

GLATFELTER P H CO
Form 10-Q
July 31, 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 June 30, 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 July 25, 2018 totaled 43,779,112 shares.

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

REPORT ON FORM 10-Q

For the QUARTERLY PERIOD ENDED

June 30, 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 and six months</u>	
	<u>ended June 30, 2018 and 2017</u>	
	<u>(unaudited)</u>	2
	<u>Condensed Consolidated</u>	
	<u>Statements of Comprehensive</u>	
	<u>Income for the three months and</u>	
	<u>six months ended June 30, 2018</u>	
	<u>and 2017 (unaudited)</u>	3
	<u>Condensed Consolidated</u>	
	<u>Balance Sheets as of June 30,</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 six months ended June 30,</u>	
	<u>2018 and 2017 (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>Proposed</u>	
	<u>Acquisition</u>	7
	4. <u>Revenue</u>	8
	5. <u>Gain on</u>	8
	<u>Disposition of</u>	

	<u>Plant, Equipment and Timberlands</u>	
6.	<u>Earnings Per Share</u>	9
7.	<u>Accumulated Other Comprehensive Income</u>	10
8.	<u>Income Taxes</u>	12
9.	<u>Stock-based Compensation</u>	13
10.	<u>Retirement Plans and Other Post- Retirement Benefits</u>	14
11.	<u>Inventories Capitalized</u>	14
12.	<u>Interest</u>	14
13.	<u>Long-term Debt</u>	14
14.	<u>Fair Value of Financial Instruments</u>	16
15.	<u>Financial Derivatives and Hedging Activities</u>	16
16.	<u>Commitments, Contingencies and Legal Proceedings</u>	17
17.	<u>Segment Information</u>	21
18.	<u>Condensed Consolidating Financial Statements</u>	22
Item 2	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risks</u>	37
Item 4	<u>Controls and Procedures</u>	37
	<u>PART II – OTHER INFORMATION</u>	38

Item 6 <u>Exhibits</u>	38
<u>SIGNATURES</u>	38

PART I

Item 1 – Financial Statements

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

In thousands, except per share	Three months ended		Six months ended	
	June 30 2018	2017	June 30 2018	2017
Net sales	\$405,773	\$387,342	\$816,420	\$778,055
Energy and related sales, net	944	981	2,372	2,110
Total revenues	406,717	388,323	818,792	780,165
Costs of products sold	385,114	358,588	748,283	694,801
Gross profit	21,603	29,735	70,509	85,364
Selling, general and administrative expenses	31,561	31,545	68,624	66,422
Gains on dispositions of plant, equipment and timberlands, net	(579)	(58)	(2,133)	(26)
Operating income (loss)	(9,379)	(1,752)	4,018	18,968
Non-operating income (expense)				
Interest expense	(5,814)	(4,476)	(11,009)	(8,484)
Interest income	26	45	80	158
Other, net	(257)	98	(28)	910
Total non-operating expense	(6,045)	(4,333)	(10,957)	(7,416)
Income (loss) before income taxes	(15,424)	(6,085)	(6,939)	11,552
Income tax provision (benefit)	(8,025)	(371)	(5,256)	5,663
Net income (loss)	\$(7,399)	\$(5,714)	\$(1,683)	\$5,889
Earnings (loss) per share				
Basic	\$(0.17)	\$(0.13)	\$(0.04)	\$0.14
Diluted	(0.17)	(0.13)	(0.04)	0.13
Cash dividends declared per common share	\$0.13	\$0.13	\$0.26	\$0.26
Weighted average shares outstanding				
Basic	43,770	43,604	43,735	43,593
Diluted	43,770	43,604	43,735	44,449

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

GLATFELTER

06.30.18 Form 10-Q

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
In thousands	2018	2017	2018	2017
Net income (loss)	\$(7,399)	\$(5,714)	\$(1,683)	\$5,889
Foreign currency translation adjustments	(33,223)	27,504	(20,476)	33,569
Net change in:				
Deferred losses on cash flow hedges, net of taxes of \$(1,719), \$1,632, \$(1,632) and \$1,920, respectively	4,549	(3,651)	2,747	(4,597)
Unrecognized retirement obligations, net of taxes of \$(965), \$(1,430), \$(1,942) and \$(2,678), respectively	3,021	2,479	6,096	4,553
Other comprehensive income (loss)	(25,653)	26,332	(11,633)	33,525
Comprehensive income (loss)	\$(33,052)	\$20,618	\$(13,316)	\$39,414

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

- 3 -

GLATFELTER

06.30.18 Form 10-Q

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30	December 31
In thousands	2018	2017
Assets		
Cash and cash equivalents	\$ 107,189	\$ 116,219
Accounts receivable, net	188,099	174,154
Inventories	270,995	252,064
Prepaid expenses and other current assets	38,042	42,534
Total current assets	604,325	584,971
Plant, equipment and timberlands, net	844,467	865,743
Goodwill	80,450	82,744
Intangible assets, net	54,752	58,859
Other assets	153,103	138,478
Total assets	\$ 1,737,097	\$ 1,730,795
Liabilities and Shareholders' Equity		
Current portion of long-term debt	\$ 10,982	\$ 11,298
Accounts payable	193,138	190,478
Dividends payable	5,696	5,678
Environmental liabilities	26,000	28,500
Other current liabilities	101,059	111,222
Total current liabilities	336,875	347,176
Long-term debt	510,177	470,098
Deferred income taxes	76,064	83,571
Other long-term liabilities	127,029	121,022
Total liabilities	1,050,145	1,021,867
Commitments and contingencies	—	—
Shareholders' equity		
Common stock	544	544
Capital in excess of par value	62,827	62,594
Retained earnings	957,643	948,411
Accumulated other comprehensive loss	(174,606)	(140,675)
	846,408	870,874
Less cost of common stock in treasury	(159,456)	(161,946)
Total shareholders' equity	686,952	708,928
Total liabilities and shareholders' equity	\$ 1,737,097	\$ 1,730,795

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

- 4 -

GLATFELTER

06.30.18 Form 10-Q

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six months ended	
	June 30	
In thousands	2018	2017
Operating activities		
Net income (loss)	\$(1,683)	\$5,889
Adjustments to reconcile to net cash provided by operations:		
Depreciation, depletion and amortization	39,511	34,967
Amortization of debt issue costs and original issue discount	580	578
Pension expense, net of unfunded benefits paid	2,788	2,512
Deferred income tax benefit (provision)	(12,268)	1,824
Gains on dispositions of plant, equipment and timberlands, net	(2,133)	(26)
Share-based compensation	3,830	2,956
Change in operating assets and liabilities		
Accounts receivable	(16,606)	(12,511)
Inventories	(23,352)	(4,750)
Prepaid and other current assets	(506)	(1,711)
Accounts payable	14,679	7,044
Accruals and other current liabilities	(3,799)	(6,399)
Other	(1,003)	(1,609)
Net cash provided by operating activities	38	28,764
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	(36,944)	(71,047)
Proceeds from disposals of plant, equipment and timberlands, net	2,384	83
Other	(68)	—
Net cash used by investing activities	(34,628)	(70,964)
Financing activities		
Net borrowings under revolving credit facility	46,660	68,236
Repayment of term loans	(5,647)	(4,528)
Payments of dividends	(11,368)	(11,130)
Proceeds from government grants	125	—
Payments related to share-based compensation awards and other	(980)	(112)
Net cash provided by financing activities	28,790	52,466
Effect of exchange rate changes on cash	(3,230)	3,732
Net increase (decrease) in cash and cash equivalents	(9,030)	13,998
Cash and cash equivalents at the beginning of period	116,219	55,444
Cash and cash equivalents at the end of period	\$107,189	\$69,442
Supplemental cash flow information		
Cash paid for:		

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

Interest, net of amounts capitalized	\$10,349	\$7,810
Income taxes, net	6,804	4,193

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

- 5 -

GLATFELTER

06.30.18 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 second quarter of 2017 was increased by \$0.7 million and Selling, general and administrative expenses were reduced by \$0.4 million and the offsetting net reclassification reduced Non-operating expense by \$0.3 million. The comparable amounts for the first six months of 2017 were \$2.0 million, \$0.7 million and \$1.3 million, respectively.

