

GLATFELTER P H CO  
Form 10-Q  
November 12, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2013**

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)**

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

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

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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, or a small reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

**Common Stock outstanding on October 31, 2013 totaled 43,274,410 shares.**

**Table of Contents**

**P. H. GLATFELTER COMPANY AND  
SUBSIDIARIES  
REPORT ON FORM 10-Q  
For the QUARTERLY PERIOD ENDED  
SEPTEMBER 30, 2013**

**Table of Contents**

|                                                                                                                                                     | Page |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>                                                                                                          |      |
| <b>Item 1</b>                                                                                                                                       |      |
| <u>Financial Statements</u>                                                                                                                         |      |
| <u>Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2013 and 2012 (unaudited)</u>               | 2    |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2013 and 2012 (unaudited)</u> | 3    |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 (unaudited)</u>                                             | 4    |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)</u>                            | 5    |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>                                                                             | 6    |
| <b>Item 2</b>                                                                                                                                       |      |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                                        | 29   |
| <b>Item 3</b>                                                                                                                                       |      |
| <u>Quantitative and Qualitative Disclosures About Market Risks</u>                                                                                  | 39   |
| <b>Item 4</b>                                                                                                                                       |      |
| <u>Controls and Procedures</u>                                                                                                                      | 39   |
| <b><u>PART II OTHER INFORMATION</u></b>                                                                                                             |      |
| <b>Item 6</b>                                                                                                                                       |      |
| <u>Exhibits</u>                                                                                                                                     | 40   |
| <b><u>SIGNATURES</u></b>                                                                                                                            | 41   |

**Table of Contents****PART I****Item 1 Financial Statements****P. H. GLATFELTER COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

| <i>In thousands, except per share</i>                          | Three months ended |            | Nine months ended |              |
|----------------------------------------------------------------|--------------------|------------|-------------------|--------------|
|                                                                | September 30       |            | September 30      |              |
|                                                                | 2013               | 2012       | 2013              | 2012         |
| Net sales                                                      | \$ 456,648         | \$ 404,354 | \$ 1,287,804      | \$ 1,186,399 |
| Energy and related sales, net                                  | 1,196              | 1,867      | 2,721             | 5,358        |
| Total revenues                                                 | 457,844            | 406,221    | 1,290,525         | 1,191,757    |
| Costs of products sold                                         | 391,805            | 347,029    | 1,126,271         | 1,030,717    |
| Gross profit                                                   | 66,039             | 59,192     | 164,254           | 161,040      |
| Selling, general and administrative expenses                   | 34,480             | 29,380     | 102,495           | 89,460       |
| Gains on dispositions of plant, equipment and timberlands, net | (282)              | (1,473)    | (374)             | (8,471)      |
| Operating income                                               | 31,841             | 31,285     | 62,133            | 80,051       |
| Non-operating income (expense)                                 |                    |            |                   |              |
| Interest expense                                               | (4,788)            | (4,152)    | (13,143)          | (12,580)     |
| Interest income                                                | 92                 | 106        | 240               | 332          |
| Other, net                                                     | (34)               | (4)        | 388               | 295          |
| Total non-operating expense                                    | (4,730)            | (4,050)    | (12,515)          | (11,953)     |
| Income before income taxes                                     | 27,111             | 27,235     | 49,618            | 68,098       |
| Income tax provision (benefit)                                 | (7,008)            | 7,136      | (1,063)           | 15,689       |
| Net income                                                     | \$ 34,119          | \$ 20,099  | \$ 50,681         | \$ 52,409    |
| <b>Earnings per share</b>                                      |                    |            |                   |              |
| Basic                                                          | \$ 0.79            | \$ 0.47    | \$ 1.18           | \$ 1.22      |
| Diluted                                                        | 0.77               | 0.46       | 1.15              | 1.20         |
| <b>Cash dividends declared per common share</b>                | \$ 0.10            | \$ 0.09    | \$ 0.30           | \$ 0.27      |
| <b>Weighted average shares outstanding</b>                     |                    |            |                   |              |
| Basic                                                          | 43,251             | 42,837     | 43,118            | 42,814       |
| Diluted                                                        | 44,328             | 43,667     | 44,213            | 43,595       |

