the same period a year ago. Higher raw material and energy prices adversely impacted results by approximately \$5.6 million. Higher freight costs and depreciation expense negatively impacted results by \$1.1 million and \$0.9 million, respectively. In addition, transition costs associated with the machine shutdown, severe weather and water quality issues, partially offset by the benefits of workforce reductions efforts,

- 27 -

GLATFELTER

03.31.18 Form 10-Q

adversely impacted earnings by \$3.4 million. The primary drivers are summarized in the following chart:

We sell excess power generated by the Spring Grove, PA facility. Renewable energy credits (“RECs”) represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste. We sell RECs into an illiquid market. The extent and value of future revenues from REC sales is dependent on many factors outside of management’s control. Therefore, we may not be able to generate consistent additional sales of RECs in future periods. The following table summarizes this activity for the first three months of 2018 and 2017:

| | Three months ended | | |
|--------------------------|--------------------|---------|--------|
| | March 31 | | |
| In thousands | 2018 | 2017 | Change |
| Energy sales | \$1,459 | \$1,006 | \$ 453 |
| Costs to produce | (966) | (1,438) | 472 |
| Net | 493 | (432) | 925 |
| Renewable energy credits | 935 | 1,561 | (626) |
| Total | \$1,428 | \$1,129 | \$ 299 |

Other and Unallocated The amount of net operating expenses not allocated to a business unit and reported as “Other and Unallocated” in our table of Business Unit Performance totaled \$11.6 million in the first three months of 2018 compared with \$14.3 million in the first three months of 2017. The decrease in Other and Unallocated expenses, excluding the impact of gains from timberland sales in 2018, primarily relates to lower legal fees.

Pension Expense The following table summarizes the amounts of pension expense recognized for the periods indicated:

| | Three months ended | | |
|------------------------|--------------------|---------|--------|
| | March 31 | | |
| In thousands | 2018 | 2017 | Change |
| Recorded as: | | | |
| Costs of products sold | \$2,308 | \$2,171 | \$ 137 |
| SG&A expense | 551 | 550 | 1 |
| Non operating expense | (1,080) | (1,398) | 318 |
| Total | \$1,779 | \$1,323 | \$ 456 |

The amount of pension expense recognized each year is dependent on various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets. Pension expense for the full year of 2018 is expected to be approximately \$7.2 million compared with \$6.6 million in 2017.

Gains (losses) on Dispositions of Plant, Equipment and Timberlands During three months ended March 31, 2018 and 2017, we completed the following sales of assets:

| Dollars in thousands | Acres | Proceeds | Gain (loss) |
|----------------------|-------|----------|----------------|
| 2018 | | | |
| Timberlands | 426 | \$ 1,156 | \$ 1,115 |
| Other | n/a | 539 | 439 |
| Total | | \$ 1,695 | \$ 1,554 |
| 2017 | | | |
| Other | n/a | \$ - | \$(32) |
| Total | | \$ - | \$(32) |

Income taxes For the first three months of 2018, we recorded a provision for income taxes of \$2.8 million on pre-tax income of \$8.5 million compared with a \$6.0 million provision on pre-tax income of \$17.6 million in the first quarter of 2017. The effective tax rate in the first quarter of 2018 includes the impact of the 2017 U.S. tax reform. This required us to record a provision for the Global Intangible Low Taxed Income, also known as GILTI, which increased the effective tax rate by approximately 10%. In addition, since we are using U.S. federal tax loss carryforwards there is no impact to cash taxes related to the GILTI provisions. The effective tax rate for 2018 is expected to be approximately 33%.

Foreign Currency We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK, it is the British Pound Sterling, and in the Philippines the functional currency is the Peso. On an annual basis, our euro denominated revenue exceeds euro expenses by an estimated €145 million. For the first three months of 2018, the average currency exchange rate was 1.229 dollar/euro compared with 1.064 in the same period of 2017. With respect to the British Pound Sterling, Canadian dollar, and Philippine Peso, we have differing amounts of inflows and outflows of these currencies, although to a lesser degree than the euro. As a result, we are exposed to changes in currency exchange rates and such changes could be significant. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

- 28 -

GLATFELTER

03.31.18 Form 10-Q

The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operation's results for the first three months of 2018.

| | Three months ended |
|------------------------|--------------------|
| In thousands | March 31, 2018 |
| | Favorable |
| | (unfavorable) |
| Net sales | \$ 21,819 |
| Costs of products sold | (18,667) |
| SG&A expenses | (1,508) |
| Income taxes and other | 7 |
| Net income | \$ 1,651 |