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 4 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

06.30.18 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. The adoption of this standard is not expected to have an impact on our results of operations.

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. PROPOSED ACQUISITION

On June 19, 2018, we signed a definitive agreement to purchase Georgia-Pacific’s European nonwovens business (the “GP Business”) for \$185 million, subject to customary purchase price adjustments. The proposed transaction is subject to customary closing conditions, including receipt of required regulatory approvals.

The proposed transaction includes Georgia-Pacific’s operations located in Steinfurt, Germany, along with sales offices located in France and Italy. The Steinfurt facility produces high-quality airlaid products for the table-top, wipes, hygiene, food pad, and other nonwoven materials markets, competing in the marketplace with nonwoven technologies and substrates, as well as other materials focused primarily on consumer based end-use applications. The facility is a state-of-the-art, 32,000-metric-ton-capacity manufacturing facility that employs approximately 220 people.

In 2017, the GP Business had net sales of \$99 million. The acquisition is expected to close in the fourth quarter of 2018 and we plan to finance the transaction through a combination of cash on hand and borrowings under our revolving credit facility.

- 7 -

GLATFELTER

06.30.18 Form 10-Q

4. REVENUE

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

In thousands	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
Composite Fibers				
Food & beverage	\$70,186	\$65,434	\$140,583	\$128,036
Wallcovering	27,789	26,173	55,921	48,628
Technical specialties	21,609	17,676	42,567	35,383
Composite laminates	8,960	9,255	18,358	18,094
Metallized	14,390	14,599	27,102	28,100
	142,934	133,137	284,531	258,241
Advanced Airlaid Materials				
Feminine hygiene	46,937	44,503	95,410	86,927
Specialty wipes	10,495	6,992	18,262	13,042
Adult incontinence	5,190	3,220	9,622	6,864
Home care	3,875	3,169	7,902	5,927
Other	6,311	4,952	11,224	9,914
	72,808	62,836	142,420	122,674
Specialty Papers				
Carbonless & forms	69,743	70,976	141,613	148,048
Engineered products	51,697	47,113	101,648	95,275
Envelope & converting	36,051	36,765	73,956	79,622
Book publishing	31,963	36,111	70,521	73,284
Other	577	403	1,731	911
	190,031	191,368	389,469	397,140
TOTAL	\$405,773	\$387,342	\$816,420	\$778,055

In thousands	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
Composite Fibers				
Europe, Middle East and Africa	\$91,790	\$84,041	\$186,572	\$167,588
Americas	28,992	27,477	53,040	50,536
Asia Pacific	22,152	21,619	44,919	40,117
	142,934	133,137	284,531	258,241
Advanced Airlaid Materials				
Europe, Middle East and Africa	35,905	32,404	72,133	62,133
Americas	36,310	30,011	69,128	59,932
Asia Pacific	593	421	1,159	609

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

	72,808	62,836	142,420	122,674
Specialty Papers				
Americas	188,505	190,546	386,333	395,321
Other	1,526	822	3,136	1,819
	190,031	191,368	389,469	397,140
TOTAL				
	\$405,773	\$387,342	\$816,420	\$778,055

5. GAINS ON DISPOSITION OF PLANT, EQUIPMENT AND TIMBERLANDS

During the first six months of 2018 and 2017 we completed the following sales of assets:

Dollars in thousands	Acres	Proceeds	Gain (loss)
2018			
Timberlands	1,029	\$ 1,785	\$1,680
Other	n/a	599	453
Total		\$ 2,384	\$2,133
2017			
Timberlands	46	\$ 75	\$74
Other	n/a	8	(48)
Total		\$ 83	\$26

- 8 -

GLATFELTER

06.30.18 Form 10-Q

6. EARNINGS PER SHARE

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

	Three months ended	
	June 30	
In thousands, except per share	2018	2017
Net loss	\$(7,399)	\$(5,714)
Weighted average common shares outstanding used in basic EPS	43,770	43,604
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	—	—
Weighted average common shares outstanding and common share equivalents used in diluted EPS	43,770	43,604
Loss per share		
Basic	\$(0.17)	\$(0.13)
Diluted	(0.17)	(0.13)

	Six months ended	
	June 30	
In thousands, except per share	2018	2017
Net income (loss)	\$(1,683)	\$5,889
Weighted average common shares outstanding used in basic EPS	43,735	43,593
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	—	856
Weighted average common shares outstanding and common share equivalents used in diluted EPS	43,735	44,449
Earnings (loss) per share		
Basic	\$(0.04)	\$0.14
Diluted	(0.04)	0.13

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:

June 30

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

In thousands	2018	2017
Three months ended	2,393	1,327
Six months ended	2,393	591

- 9 -

GLATFELTER

06.30.18 Form 10-Q

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months and six months ended June 30, 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 April 1, 2018	(29,092)	(5,894)	(118,428)	4,461	(148,953)
Other comprehensive income (loss) before reclassifications (net of tax)	(33,223)	3,368	—	—	(29,855)
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	1,181	3,261	(240)	4,202
Net current period other comprehensive income (loss)	(33,223)	4,549	3,261	(240)	(25,653)
Balance at June 30, 2018	\$ (62,315)	\$ (1,345)	\$ (115,167)	\$ 4,221	\$ (174,606)
Balance at April 1, 2017	\$ (94,383)	\$ 554	\$ (108,466)	\$ 4,882	\$ (197,413)
Other comprehensive income (loss) before reclassifications (net of tax)	27,504	(3,080)	—	(106)	24,318
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	(571)	2,642	(57)	2,014
Net current period other comprehensive income (loss)	27,504	(3,651)	2,642	(163)	26,332
Balance at June 30, 2017	\$ (66,879)	\$ (3,097)	\$ (105,824)	\$ 4,719	\$ (171,081)

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 (loss) before reclassifications (net of tax)	(20,476)	151	—	—	(20,325)
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	2,596	6,425	(329)	8,692
Net current period other comprehensive income (loss)	(20,476)	2,747	6,425	(329)	(11,633)

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

Balance at June 30, 2018	\$ (62,315)	\$ (1,345)	\$ (115,167)	\$ 4,221	\$ (174,606)
Balance at January 1, 2017	\$ (100,448)	\$ 1,500	\$ (110,656)	\$ 4,998	\$ (204,606)
Other comprehensive income (loss) before reclassifications (net of tax)	33,569	(3,335)	—	(106)	30,128
Amounts reclassified from accumulated					
other comprehensive income (net of tax)	—	(1,262)	4,832	(173)	3,397
Net current period other comprehensive income (loss)	33,569	(4,597)	4,832	(279)	33,525
Balance at June 30, 2017	\$ (66,879)	\$ (3,097)	\$ (105,824)	\$ 4,719	\$ (171,081)

- 10 -

GLATFELTER

06.30.18 Form 10-Q

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

In thousands Description	Three months ended June 30		Six months ended June 30		Line Item in Statements of Income
	2018	2017	2018	2017	
Cash flow hedges (Note 13)					
(Gains) losses on cash flow hedges	\$ 1,636	\$(785)	\$3,595	\$(1,716)	Costs of products sold
Tax expense (benefit)	(455)	214	(999)	454	Income tax provision (benefit)
Net of tax	1,181	(571)	2,596	(1,262)	
Retirement plan obligations (Note 8)					
Amortization of deferred benefit pension plans					
Prior service costs	781	708	1,561	1,412	Other, net
Actuarial losses	3,523	3,311	6,913	6,133	Other, net
	4,304	4,019	8,474	7,545	
Tax benefit	(1,043)	(1,377)	(2,049)	(2,713)	Income tax provision (benefit)
Net of tax	3,261	2,642	6,425	4,832	
Amortization of deferred benefit other plans					
Prior service costs	(46)	(46)	(91)	(91)	Other, net
Actuarial gains	(272)	(46)	(345)	(189)	Other, net
	(318)	(92)	(436)	(280)	
Tax expense	78	35	107	107	Income tax provision (benefit)
Net of tax	(240)	(57)	(329)	(173)	
Total reclassifications, net of tax	\$4,202	\$2,014	\$8,692	\$3,397	

- 11 -

GLATFELTER

06.30.18 Form 10-Q

8. INCOME TAXES

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 June 30, 2018. The TCJA includes a one-time mandatory repatriation transition tax on the net accumulated earnings and profits of a U.S. taxpayer’s foreign subsidiaries. We performed preliminary earnings and profit analysis which enabled us to make reasonable estimates of the effects and therefore, recorded provisional estimates for these items. A final determination of the TCJA’s impact remains incomplete pending a full analysis of the provisions and their final interpretation.