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



**Table of Contents****P. H. GLATFELTER COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

| <i>In thousands</i>                                                                                      | <b>Three months ended</b> |           | <b>Nine months ended</b> |           |
|----------------------------------------------------------------------------------------------------------|---------------------------|-----------|--------------------------|-----------|
|                                                                                                          | <b>September 30</b>       |           | <b>September 30</b>      |           |
|                                                                                                          | <b>2013</b>               | 2012      | <b>2013</b>              | 2012      |
| Net income                                                                                               | <b>\$ 34,119</b>          | \$ 20,099 | <b>\$ 50,681</b>         | \$ 52,409 |
| Foreign currency translation adjustments                                                                 | <b>14,263</b>             | 9,048     | <b>6,033</b>             | 4,473     |
| Net change in:                                                                                           |                           |           |                          |           |
| Deferred gains (losses) on cash flow hedges, net of taxes of \$62, \$196, \$28 and \$333, respectively   | <b>(154)</b>              | (495)     | <b>(108)</b>             | (836)     |
| Unrecognized retirement obligations, net of taxes of \$2,293, \$1,787, \$6,869 and \$5,438, respectively | <b>3,794</b>              | 3,013     | <b>11,394</b>            | 8,961     |
| Other comprehensive income                                                                               | <b>17,903</b>             | 11,566    | <b>17,319</b>            | 12,598    |
| Comprehensive income                                                                                     | <b>\$ 52,022</b>          | \$ 31,665 | <b>\$ 68,000</b>         | \$ 65,007 |

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

- 3 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****P. H. GLATFELTER COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(unaudited)

| <i>In thousands</i>                               | September 30<br>2013 | December 31<br>2012 |
|---------------------------------------------------|----------------------|---------------------|
| <b>Assets</b>                                     |                      |                     |
| <b>Current assets</b>                             |                      |                     |
| Cash and cash equivalents                         | \$ 63,635            | \$ 97,679           |
| Accounts receivable, net                          | 189,746              | 139,904             |
| Inventories                                       | 230,418              | 222,366             |
| Prepaid expenses and other current assets         | 57,922               | 58,909              |
| <b>Total current assets</b>                       | <b>541,721</b>       | 518,858             |
| Plant, equipment and timberlands, net             | 714,338              | 621,186             |
| <b>Other assets</b>                               | <b>275,400</b>       | 102,941             |
| <b>Total assets</b>                               | <b>\$ 1,531,459</b>  | \$ 1,242,985        |
| <b>Liabilities and Shareholders' Equity</b>       |                      |                     |
| <b>Current liabilities</b>                        |                      |                     |
| Accounts payable                                  | \$ 139,301           | \$ 133,389          |
| Dividends payable                                 | 4,361                | 3,905               |
| Environmental liabilities                         | 125                  | 125                 |
| Other current liabilities                         | 119,596              | 113,489             |
| <b>Total current liabilities</b>                  | <b>263,383</b>       | 250,908             |
| Long-term debt                                    | 438,581              | 250,000             |
| Deferred income taxes                             | 94,846               | 62,046              |
| Other long-term liabilities                       | 136,889              | 140,352             |
| <b>Total liabilities</b>                          | <b>933,699</b>       | 703,306             |
| Commitments and contingencies                     |                      |                     |
| <b>Shareholders' equity</b>                       |                      |                     |
| Common stock                                      | 544                  | 544                 |
| Capital in excess of par value                    | 51,123               | 52,492              |
| Retained earnings                                 | 857,174              | 819,593             |
| Accumulated other comprehensive loss              | (146,647)            | (163,966)           |
|                                                   | 762,194              | 708,663             |
| Less cost of common stock in treasury             | (164,434)            | (168,984)           |
| <b>Total shareholders' equity</b>                 | <b>597,760</b>       | 539,679             |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 1,531,459</b>  | \$ 1,242,985        |