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2018 were the same as 2017. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires significant expenditures for new or enhanced equipment, to support our research and development efforts, for environmental compliance matters including, but not limited to, the Clean Air Act, and to support our business strategy. In addition, we have mandatory debt service requirements of both principal and interest. The following table summarizes cash flow information for each of the periods presented:

| | Three months ended | |
|--|--------------------|-----------|
| | March 31 | |
| In thousands | 2018 | 2017 |
| Cash and cash equivalents at beginning of period | \$ 116,219 | \$ 55,444 |
| Cash provided (used) by | | |
| Operating activities | 7,659 | 7,561 |
| Investing activities | (24,901) | (36,783) |
| Financing activities | 15,842 | 30,479 |
| Effect of exchange rate changes on cash | 2,458 | 526 |
| Net cash provided | 1,058 | 1,783 |
| Cash and cash equivalents at end of period | \$ 117,277 | \$ 57,227 |

Edgar Filing: GLATFELTER P H CO - Form 10-Q

At March 31, 2018, we had \$117.3 million in cash and cash equivalents held by both domestic and foreign subsidiaries. Unremitted earnings of our foreign subsidiaries as of January 1, 2018 and forward are deemed to be indefinitely reinvested and therefore no U.S. tax liability is reflected in the accompanying condensed consolidated financial statements. Substantially all of our cash and cash equivalents is held by our foreign subsidiaries but could be repatriated without incurring a significant amount of additional taxes. In addition to our cash and cash equivalents,

\$20.2 million is available under our revolving credit agreement, which matures in March 2020.

Cash provided by operating activities totaled \$7.7 million in the first three months of 2018 compared with \$7.6 million in the same period a year ago as improved working capital usage offset lower operating profits.

Net cash used by investing activities decreased by \$11.9 million in the year-over-year comparison due to lower capital expenditures primarily driven by the completion of the Specialty Papers environmental compliance project in 2017. Capital expenditures are expected to total between \$67 million and \$72 million for 2018.

Net cash provided by financing activities totaled \$15.8 million in the first three months of 2018 compared with \$30.5 million in the same period of 2017. The decrease in cash provided by financing activities primarily reflects lower borrowings under our credit agreement.

The following table sets forth our outstanding long-term indebtedness:

| In thousands | March 31 2018 | December 31 2017 |
|--|------------------|------------------------|
| Revolving credit facility, due Mar. 2020 | \$196,588 | \$171,200 |
| 5.375% Notes, due Oct. 2020 | 250,000 | 250,000 |
| 2.40% Term Loan, due Jun. 2022 | 7,481 | 7,710 |
| 2.05% Term Loan, due Mar. 2023 | 32,883 | 33,607 |
| 1.30% Term Loan, due Jun. 2023 | 9,241 | 9,423 |
| 1.55% Term Loan, due Sep. 2025 | 11,324 | 11,390 |
| Total long-term debt | 507,517 | 483,330 |
| Less current portion | (11,607) | (11,298) |
| Unamortized deferred issuance costs | (1,779) | (1,934) |
| Long-term debt, net of current portion | \$494,131 | \$470,098 |

Our revolving credit facility contains a number of customary compliance covenants, the most restrictive of which is a maximum leverage ratio of 3.5x. As of March 31, 2018, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 2.8x, within the limits set forth in our credit agreement. Based on our expectations of future results of operations and capital needs, we do not believe the debt covenants will impact our operations or limit our ability to undertake financings that may be necessary to meet our capital needs.

The 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity, or a default under the credit agreement that accelerates the debt outstanding thereunder. As of March 31, 2018, we met all of the requirements of our debt covenants. The significant terms of the debt instruments are more fully discussed in Item 1 - Financial Statements – Note 11.

GLATFELTER

03.31.18 Form 10-Q

Financing activities includes cash used for common stock dividends which increased in the comparison reflecting a 4% increase in our quarterly cash dividend. In the first three months of 2018, we used \$5.7 million of cash for dividends on our common stock compared with \$5.5 million in the same period of 2017. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

We are subject to various federal, state and local laws and regulations intended to protect the environment as well as human health and safety. At various times, we have incurred significant costs to comply with these regulations and we could incur additional costs as new regulations are developed or regulatory priorities change.

As more fully discussed in Item 1 - Financial Statements – Note 15 – Commitments, Contingencies and Legal Proceedings (“Note 15”), we are involved in the Lower Fox River in Wisconsin (the “Fox River”), an EPA Superfund site for which we remain potentially liable for certain response costs and long-term monitoring and maintenance related matters. Based on the recent developments more fully discussed in Note 15, it is conceivable the resolution of this matter may require us to spend in excess of \$26 million in 2018. Although we are unable to determine with any degree of certainty the amount we may be required to spend, the recent developments provide greater clarity to the extent of such amounts.

We expect to meet all of our near and long-term cash needs from a combination of operating cash flow, cash and cash equivalents, our existing credit facility and other long-term debt. However, as discussed in Note 15, an unfavorable outcome of the Fox River matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

Off-Balance-Sheet Arrangements As of March 31, 2018 and December 31, 2017, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries, are reflected in the condensed consolidated balance sheets included herein in Item 1 – Financial Statements.

Outlook Composite Fibers’ shipping volumes in the second quarter of 2018 are expected to be approximately 5% higher than the first quarter with an improved mix. Selling prices are expected to be in-line with the first quarter and raw material and energy prices are expected to increase moderately.