During early 2018, the Internal Revenue Service issued additional guidance affecting the computation of our 2017 federal income tax liability. 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 six months ended June 30, 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 June 30, 2018 and December 31, 2017, we had \$28.2 million and \$26.9 million, respectively, of gross unrecognized tax benefits. As of June 30, 2018, if such benefits were to be recognized, approximately \$18.0 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

- 12 -

GLATFELTER

06.30.18 Form 10-Q

by a range of zero to \$4.7 million. Substantially all of this range relates to tax positions taken in Germany and the U.S.

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:

	Six months ended	
	June 30	
In millions	2018	2017
Interest expense (income)	\$0.2	\$0.3
Penalties	—	—

	June 30 2018	December 31 2017
Accrued interest payable	\$ 1.0	\$ 0.8

9.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. In addition, beginning in 2018, PSA awards include a modifier based on our three-year total shareholder return (“TSR”) relative to the TSR of the S&P SmallCap 600 Index. 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, the number of shares earned may be further increased or decreased based on our TSR relative to the S&P SmallCap 600 Index.

For RSUs, the grant date fair value of the awards, which is equal to 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.

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

Units	2018	2017
Balance at January 1,	929,386	679,038
Granted	389,065	364,748
Forfeited	(70,891)	(91,449)
Shares delivered	(150,020)	(24,052)
Balance at June 30,	1,097,540	928,285

The amount granted in 2018 and 2017 includes 183,355 and 163,274, respectively, of PSAs exclusive of reinvested dividends.

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

In thousands	June 30	
	2018	2017
Three months ended	\$1,651	\$1,049
Six months ended	3,455	2,088

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 six months of 2018 or 2017.

The following table sets forth information related to outstanding SOSARS for the six months ended June 30;

SOSARS	2018		2017	
	Shares	Wtd Avg Price	Shares	Wtd Avg Price
Outstanding at January 1,	2,561,846	\$ 17.87	2,736,616	\$ 17.64
Granted	—	—	—	—
Exercised	(148,145)	13.26	(33,050)	14.65
Canceled / forfeited	(20,994)	18.76	(17,630)	18.46
Outstanding at June 30,	2,392,707	\$ 18.15	2,685,936	\$ 17.67

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

In thousands	June 30	
	2018	2017
Three months ended	\$70	\$259
Six months ended	249	868

- 13 -

GLATFELTER

06.30.18 Form 10-Q

10. 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.

In thousands	Three months ended	
	June 30 2018	2017
Pension Benefits		
Service cost	\$2,747	\$2,649
Interest cost	5,626	5,989
Expected return on plan assets	(10,722)	(10,666)
Amortization of prior service		
cost	781	708
Amortization of unrecognized		
loss	3,523	3,311
Total net periodic benefit cost	\$1,955	\$1,991
Other Benefits		
Service cost	\$238	\$284
Interest cost	410	513
Amortization of prior		
service credit	(46)	(46)
Amortization of		
actuarial gain	(272)	(46)
Total net periodic		
benefit cost	\$330	\$705

In thousands	Six months ended	
	June 30 2018	2017
Pension Benefits		
Service cost	\$5,606	\$5,370
Interest cost	11,215	11,896
Expected return on plan assets	(21,561)	(21,497)
Amortization of prior service		
cost	1,561	1,412
Amortization of unrecognized	6,913	6,133

loss		
Total net periodic benefit cost	\$3,734	\$3,314
Other Benefits		
Service cost	\$545	\$579
Interest cost	861	998
Amortization of prior		
service credit	(91)	(91)
Amortization of		
actuarial gain	(345)	(189)
Total net periodic		
benefit cost	\$970	\$1,297

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”.

11. INVENTORIES

Inventories, net of reserves, were as follows:

	June 30	December
In thousands	2018	2017
Raw materials	\$65,426	\$60,806
In-process and finished	127,311	116,678
Supplies	78,258	74,580
Total	\$270,995	\$252,064

12. CAPITALIZED INTEREST

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

	Three months	Six months
	ended	ended

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

In thousands	June 30		June 30	
	2018	2017	2018	2017
Interest cost incurred	\$5,814	\$4,880	\$11,405	\$9,477
Interest capitalized	-	404	396	993
Interest expense	\$5,814	\$4,476	\$11,009	\$8,484

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.

13. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	June 30	December
	2018	31 2017
Revolving credit facility, due Mar. 2020	\$217,860	\$171,200
5.375% Notes, due Oct. 2020	250,000	250,000
2.40% Term Loan, due Jun. 2022	6,661	7,710
2.05% Term Loan, due Mar. 2023	29,556	33,607
1.30% Term Loan, due Jun. 2023	8,327	9,423
1.55% Term Loan, due Sep. 2025	10,356	11,390
Total long-term debt	522,760	483,330
Less current portion	(10,982)	(11,298)
Unamortized deferred issuance costs	(1,601)	(1,934)
Long-term debt, net of current portion	\$510,177	\$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

- 14 -

GLATFELTER

06.30.18 Form 10-Q

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, 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.

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 June 30, 2018, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 3.1x. 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 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 June 30, 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 June 30, 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.

- 15 -

GLATFELTER

06.30.18 Form 10-Q

14. 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	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable rate debt	\$217,860	\$217,860	\$171,200	\$171,200
Fixed-rate bonds	250,000	252,375	250,000	253,823
2.40% Term loan	6,661	6,813	7,710	7,889
2.05% Term loan	29,556	30,032	33,607	34,122
1.30% Term Loan	8,327	8,302	9,423	9,370
1.55% Term loan	10,356	10,323	11,390	11,320
Total	\$522,760	\$525,705	\$483,330	\$487,724

As of June 30, 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 15.

15. 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 June 30, 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	June 30 2018	December 31 2017
Derivative		
Sell/Buy - sell notional		
Philippine Peso / British Pound	—	19,047
Euro / British Pound	12,230	13,586
Euro / U.S. Dollar	—	1,048
U.S. Dollar / Euro	349	946
Sell/Buy - buy notional		
Euro / Philippine Peso	1,031,730	890,096
British Pound / Philippine Peso	767,306	797,496
U.S. Dollar / Euro	1,310	4,253
Euro / U.S. Dollar	68,673	60,519
U.S. Dollar / Canadian Dollar	32,280	32,265
British Pound / Euro	—	335

Derivatives Not Designated as Hedging Instruments - Foreign Currency Hedges We also entered 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."

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

In thousands	June 30 2018	December 31 2017
Derivative		
Sell/Buy - sell notional		
U.S. Dollar / British Pound	22,500	17,500
British Pound / Euro	1,000	1,000
Canadian / U.S. dollar	2,500	-
Sell/Buy - buy notional		
Euro / U.S. Dollar	6,000	4,500
British Pound / Euro	9,000	13,000

- 16 -

GLATFELTER

06.30.18 Form 10-Q

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:

In thousands	June 30 2018		June 30 2017	
	Prepaid Expenses	and Other Current Assets	Other Current Liabilities	
Designated as hedging:				
Forward foreign currency exchange contracts	\$1,085	\$ 1,066	\$1,419	\$ 4,787
Not designated as hedging:				
Forward foreign currency exchange contracts	\$351	\$ 151	\$422	\$ 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:

In thousands	Three months ended		Six months ended	
	June 30 2018	June 30 2017	June 30 2018	June 30 2017
Designated as hedging:				
Forward foreign currency exchange contracts:				
Effective portion – cost of products sold	\$(1,636)	\$785	\$(3,595)	\$1,716
Ineffective portion – other – net	110	36	(212)	86
Not designated as hedging:				
Forward foreign currency exchange contracts:				
Other – net	\$(898)	\$370	\$(601)	\$391

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	288	(4,801)
Reclassified to earnings	3,595	(1,716)
Balance at June 30,	\$(1,757)	\$(4,635)

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.