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

- 4 -

GLATFELTER

9.30.13 Form 10-Q



**Table of Contents****P. H. GLATFELTER COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

| <i>In thousands</i>                                                | Nine months ended<br>September 30 |           |
|--------------------------------------------------------------------|-----------------------------------|-----------|
|                                                                    | 2013                              | 2012      |
| <b>Operating activities</b>                                        |                                   |           |
| Net income                                                         | \$ 50,681                         | \$ 52,409 |
| Adjustments to reconcile to net cash provided by operations:       |                                   |           |
| Depreciation, depletion and amortization                           | 50,028                            | 51,123    |
| Amortization of debt issue costs and original issue discount       | 977                               | 913       |
| Pension expense, net of unfunded benefits paid                     | 9,646                             | 7,711     |
| Deferred income tax benefit                                        | (10,876)                          | (10,872)  |
| Gains on dispositions of plant, equipment and timberlands, net     | (374)                             | (8,471)   |
| Share-based compensation                                           | 5,523                             | 5,004     |
| Change in operating assets and liabilities                         |                                   |           |
| Accounts receivable                                                | (23,496)                          | (25,963)  |
| Inventories                                                        | 7,225                             | (14,160)  |
| Prepaid and other current assets                                   | 4,659                             | (4,389)   |
| Accounts payable                                                   | 5,065                             | 3,029     |
| Environmental matters                                              | 135                               | (92)      |
| Accruals and other current liabilities                             | (7,323)                           | 14,510    |
| Cellulosic biofuel and alternative fuel mixture credits            | 9,406                             | (9,387)   |
| Other                                                              | (5,583)                           | (12,900)  |
| Net cash provided by operating activities                          | 95,693                            | 48,465    |
| <b>Investing activities</b>                                        |                                   |           |
| Expenditures for purchases of plant, equipment and timberlands     | (86,089)                          | (45,027)  |
| Proceeds from disposals of plant, equipment and timberlands, net   | 379                               | 8,875     |
| Acquisition, net of cash acquired                                  | (210,911)                         |           |
| Other                                                              | (325)                             | (150)     |
| Net cash used by investing activities                              | (296,946)                         | (36,302)  |
| <b>Financing activities</b>                                        |                                   |           |
| Net borrowings under (repayments of) revolving credit facility     | 126,139                           | (8,000)   |
| Payments of borrowing costs                                        | (419)                             | (102)     |
| Proceeds from term loan                                            | 56,091                            |           |
| Repurchases of common stock                                        |                                   | (4,060)   |
| Payments of dividends                                              | (12,603)                          | (11,696)  |
| (Payments) proceeds from share-based compensation awards and other | (2,332)                           | 1,461     |
| Net cash provided (used) by financing activities                   | 166,876                           | (22,397)  |
| Effect of exchange rate changes on cash                            | 333                               | 279       |
| Net decrease in cash and cash equivalents                          | (34,044)                          | (9,955)   |
| Cash and cash equivalents at the beginning of period               | 97,679                            | 38,277    |
| Cash and cash equivalents at the end of period                     | \$ 63,635                         | \$ 28,322 |

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**Supplemental cash flow information**

Cash paid for:

|                                      |                 |          |
|--------------------------------------|-----------------|----------|
| Interest, net of amounts capitalized | <b>\$ 9,388</b> | \$ 7,873 |
| Income taxes, net                    | <b>10,834</b>   | 26,097   |

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

- 5 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**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, Pennsylvania, our manufacturing facilities are located in Spring Grove, Pennsylvania; Chillicothe and Freemont, Ohio; Gatineau, Quebec, Canada; Lydney, England; Caerphilly, Wales; Gernsbach, Falkenhagen and Heidenau, Germany; Scaër, France; and the Philippines. 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 ). 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 2012 Annual Report on Form 10-K ( 2012 Form 10-K ).

**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.

**Recently Issued Accounting Pronouncements** In February 2013, the FASB issued ASU 2013-02 *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* which requires new disclosures about items reclassified out of accumulated other comprehensive income. We adopted the requirements of this standard in the first quarter of 2013.

**3. ACQUISITION**

On April 30, 2013, we completed the acquisition of all outstanding shares of Dresden Papier GmbH ( Dresden ) from Fortress Paper Ltd. for approximately \$211 million, net of cash acquired. Dresden, based in Heidenau, Germany, is the leading global supplier of nonwoven wallpaper base materials, and is a major supplier to most of the world's largest wallpaper manufacturers. In 2012, Dresden's revenues were approximately \$150 million and it employed approximately 146 people at its state-of-the-art, 60,000 metric-ton-capacity manufacturing facility. We financed the acquisition through a combination of cash on hand and borrowings under our Revolving Credit Facility.

The acquisition of Dresden will add another industry-leading nonwovens product line to our Composite Fibers business, and broaden our relationship with leading producers of consumer and industrial products. This acquisition will also provide additional operational leverage and growth opportunities for Glatfelter globally, particularly in large markets such as Russia and China, and other developing markets in eastern Europe and Asia.