Advanced Airlaid Materials’ shipping volumes in the second quarter of 2018 are expected to be approximately 3%

higher than 2018 first quarter. For the full-year 2018, we anticipate shipping volumes to be 10% to 12% higher than 2017. Selling prices and raw material and energy prices are expected to increase slightly when compared to the first quarter of this year.

Specialty Papers’ shipping volumes in the second quarter are expected to be 5% below the first quarter of 2018 reflecting the annual maintenance outages at both mills. Average selling prices are expected to increase \$30/ton and we expect raw material and energy prices to increase slightly; however, energy consumption is expected to be seasonally lower in the second quarter. The adverse impact of operational challenges related to machine transition

costs, weather and water quality issues totaling approximately \$5 million in the first quarter are not anticipated to impact the second quarter. The Company also plans to complete the annual maintenance outages at its U.S. facilities in the second quarter of 2018, which are expected to adversely impact operating income by approximately \$26 million to \$28 million compared with \$22.9 million in the second quarter of 2017.

Consolidated capital expenditures for the year are expected to be between \$67 million and \$72 million.

The effective tax rate on adjusted earnings is expected to be approximately 33% in 2018 compared with 19% for 2017.

- 30 -

GLATFELTER

03.31.18 Form 10-Q

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

| Dollars in thousands | Year Ended December 31 | | | | | March 31, 2018 | |
|---------------------------------------|------------------------|-----------|-----------|--------|--------|----------------|------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | Carrying Value | Fair Value |
| Long-term debt | | | | | | | |
| Average principal outstanding | | | | | | | |
| At fixed interest rates – Bond | \$250,000 | \$250,000 | \$197,917 | \$— | \$— | \$250,000 | \$253,980 |
| At fixed interest rates – Term Loans | 56,576 | 46,420 | 34,813 | 23,206 | 12,258 | 60,929 | 61,361 |
| At variable interest rates | 196,588 | 196,588 | 40,956 | — | — | 196,588 | 196,588 |
| | | | | | | \$507,517 | \$511,929 |
| Weighted-average interest rate | | | | | | | |
| On fixed rate debt – Bond | 5.375 | % | 5.375 | % | 5.375 | % | — |
| On fixed rate debt – Term Loans | 1.89 | % | 1.87 | % | 1.85 | % | 1.82 |
| On variable rate debt | 3.30 | % | 3.30 | % | 3.30 | % | — |

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of March 31, 2018. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities.

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At March 31, 2018, we had \$505.7 million of long-term debt, net of unamortized debt issuance costs, of which 38.9% was at variable interest rates. Variable-rate debt outstanding represents borrowings under our revolving credit agreement that accrues interest based on LIBOR plus a margin. At March 31, 2018, the interest rate paid was approximately 3.30%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$2.0 million.

As part of our overall risk management practices, we enter into financial derivatives primarily designed to either i) hedge foreign currency risks associated with forecasted transactions – “cash flow hedges”; or ii) mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and foreign currency denominated receivables and payables – “foreign currency hedges.” For a more complete discussion of this activity, refer to Item 1 – Financial Statements – Note 14.

We are subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. Dollar. On an annual basis, our euro denominated revenue exceeds euro expenses by an estimated €145 million. With respect to the British Pound Sterling, Canadian dollar, and Philippine Peso, we have differing amounts of inflows and outflows of these currencies, although to a lesser degree than the euro. As a result, particularly with respect to the euro, we are exposed to changes in currency exchange rates and such changes could be significant.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Our chief executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e))

and 15d-15(e)) as of March 31, 2018, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Changes in Internal Controls There were no changes in our internal control over financial reporting during the three months ended March 31, 2018, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

- 31 -

GLATFELTER

03.31.18 Form 10-Q

PART II

ITEM 6. EXHIBITS

The following exhibits are filed herewith or incorporated by reference as indicated.

- 10.1 Form of Performance Share Award Certificate (form effective February 22, 2018), filed herewith
- 31.1 Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002, filed herewith
- 31.2 Certification of John P. Jacunski, Executive Vice President and Chief Financial Officer, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002, filed herewith
- 32.1 Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, furnished herewith
- 32.2 Certification of John P. Jacunski, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, furnished herewith
- 101.INS XBRL Instance Document, filed herewith
- 101.SCH XBRL Taxonomy Extension Schema, filed herewith
- 101.CAL XBRL Extension Calculation Linkbase, filed herewith
- 101.DEF XBRL Extension Definition Linkbase, filed herewith
- 101.LAB XBRL Extension Label Linkbase, filed herewith
- 101.PRE XBRL Extension Presentation Linkbase, filed herewith

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.

P. H. GLATFELTER
COMPANY

(Registrant)

May 1, 2018

By /s/ David C. Elder
David C. Elder
Vice President, Finance

- 32 -

GLATFELTER

03.31.18 Form 10-Q