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.

16. 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”).

- 17 -

GLATFELTER

06.30.18 Form 10-Q

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.

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 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

- 18 -

GLATFELTER

06.30.18 Form 10-Q

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 working during 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. The Governments moved for reconsideration. On July 13, 2018, the district court denied that motion, holding that the United States' right to recover should be reduced by (a) the amount by which the \$105 million of settlement payments accounted as a recovery of NRDs exceeded the actual NRDs and (b) the amounts held as a balance by the State that the State has not subsequently spent. Both of those would be the subject of a trial. The Governments have requested permission to appeal that determination. 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 offset, an amount likely to exceed all of the Governments' past and future costs of response. 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 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.

We and WTM I executed documents for the withdrawal of WTM I from the entity we jointly formed for the performance of the OU1 work and for the release of all claims between us related to the Site, which was approved by the court overseeing WTM I’s bankruptcy in May 2018. As a result of this action, we assumed WTM I’s portion of the OU1

- 19 -

GLATFELTER

06.30.18 Form 10-Q

escrow account totaling approximately \$4.7 million, which is included under the caption “Other assets” on the condensed consolidated balance sheet at June 30, 2018 and have increased our reserve for Fox River by an equal amount for potential liabilities associated with the river that we believe may ultimately be satisfied with funds from the escrow account.

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

In thousands	Six months ended	
	June 30	
	2018	2017
Balance at January 1,	\$43,144	\$52,788
Payments	(2,708)	(128)
Assumption of WTM I escrow	4,746	-
Accretion	66	-
Balance at June 30,	\$45,248	\$52,660

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 \$19.2 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.

- 20 -

GLATFELTER

06.30.18 Form 10-Q

17. SEGMENT INFORMATION

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

Three months ended June 30	Advanced Airlaid						Other and		Total	
	Composite Fibers		Materials		Specialty Papers		Unallocated			
	2018	2017	2018	2017	2018	2017	2018	2017		
Dollars in millions										
Net sales	\$142.9	\$133.1	\$72.8	\$62.8	\$190.0	\$191.4	\$—	\$—	\$405.8	\$387.3
Energy and related sales, net	—	—	—	—	0.9	1.0	—	—	0.9	1.0
Total revenue	142.9	133.1	72.8	62.8	190.9	192.4	—	—	406.7	388.3
Cost of products sold	118.0	107.6	62.8	53.0	200.6	195.6	3.7	2.4	385.1	358.6
Gross profit (loss)	24.9	25.5	10.0	9.8	(9.7)	(3.2)	(3.7)	(2.4)	21.6	29.7
SG&A	11.7	10.8	2.4	2.3	11.2	10.3	6.3	8.1	31.6	31.5
(Gains) losses on dispositions of plant, equipment and timberlands, net	—	—	—	—	—	—	(0.6)	—	(0.6)	—
Total operating income (loss)	13.2	14.7	7.6	7.5	(20.9)	(13.5)	(9.4)	(10.5)	(9.4)	(1.8)
Non-operating expense	—	—	—	—	—	—	(6.0)	(4.3)	(6.0)	(4.3)
Income (loss) before income taxes	\$13.2	\$14.7	\$7.6	\$7.5	\$(20.9)	\$(13.5)	\$(15.4)	\$(14.8)	\$(15.4)	\$(6.1)
Supplementary Data										
Net tons sold (thousands)	40.4	41.9	27.0	25.5	173.2	184.1	—	—	240.6	251.5
Depreciation, depletion and amortization	\$7.2	\$7.0	\$3.5	\$2.3	\$8.2	\$7.7	\$1.2	\$0.7	\$20.1	\$17.7
Capital expenditures	2.8	2.1	2.5	12.9	4.5	15.8	0.6	3.5	10.4	34.3

Six months ended June 30	Advanced Airlaid						Other and		Total	
	Composite Fibers		Materials		Specialty Papers		Unallocated			
	2018	2017	2018	2017	2018	2017	2018	2017		
Dollars in millions										
Net sales	\$284.5	\$258.2	\$142.4	\$122.7	\$389.5	\$397.1	\$—	\$—	\$816.4	\$778.1
Energy and related sales, net	—	—	—	—	2.4	2.1	—	—	2.4	2.1
Total revenue	284.5	258.2	142.4	122.7	391.9	399.2	—	—	818.8	780.2
Cost of products sold	232.7	207.2	122.5	103.5	387.1	375.6	6.0	8.5	748.3	694.8
Gross profit (loss)	51.8	51.0	19.9	19.2	4.8	23.6	(6.0)	(8.5)	70.5	85.4
SG&A	23.3	21.9	5.1	4.6	23.3	23.6	16.9	16.3	68.6	66.4
(Gains) losses on dispositions of plant, equipment and timberlands, net	—	—	—	—	—	—	(2.1)	—	(2.1)	—

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

Total operating income (loss)	28.5	29.1	14.8	14.6	(18.5)	---	(20.8)	(24.7)	4.0	19.0
Non-operating expense	—	—	—	—	—	—	(11.0)	(7.4)	(11.0)	(7.4)
Income (loss) before income taxes	\$28.5	\$29.1	\$14.8	\$14.6	\$(18.5)	\$—	\$(31.8)	\$(32.1)	\$(6.9)	\$11.6
Supplementary Data										
Net tons sold (thousands)	80.5	80.7	53.3	50.3	361.6	381.4	—	—	495.4	512.4
Depreciation, depletion and										
amortization	\$14.6	\$13.8	\$6.3	\$4.6	\$16.3	\$14.9	\$2.3	\$1.7	\$39.5	\$35.0
Capital expenditures	7.9	6.8	15.6	23.5	11.0	34.0	2.4	6.7	36.9	71.0

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.

- 21 -

GLATFELTER

06.30.18 Form 10-Q

18. 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 six months ended June 30, 2018 and 2017, our condensed consolidating balance sheets as of June 30, 2018 and December 31, 2017, and our condensed consolidating cash flows for the six months ended June 30, 2018 and 2017.

Condensed Consolidating Statement of Income for the three months ended June 30, 2018

	Parent		Non		Adjustments/	
In thousands	Company	Guarantors	Guarantors	Eliminations	Consolidated	
Net sales	\$ 190,032	\$ 32,319	\$ 208,579	\$ (25,157)	\$ 405,773	
Energy and related sales, net	944	—	—	—	944	
Total revenues	190,976	32,319	208,579	(25,157)	406,717	
Costs of products sold	203,339	31,097	175,835	(25,157)	385,114	
Gross profit (loss)	(12,363)	1,222	32,744	—	21,603	
Selling, general and administrative expenses	16,971	(332)	14,922	—	31,561	
(Gain) loss on dispositions of plant equipment and timberlands, net	(22)	(565)	8	—	(579)	
Operating income (loss)	(29,312)	2,119	17,814	—	(9,379)	
Other non-operating income (expense)						
Interest expense	(6,389)	(585)	(446)	1,606	(5,814)	
Interest income	133	1,446	53	(1,606)	26	
Equity in earnings of subsidiaries	14,971	12,707	—	(27,678)	—	
Other, net	1,532	529	(2,318)	—	(257)	
Total other non-operating income (expense)	10,247	14,097	(2,711)	(27,678)	(6,045)	
Income (loss) before income taxes	(19,065)	16,216	15,103	(27,678)	(15,424)	
Income tax provision (benefit)	(11,666)	1,267	2,374	—	(8,025)	
Net income (loss)	(7,399)	14,949	12,729	(27,678)	(7,399)	
Other comprehensive income (loss)	(25,653)	(28,587)	(28,149)	56,736	(25,653)	
Comprehensive income (loss)	\$ (33,052)	\$ (13,638)	\$ (15,420)	\$ 29,058	\$ (33,052)	