Dresden now operates as part of our Composite Fibers business unit, which manufactures fiber-based products for growing global niche markets, including filtration papers for tea and single serve coffee applications, metallized papers, composite laminates, and technical specialties.

The share purchase agreement provides for, among other terms, indemnification provisions for claims that may arise, including among others, uncertain tax positions and other third party claims. The preliminary allocation of the purchase price to assets acquired and liabilities assumed is as follows:

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| <i>In thousands</i>                   | As<br>originally<br>presented | Cumulative<br>Adjustments | Adjusted          |
|---------------------------------------|-------------------------------|---------------------------|-------------------|
| <b>Assets</b>                         |                               |                           |                   |
| Cash                                  | \$ 12,227                     |                           | \$ 12,227         |
| Accounts receivable                   | 23,870                        |                           | 23,870            |
| Inventory                             | 13,864                        |                           | 13,864            |
| Prepaid and other current assets      | 6,674                         | 1,386                     | 8,060             |
| Plant, equipment and timberlands      | 60,951                        |                           | 60,951            |
| Intangible assets                     | 87,596                        |                           | 87,596            |
| Goodwill                              | 76,256                        | (1,386)                   | 74,870            |
| <b>Total assets</b>                   | <b>281,438</b>                |                           | <b>281,438</b>    |
| <b>Liabilities</b>                    |                               |                           |                   |
| Accounts payable and accrued expenses | 20,360                        | (107)                     | 20,253            |
| Deferred tax liabilities              | 36,120                        |                           | 36,120            |
| Other long term liabilities           | 1,820                         | 107                       | 1,927             |
| <b>Total liabilities</b>              | <b>58,300</b>                 |                           | <b>58,300</b>     |
| <b>Total</b>                          | <b>223,138</b>                |                           | <b>223,138</b>    |
| less cash acquired                    | (12,227)                      |                           | (12,227)          |
| <b>Total purchase price</b>           | <b>\$ 210,911</b>             |                           | <b>\$ 210,911</b> |

- 6 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

The adjustments set forth above did not impact previously reported results of operations, earnings per share, or cash flows.

We are in the process of finalizing valuations necessary to account for this transaction in accordance with the acquisition method of accounting set forth in FASB ASC 805, Business Combinations. Accordingly, the purchase price allocation set forth above is based on all information available to us at the present time and is subject to change, and such changes could be material.

For purposes of allocating the total purchase price, assets acquired and liabilities assumed are recorded at their estimated fair market value. The allocation set forth above is based on management's estimate of the fair value using valuation techniques such as discounted cash flow models, appraisals and similar methodologies. The amount allocated to intangible assets represents the estimated value of customer relationships, technological know-how and trade name.

Acquired property, plant and equipment are preliminarily being depreciated on a straight-line basis with estimated remaining lives ranging from 5 years to 30 years. Intangible assets are being amortized on a straight-line basis over an average estimated remaining life of 17 years reflecting the expected future value. In addition, approximately \$9.8 million of identifiable intangible assets have an indefinite life and are not being amortized.

The goodwill arising from the acquisition largely relates to strategic benefits, product and market diversification, assembled workforce, and similar factors. For tax purposes, all of the goodwill is non-deductible.

Our results of operations include the results of Dresden prospectively since the acquisition was completed on April 30, 2013. All such results reported herein are included as part of the Composite Fibers business unit. Revenue and operating income of Dresden included in our consolidated results of operations for the first nine months of 2013 totaled \$67.8 million and \$12.3 million, respectively.

The table below summarizes pro forma financial information as if the acquisition and related financing transaction occurred as of January 1, 2012:

| <i>In thousands, except per share</i> | <b>Three months ended<br/>September 30</b> |             |
|---------------------------------------|--------------------------------------------|-------------|
|                                       | <b>2013</b>                                | <b>2012</b> |
| <b>Pro forma</b>                      |                                            |             |
| Net sales                             | \$ 456,648                                 | \$ 439,042  |
| Net income                            | 34,273                                     | 24,243      |
| Diluted earnings per share            | 0.77                                       | 0.56        |

| <i>In thousands, except per share</i> | <b>Nine months ended<br/>September 30</b> |              |
|---------------------------------------|-------------------------------------------|--------------|
|                                       | <b>2013</b>                               | <b>2012</b>  |
| <b>Pro forma</b>                      |                                           |              |
| Net sales                             | \$ 1,344,623                              | \$ 1,298,629 |
| Net income                            | 63,709                                    | 67,244       |
| Diluted earnings per share            | 1.44                                      | 1.54         |