- 22 -

GLATFELTER

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

Condensed Consolidating Statement of Income for the six months ended June 30, 2018

In thousands	Parent		Non	Adjustments/	
	Company	Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$ 389,471	\$ 52,332	\$ 424,714	\$ (50,097)	\$ 816,420
Energy and related sales, net	2,372	—	—	—	2,372
Total revenues	391,843	52,332	424,714	(50,097)	818,792
Costs of products sold	394,504	49,362	354,514	(50,097)	748,283
Gross profit (loss)	(2,661)	2,970	70,200	—	70,509
Selling, general and administrative expenses	37,408	1,673	29,543	—	68,624
(Gain) loss on dispositions of plant equipment and timberlands, net	(460)	(1,680)	7	—	(2,133)
Operating income (loss)	(39,609)	2,977	40,650	—	4,018
Other non-operating income (expense)					
Interest expense	(12,071)	(1,040)	(874)	2,976	(11,009)
Interest income	279	2,690	87	(2,976)	80
Equity in earnings of subsidiaries	36,204	34,962	—	(71,166)	
Other, net	(881)	(2,734)	3,587	—	(28)
Total other non-operating income (expense)	23,531	33,878	2,800	(71,166)	(10,957)
Income (loss) before income taxes	(16,078)	36,855	43,450	(71,166)	(6,939)
Income tax provision (benefit)	(14,395)	673	8,466	—	(5,256)
Net income (loss)	(1,683)	36,182	34,984	(71,166)	(1,683)
Other comprehensive income (loss)	(11,633)	(17,551)	(16,114)	33,665	(11,633)
Comprehensive income (loss)	\$ (13,316)	\$ 18,631	\$ 18,870	\$ (37,501)	\$ (13,316)

Condensed Consolidating Statement of Income for the three months ended June 30, 2017

In thousands	Parent		Non	Adjustments/	
	Company	Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$ 191,370	\$ 23,052	\$ 194,708	\$ (21,788)	\$ 387,342
Energy and related sales, net	981	—	—	—	981
Total revenues	192,351	23,052	194,708	(21,788)	388,323
Costs of products sold	196,145	22,047	162,184	(21,788)	358,588
Gross profit	(3,794)	1,005	32,524	—	29,735
Selling, general and administrative expenses	16,421	236	14,888	—	31,545
(Gain) loss on dispositions of plant equipment and timberlands, net	16	(74)	—	—	(58)
Operating income (loss)	(20,231)	843	17,636	—	(1,752)
Other non-operating income (expense)					

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

Interest expense	(5,182)	(206)	(437)	1,349	(4,476)
Interest income	142	1,237	15	(1,349)	45
Equity in earnings of subsidiaries	18,801	19,249	—	(38,050)	
Other, net	781	(2,319)	1,636	—	98
Total other non-operating					
income (expense)	14,542	17,961	1,214	(38,050)	(4,333)
Income (loss) before income taxes	(5,689)	18,804	18,850	(38,050)	(6,085)
Income tax provision (benefit)	25	3	(399)	—	(371)
Net income (loss)	(5,714)	18,801	19,249	(38,050)	(5,714)
Other comprehensive income	26,332	23,964	23,371	(47,335)	26,332
Comprehensive income	\$20,618	\$ 42,765	\$ 42,620	\$ (85,385)	\$ 20,618

- 23 -

GLATFELTER

06.30.18 Form 10-Q

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

Condensed Consolidating Statement of Income for the six months ended June 30, 2017

In thousands	Parent		Non	Adjustments/	
	Company	Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$397,141	\$ 42,585	\$ 380,595	\$ (42,266)	\$ 778,055
Energy and related sales, net	2,110	—	—	—	2,110
Total revenues	399,251	42,585	380,595	(42,266)	780,165
Costs of products sold	381,391	40,633	315,043	(42,266)	694,801
Gross profit	17,860	1,952	65,552	—	85,364
Selling, general and administrative expenses	36,583	310	29,529	—	66,422
(Gain) loss on dispositions of plant equipment and timberlands, net	48	(74)	—	—	(26)
Operating income (loss)	(18,771)	1,716	36,023	—	18,968
Other non-operating income (expense)					
Interest expense	(9,843)	(319)	(941)	2,619	(8,484)
Interest income	291	2,398	88	(2,619)	158
Equity in earnings of subsidiaries	32,418	33,101	-	(65,519)	
Other, net	2,365	(4,525)	3,070	—	910
Total other non-operating income (expense)	25,231	30,655	2,217	(65,519)	(7,416)
Income before income taxes	6,460	32,371	38,240	(65,519)	11,552
Income tax provision (benefit)	571	(47)	5,139	—	5,663
Net income	5,889	32,418	33,101	(65,519)	5,889
Other comprehensive income	33,525	29,066	28,385	(57,451)	33,525
Comprehensive income	\$39,414	\$ 61,484	\$ 61,486	\$ (122,970)	\$ 39,414

Condensed Consolidating Balance Sheet as of June 30, 2018

In thousands	Parent		Non	Adjustments/	
	Company	Guarantors	Guarantors	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$1,201	\$ 1,729	\$ 104,259	\$-	\$ 107,189
Other current assets	262,122	256,018	295,167	(316,171)	497,136
Plant, equipment and timberlands, net	367,703	86,461	390,303	—	844,467
Investments in subsidiaries	837,670	652,335	—	(1,490,005)	—
Other assets	144,794	—	143,511	—	288,305
Total assets	\$1,613,490	\$ 996,543	\$ 933,240	\$ (1,806,176)	\$ 1,737,097
Liabilities and Shareholders' Equity					
Current liabilities	\$422,603	\$ 81,975	\$ 148,468	\$ (316,171)	\$ 336,875
Long-term debt	394,462	67,000	48,715	—	510,177

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

Deferred income taxes	3,201	18,542	54,321	—	76,064
Other long-term liabilities	106,272	485	20,272	—	127,029
Total liabilities	926,538	168,002	271,776	(316,171)	1,050,145
Shareholders' equity	686,952	828,541	661,464	(1,490,005)	686,952
Total liabilities and shareholders' equity	\$1,613,490	\$ 996,543	\$ 933,240	\$(1,806,176)	\$ 1,737,097

- 24 -

GLATFELTER

06.30.18 Form 10-Q

Condensed Consolidating Balance Sheet as of December 31, 2017

In thousands	Parent		Non		Adjustments/	Consolidated
	Company	Guarantors	Guarantors	Eliminations		
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 six months ended June 30, 2018

In thousands	Parent		Non		Adjustments/	Consolidated
	Company	Guarantors	Guarantors	Eliminations		
Net cash provided (used) by						
Operating activities	\$(4,089)	\$(114)	\$ 24,241	\$(20,000)		\$ 38
Investing activities						
Expenditures for purchases of plant, equipment and timberlands	(13,414)	(12,902)	(10,628)	—		(36,944)
Proceeds from disposals of plant, equipment and timberlands, net	598	1,785	1	—		2,384
Advances of intercompany loans	—	(3,445)	—	3,445		—
Intercompany capital contributed	—	(315)	—	315		—
Intercompany capital returned	—	20,000	—	(20,000)		—
Other	(68)	—	—	—		(68)

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

Total investing activities	(12,884)	5,123	(10,627)	(16,240)	(34,628)
Financing activities					
Net borrowings (repayments) of long-term debt	25,660	16,000	(647)	—	41,013
Payment of dividends to shareholders	(11,368)	—	—	—	(11,368)
Borrowings of intercompany loans	3,445	—	—	(3,445)	—
Intercompany capital received	—	—	315	(315)	—
Intercompany capital returned	—	—	(20,000)	20,000	—
Payment of intercompany dividend	—	(20,000)	—	20,000	—
Proceeds from government grants	125	—	—	—	125
Payments related to share-based compensation awards and other	(980)	—	—	—	(980)
Total financing activities	16,882	(4,000)	(20,332)	36,240	28,790
Effect of exchange rate on cash	—	—	(3,230)	—	(3,230)
Net increase (decrease) in cash	(91)	1,009	(9,948)	—	(9,030)
Cash at the beginning of period	1,292	720	114,207	—	116,219
Cash at the end of period	\$ 1,201	\$ 1,729	\$ 104,259	\$ —	\$ 107,189

- 25 -

GLATFELTER

06.30.18 Form 10-Q

Condensed Consolidating Statement of Cash Flows for the six months ended June 30, 2017

	Parent	Non	Adjustments/		
In thousands	Company	Guarantors	Guarantors	Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$(12,072)	\$(1,085)	\$42,606	\$(685)	\$28,764
Investing activities					
Expenditures for purchases of plant, equipment and timberlands	(40,739)	(21,421)	(8,887)	—	(71,047)
Proceeds from disposals of plant, equipment and timberlands, net	8	75	—	—	83
Repayments from intercompany loans	—	12,000	—	(12,000)	—
Advances of intercompany loans	—	(12,550)	—	12,550	—
Intercompany capital contributed	—	(400)	—	400	—
Total investing activities	(40,731)	(22,296)	(8,887)	950	(70,964)
Financing activities					
Net borrowings (repayments) of long-term debt	55,000	25,000	(16,292)	—	63,708
Payment of dividends to shareholders	(11,130)	—	—	—	(11,130)
Repayments of intercompany loans	—	—	(12,000)	12,000	—
Borrowings of intercompany loans	12,550	—	—	(12,550)	—
Intercompany capital received	—	—	400	(400)	—
Payment of intercompany dividend	—	—	(685)	685	—
Payments related to share-based compensation awards and other	(112)	—	—	—	(112)
Total financing activities	56,308	25,000	(28,577)	(265)	52,466
Effect of exchange rate on cash	—	—	3,732	—	3,732
Net increase in cash	3,505	1,619	8,874	—	13,998
Cash at the beginning of period	5,082	1,461	48,901	—	55,444
Cash at the end of period	\$8,587	\$3,080	\$57,775	\$—	\$69,442

- 26 -

GLATFELTER

06.30.18 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 in 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.

- 27 -

GLATFELTER

06.30.18 Form 10-Q

RESULTS OF OPERATIONS

Six months ended June 30, 2018 versus the six months ended June 30, 2017

Overview For the first six months of 2018 we reported a net loss of \$1.7 million, or \$0.04 per share compared with net income of \$5.9 million and \$0.13 per diluted share in the year earlier period. Adjusted earnings for the first six months of 2018 were \$4.3 million, or \$0.10 per diluted share compared with \$14.5 million, or \$0.33 per diluted share, for the same period a year ago. Our consolidated results in the first six months of 2018 were adversely impacted by rising input costs outpacing the realization of higher selling prices by \$13.9 million, net. Advanced Airlaid Materials' and Specialty Papers' results were adversely impacted by higher depreciation expense related to the capacity expansion and environmental compliance projects, respectively. Specialty Papers' results were also adversely impacted by higher costs of annual maintenance outages.

The following table sets forth summarized consolidated results of operations:

	Six months ended	
	June 30	
In thousands, except per share	2018	2017
Net sales	\$816,420	\$778,055
Gross profit	70,509	85,364
Operating income	4,018	18,968
Net income (loss)	(1,683)	5,889
Earnings (loss) per share	(0.04)	0.13

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 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 six months ended June 30, 2018 and 2017:

In thousands, except per share	Six months ended June 30			
	2018		2017	
	Amount	EPS	Amount	Diluted EPS
Net income (loss)	\$(1,683)	\$(0.04)	\$5,889	\$ 0.13
Adjustments (pre-tax)				
Costs related to strategic initiatives	4,281	-	-	-
Airlaid capacity expansion costs	4,705	-	4,453	-
Cost optimization actions	-	-	2,788	-
Specialty Papers' environmental compliance	-	-	2,480	-
Timberland sales and related costs	(1,680)	-	(74)	-
Total adjustments (pre-tax)	7,306	-	9,647	-
Income taxes (1)	(1,309)	-	(999)	-
U.S. Tax Reform	(8)	-	-	-
Total after-tax adjustments	5,989	0.14	8,648	0.19
Adjusted earnings	\$4,306	\$0.10	\$14,537	\$ 0.33

(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.

Business Unit Performance

Six months ended June 30	Composite Fibers		Advanced Airlaid		Specialty Papers		Other and Unallocated		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Dollars in millions										
Net sales	\$284.5	\$258.2	\$142.4	\$122.7	\$389.5	\$397.1	\$—	\$—	\$816.4	\$778.1
Energy and related sales, net	—	—	—	—	2.4	2.1	—	—	2.4	2.1
Total revenue	284.5	258.2	142.4	122.7	391.9	399.2	—	—	818.8	780.2
Cost of products sold	232.7	207.2	122.5	103.5	387.1	375.6	6.0	8.5	748.3	694.8
Gross profit (loss)	51.8	51.0	19.9	19.2	4.8	23.6	(6.0)	(8.5)	70.5	85.4
SG&A	23.3	21.9	5.1	4.6	23.3	23.6	16.9	16.3	68.6	66.4
(Gains) losses on dispositions of plant, equipment and timberlands, net	—	—	—	—	—	—	(2.1)	—	(2.1)	—
Total operating income (loss)	28.5	29.1	14.8	14.6	(18.5)	---	(20.8)	(24.7)	4.0	19.0
Non-operating expense	—	—	—	—	—	—	(11.0)	(7.4)	(11.0)	(7.4)
Income (loss) before income taxes	\$28.5	\$29.1	\$14.8	\$14.6	\$(18.5)	\$—	\$(31.8)	\$(32.1)	\$(6.9)	\$11.6
Supplementary Data										
Net tons sold (thousands)	80.5	80.7	53.3	50.3	361.6	381.4	—	—	495.4	512.4
Depreciation, depletion and amortization	\$14.6	\$13.8	\$6.3	\$4.6	\$16.3	\$14.9	\$2.3	\$1.7	\$39.5	\$35.0
Capital expenditures	7.9	6.8	15.6	23.5	11.0	34.0	2.4	6.7	36.9	71.0

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.

- 29 -

GLATFELTER

06.30.18 Form 10-Q

Sales and Costs of Products Sold

	Six months ended		
	June 30		
In thousands	2018	2017	Change
Net sales	\$816,420	\$778,055	\$38,365
Energy and related			
sales, net	2,372	2,110	262
Total revenues	818,792	780,165	38,627
Costs of products sold	748,283	694,801	53,482
Gross profit	\$70,509	\$85,364	\$(14,855)
Gross profit as a percent			
of Net sales	8.6	% 11.0	%

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

	Six months ended	
	June 30	
Percent of Total	2018	2017
Business Unit		
Composite Fibers	34.8 %	33.2 %
Advanced Airlaid Material	17.4	15.8
Specialty Papers	47.8	51.0
Total	100.0%	100.0%

Net sales totaled \$816.4 million and \$778.1 million in the first six months of 2018 and 2017, respectively. Higher selling prices and currency translation favorably impacted the year-over-year comparison by \$7.8 million and \$32.5 million, respectively. On a constant currency basis, Composite Fibers' net sales and Advanced Airlaid Materials' increased by 1.0% and 9.6%, respectively. 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 \$26.3 million, or 10.2% primarily due to a \$24.5 million favorable impact from currency translation and \$1.8 million from higher selling prices.

Composite Fibers' operating income for the first six months of 2018 totaled \$28.5 million, slightly lower than the year-ago period. A \$1.8 million increase in selling prices and production efficiencies was offset by significantly higher raw material prices. The primary drivers are summarized in the following chart:

Advanced Airlaid Materials' net sales increased \$19.7 million, or 16.1%, primarily due to a 6.0% increase in shipping volumes, \$2.5 million from higher selling prices and \$8.0 million from currency translation.

Operating income for the first six months of 2018 totaled \$14.8 million, or 1.4% higher than the comparable period a year ago. Higher selling prices were substantially offset by higher input costs. The primary drivers are summarized in the following chart:

Specialty Papers' net sales totaled \$389.5 million, a \$7.6 million decrease compared to the same period a year ago reflecting the shutdown of a machine in the third quarter of 2017, partially offset by \$3.5 million from higher selling prices.

Specialty Papers' operating loss totaled \$18.5 million in the six months of 2018 compared with break-even in the same period a year ago. The weaker performance was driven by higher raw material and energy prices, particularly purchased pulp, outpacing the realization of increased selling prices on a net basis totaling \$8.2 million. In addition, transition costs associated with the machine shutdown, severe weather and water quality issues, and an increase in the cost of annual maintenance outages from \$29.0 million in 2018 compared with \$22.9 million in 2017 adversely impacted results. 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

- 30 -

GLATFELTER

06.30.18 Form 10-Q

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 six months of 2018 and 2017:

In thousands	Six months ended		
	June 30		
	2018	2017	Change
Energy sales	\$2,121	\$1,793	\$ 328
Costs to produce	(1,521)	(2,367)	846
Net	600	(574)	1,174
Renewable energy credits	1,772	2,684	(912)
Total	\$2,372	\$2,110	\$ 262

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 \$20.8 million in the first six months of 2018 compared with \$24.7 million in the first six months of 2017. The decrease in Other and Unallocated expenses, excluding the impact of gains from timberland sales in 2018, primarily relates to the costs in 2017 for the completion of Specialty Papers' environmental compliance project.

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

In thousands	Six months ended		
	June 30		
	2018	2017	Change
Recorded as:			
Costs of products sold	\$4,465	\$4,246	\$ 219
SG&A expense	1,141	1,124	17
Non operating expense	(1,872)	(2,056)	184
Total	\$3,734	\$3,314	\$ 420

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 \$7.5 million compared with \$6.6 million in 2017.

Gains (losses) on Dispositions of Plant, Equipment and Timberlands During the first six months of 2018, we completed the following sales of assets:

Dollars in thousands Acres Proceeds

			Gain (loss)
2018			
Timberlands	1,029	\$ 1,785	\$1,680
Other	n/a	599	453
Total		\$ 2,384	\$2,133
2017			
Timberlands	46	\$ 75	\$74
Other	n/a	8	(48)
Total		\$ 83	\$26

Income taxes For the first six months of 2018, we recorded an income tax benefit of \$5.3 million on pre-tax loss of \$6.9 million compared with a \$5.7 million provision on pre-tax income of \$11.6 million in the same period a year ago. The effective tax rate in the first six months of 2018 includes a \$3.1 million investment tax credit as well 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 the first six months of 2017 reflected an increase in unrecognized tax benefits and in our valuation allowances for U.S. deferred tax assets. The effective tax rate for the second half of 2018 is expected to be approximately 35%.

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 six months of 2018, the average currency exchange rate was 1.21 dollar/euro compared with 1.08 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.

- 31 -

GLATFELTER

06.30.18 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 six months of 2018.

	Six months ended
In thousands	June 30, 2018
	Favorable (unfavorable)
Net sales	\$ 32,522
Costs of products sold	(28,665)
SG&A expenses	(2,380)
Income taxes and other	181
Net income	\$ 1,658

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.

Three months ended June 30, 2018 versus the three months ended June 30, 2017

Overview For the second quarter of 2018, our net loss totaled \$7.4 million, or \$0.17 per share compared with a net loss of \$5.7 million, or \$0.13 per share in the second quarter of 2017. On an adjusted basis the loss for the second quarter of 2018 was \$4.3 million, or \$0.10 per share compared with \$2.6 million, or \$0.06 per share, for the same period a year ago.

The following table sets forth summarized results of operations:

	Three months ended	
In thousands, except per share	June 30 2018	2017
Net sales	\$405,773	\$387,342
Gross profit	21,603	29,735
Operating loss	(9,379)	(1,752)
Net loss	(7,399)	(5,714)

Loss per share	(0.17)	(0.13)
----------------	---------	---------

The following table sets forth the reconciliation of net income to adjusted earnings for the three months ended June 30, 2018 and 2017:

In thousands, except per share	Three months ended June 30			
	2018		2017	
	Amount	EPS	Amount	Diluted EPS
Net loss	\$(7,399)	\$(0.17)	\$(5,714)	\$(0.13)
Adjustments (pre-tax)				
Costs related to strategic initiatives	2,172	-	-	-
Airlaid capacity expansion costs	1,672	-	2,495	-
Cost optimization	-	-	775	-
Specialty Papers' environmental compliance and other	-	-	216	-
Timberland sales and related costs	(565)	-	(74)	-
Total adjustments (pre-tax)	3,279	-	3,412	-
Income taxes (1)	(354)	-	(317)	-
U.S. Tax Reform	172	-	-	-
Total after-tax adjustments	3,097	0.07	3,095	0.07
Adjusted loss	\$(4,302)	\$(0.10)	\$(2,619)	\$(0.06)

(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.

- 32 -

GLATFELTER

06.30.18 Form 10-Q

Business Unit Performance

Three months ended June 30 Dollars in millions	Composite Fibers		Advanced Airlaid Materials		Specialty Papers		Other and Unallocated		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	\$142.9	\$133.1	\$72.8	\$62.8	\$190.0	\$191.4	\$—	\$—	\$405.8	\$387.3
Energy and related sales, net	—	—	—	—	0.9	1.0	—	—	0.9	1.0
Total revenue	142.9	133.1	72.8	62.8	190.9	192.4	—	—	406.7	388.3
Cost of products sold	118.0	107.6	62.8	53.0	200.6	195.6	3.7	2.4	385.1	358.6
Gross profit (loss)	24.9	25.5	10.0	9.8	(9.7)	(3.2)	(3.7)	(2.4)	21.6	29.7
SG&A	11.7	10.8	2.4	2.3	11.2	10.3	6.3	8.1	31.6	31.5
(Gains) losses on dispositions of plant, equipment and timberlands, net	—	—	—	—	—	—	(0.6)	—	(0.6)	—
Total operating income (loss)	13.2	14.7	7.6	7.5	(20.9)	(13.5)	(9.4)	(10.5)	(9.4)	(1.8)
Non-operating expense	—	—	—	—	—	—	(6.0)	(4.3)	(6.0)	(4.3)
Income (loss) before income taxes	\$13.2	\$14.7	\$7.6	\$7.5	\$(20.9)	\$(13.5)	\$(15.4)	\$(14.8)	\$(15.4)	\$(6.1)
Supplementary Data										
Net tons sold (thousands)	40.4	41.9	27.0	25.5	173.2	184.1	—	—	240.6	251.5
Depreciation, depletion and amortization	\$7.2	\$7.0	\$3.5	\$2.3	\$8.2	\$7.7	\$1.2	\$0.7	\$20.1	\$17.7
Capital expenditures	2.8	2.1	2.5	12.9	4.5	15.8	0.6	3.5	10.4	34.3

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

- 33 -

GLATFELTER

06.30.18 Form 10-Q

Sales and Costs of Products Sold

In thousands	Three months ended		
	June 30 2018	2017	Change
Net sales	\$405,773	\$387,342	\$18,431
Energy and related sales,			
net	944	981	(37)
Total revenues	406,717	388,323	18,394
Costs of products sold	385,114	358,588	26,526
Gross profit	\$21,603	\$29,735	\$(8,132)
Gross profit as a percent			
of Net sales	5.3	% 7.7	%

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

Percent of Total Business Unit	Three months ended	
	June 30 2018	2017
Composite Fibers	35.2 %	34.4 %
Advanced Airlaid Material	17.9	16.2
Specialty Papers	46.9	49.4
Total	100.0%	100.0%

Net sales totaled \$405.8 million and \$387.3 million in the second quarters of 2018 and 2017, respectively. Higher selling prices and favorable currency translation favorably impacted the comparison by \$7.5 million and \$10.7 million, respectively.

Composite Fibers' net sales increased \$9.8 million, or 7.4%, primarily due to \$1.5 million from higher selling prices and \$7.8 million of favorable currency translation, partially offset by lower shipping volumes.

Composite Fibers' second quarter of 2018 operating income decreased to \$13.2 million, a decrease of \$1.5 million compared to the year ago quarter. Operating results were adversely impacted by \$4.3 million of higher input costs, primarily due to significantly higher woodpulp prices, which were partially offset by efficient operations. Currency translation favorably impacted results by \$0.4 million. The primary drivers are summarized in the following chart:

Advanced Airlaid Materials' net sales increased \$10.0 million in the quarter-over-quarter comparison. Shipping volumes increased 5.9% primarily due to continued growth of personal hygiene and wipes products and currency translation was favorable \$3.0 million.

Advanced Airlaid Materials' operating income totaled \$7.6 million compared with \$7.5 million in the second quarter of 2017. The second-quarter 2018 operating income was impacted by \$0.9 million of depreciation expense related to the investment in the Fort Smith facility. The primary drivers are summarized in the following chart:

Specialty Papers' net sales decreased \$1.3 million, or 0.7%, as a \$4.2 million increase in selling prices was more than offset by a 6.0% decline in shipping volumes related to a paper machine shutdown in the third quarter of 2017.

Specialty Papers' operating loss totaled \$20.9 million in the second quarter of 2018, compared with a loss of \$13.5 million in the same period a year ago. Operating results reflect the cost of annual maintenance outages at the Chillicothe, OH and Spring Grove, PA facilities which adversely impacted

- 34 -

GLATFELTER

06.30.18 Form 10-Q

results by \$29.0 million compared to \$22.9 million in the second quarter 2017. In addition, this quarter's results were adversely impacted by a \$6.1 million increase in raw material and energy costs, particularly purchased pulp. The primary drivers are summarized in the following chart:

We sell excess power generated by the Spring Grove, PA facility. The following table summarizes this activity for the second quarters of 2018 and 2017:

	Three months ended		
	June 30		
In thousands	2018	2017	Change
Energy sales	\$662	\$787	\$ (125)
Costs to produce	(555)	(929)	374
Net	107	(142)	249
Renewable energy credits	837	1,123	(286)
Total	\$944	\$981	\$ (37)

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 \$9.4 million in the second quarter of 2018 compared with \$10.5 million in the second quarter of 2017. The decrease in Other and Unallocated expenses excluding the impact of gains from timberland sales in 2018, primarily related to the completion in 2017 of cost optimization actions, the Specialty Papers environmental compliance projects and lower costs related to Advanced Airlaid Materials capacity expansion.

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

	Three months ended		
	June 30		
In thousands	2018	2017	Change
Recorded as:			
Costs of products sold	\$2,157	\$2,075	\$ 82
SG&A expense	590	574	16
Non Operating Expense	(792)	(658)	(134)
Total	\$1,955	\$1,991	\$ (36)

Income taxes In the second quarter of 2018, the Company recorded an income tax benefit of \$8.0 million on a pre-tax loss of \$15.4 million including, a \$3.1 million investment tax credit. In the second quarter of 2017 we recorded \$0.4 million of income tax benefits on a pre-tax loss of \$6.1 million reflecting the adverse impact of changes to our valuation allowances recorded against U.S. deferred tax assets.

Foreign Currency 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 second quarter of 2018.

	Three months ended
In thousands	June 30, 2018
	Favorable (unfavorable)
Net sales	\$ 10,703
Costs of products sold	(9,998)
SG&A expenses	(872)
Income taxes and other	174
Net income	\$ 7

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 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:

	Six months ended	
In thousands	June 30 2018	2017
Cash and cash equivalents at beginning of period	\$ 116,219	\$ 55,444
Cash provided (used) by		
Operating activities	37	28,764
Investing activities	(34,628)	(70,964)
Financing activities	28,790	52,466
Effect of exchange rate changes on cash	(3,230)	3,732
Net cash provided (used)	(9,031)	13,998
Cash and cash equivalents at end of period	\$ 107,188	\$ 69,442

At June 30, 2018, we had \$107.2 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.

- 35 -

GLATFELTER

06.30.18 Form 10-Q

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.

Cash provided by operating activities was essentially break even in the first six months of 2018 compared with \$28.8 million in the same period a year ago largely due to an increase in working capital, primarily related to an increase in inventory, and lower operating profits.

Net cash used by investing activities decreased by \$36.4 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 and the airlaid capacity expansion. Capital expenditures are expected to total between \$60 million and \$62 million for 2018.

Net cash provided by financing activities totaled \$28.8 million in the first six months of 2018 compared with \$52.5 million in the same period of 2017. The decrease in cash provided by financing activities primarily reflects lower borrowings under our credit agreement in 2018 due to the completion of the major capital programs for the environmental compliance and capacity expansion.

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

In thousands	June 30 2018	December 31 2017
Revolving credit facility, due Mar. 2020	\$217,860	\$ 171,200
5.375% Notes, due Oct. 2020	250,000	250,000
2.40% Term Loan, due Jun. 2022	6,661	7,710
2.05% Term Loan, due Mar. 2023	29,556	33,607
1.30% Term Loan, due Jun. 2023	8,327	9,423
1.55% Term Loan, due Sep. 2025	10,356	11,390
Total long-term debt	522,760	483,330
Less current portion	(10,982)	(11,298)
Unamortized deferred issuance costs	(1,601)	(1,934)
Long-term debt, net of current portion	\$510,177	\$ 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 June 30, 2018, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 3.1x, 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 June 30, 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 13.

Financing activities include cash used for common stock dividends. In the first six months of 2018, we used \$11.4 million of cash for dividends on our common stock compared with \$11.1 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 16 – Commitments, Contingencies and Legal Proceedings (“Note 16”), 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 16, 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 16, 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 June 30, 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 third quarter of 2018 are expected to be approximately 8% higher than the second quarter. Selling prices as well as raw material and energy prices are expected to increase slightly.

Advanced Airlaid Materials’ shipping volumes in the third quarter of 2018 are expected to be in-line with the second quarter of 2018 and selling, raw material and energy prices are expected to increase slightly. For the full-year 2018, we

- 36 -

GLATFELTER

06.30.18 Form 10-Q

anticipate shipping volumes to be 6% to 8% higher than 2017 as the ramp up of new volumes has been delayed slightly by qualification processes. We anticipate taking downtime in the third quarter to align supply with demand, resulting in an adverse impact to operating income of approximately \$1 million.

Specialty Papers' shipping volumes in the third quarter are expected to be 8% higher than the second quarter of 2018. Average selling prices are expected to increase by

approximately \$20 per ton and we expect raw material and energy prices to increase slightly.

Consolidated capital expenditures for the year are expected to be between \$60 million and \$62 million.

The effective tax rate on adjusted earnings is expected to be approximately 35% in the second half of 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Dollars in thousands	Year Ended December 31					June 30, 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	\$252,375
At fixed interest rates – Term Loans	52,155	43,920	32,937	21,956	11,600	54,900	55,470
At variable interest rates	217,860	217,860	45,388	—	—	217,860	217,860
						\$522,760	\$525,705
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	3.56	%	3.56	%	3.56	%	—

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of June 30, 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 June 30, 2018, we had \$521.2 million of long-term debt, net of unamortized debt issuance costs, of which 41.8% 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 June 30, 2018, the interest rate paid was approximately 3.56%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$2.2 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 15.

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 June 30, 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 June 30, 2018, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

- 37 -

GLATFELTER

06.30.18 Form 10-Q

PART II

ITEM 6. EXHIBITS

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

- 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)

July 31, 2018

By /s/ David C. Elder

David C. Elder
Vice President, Finance

- 38 -

GLATFELTER

06.30.18 Form 10-Q