During the first nine months of 2013, we incurred legal, professional and advisory costs directly related to the Dresden acquisition totaling \$3.2 million. For purposes of presenting the above pro forma financial information, such costs have been eliminated. All such costs are presented under the caption "Selling, general and administrative expenses" in the accompanying condensed consolidated statements of income. In addition, the pro forma financial information excludes \$1.1 million of charges to costs of products sold related to the write up of inventory to fair value and \$2.0 million of integration related costs. This unaudited pro forma financial information above is not necessarily indicative of what the operating results would have been had the acquisition been completed at the beginning of the respective period nor is it indicative of future results.

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****4. GAINS ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS, NET**

During the first nine months of 2013 and 2012, we completed sales of assets as summarized in the following table:

| <i>Dollars in thousands</i> | <b>Acres</b> | <b>Proceeds</b> | <b>Gain</b> |
|-----------------------------|--------------|-----------------|-------------|
| <b>2013</b>                 |              |                 |             |
| Timberlands                 | 172          | \$ 287          | \$ 282      |
| Other                       | n/a          | 92              | 92          |
| Total                       |              | \$ 379          | \$ 374      |
| <b>2012</b>                 |              |                 |             |
| Timberlands                 | 4,324        | \$ 8,105        | \$ 7,867    |
| Other                       | n/a          | 770             | 604         |
| Total                       |              | \$ 8,875        | \$ 8,471    |

**5. EARNINGS PER SHARE**

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

| <i>In thousands, except per share</i>                                                       | <b>Three months ended<br/>September 30</b> |             |
|---------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                             | <b>2013</b>                                | <b>2012</b> |
| Net income                                                                                  | \$ 34,119                                  | \$ 20,099   |
| Weighted average common shares outstanding used in basic EPS                                | 43,251                                     | 42,837      |
| Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs              | 1,077                                      | 830         |
| Weighted average common shares outstanding and common share equivalents used in diluted EPS | 44,328                                     | 43,667      |
| <b>Earnings per share</b>                                                                   |                                            |             |
| Basic                                                                                       | \$ 0.79                                    | \$ 0.47     |
| Diluted                                                                                     | 0.77                                       | 0.46        |
| <i>In thousands, except per share</i>                                                       | <b>Nine months ended<br/>September 30</b>  |             |
|                                                                                             | <b>2013</b>                                | <b>2012</b> |
| Net income                                                                                  | \$ 50,681                                  | \$ 52,409   |
| Weighted average common shares outstanding used in basic EPS                                | 43,118                                     | 42,814      |
| Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs              | 1,095                                      | 781         |
| Weighted average common shares outstanding and common share equivalents used in diluted EPS | 44,213                                     | 43,595      |
| <b>Earnings per share</b>                                                                   |                                            |             |
| Basic                                                                                       | \$ 1.18                                    | \$ 1.22     |
| Diluted                                                                                     | 1.15                                       | 1.20        |

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

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| <i>in thousands</i>             | 2013 | 2012 |
|---------------------------------|------|------|
| Three months ended September 30 |      | 8    |
| Nine months ended September 30  |      | 158  |

- 8 -

GLATFELTER

9.30.13 Form 10-Q



**Table of Contents****6. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months ended September 30, 2013 and 2012.

| <i>in thousands</i>                                                           | Currency<br>Translation<br>Adjustments | Unrealized<br>gain<br>(loss)<br>on<br>cash flow<br>hedges | Change in<br>pensions | Change in<br>other<br>postretirement<br>defined<br>benefit plans | Total        |
|-------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------------|-----------------------|------------------------------------------------------------------|--------------|
| Balance at July 1, 2013                                                       | \$ (7,914)                             | \$ (379)                                                  | \$ (152,056)          | \$ (4,201)                                                       | \$ (164,550) |
| Other comprehensive income before reclassifications (net of tax)              | 14,263                                 | (434)                                                     |                       |                                                                  | 13,829       |
| Amounts reclassified from accumulated other comprehensive income (net of tax) |                                        | 280                                                       | 3,746                 | 48                                                               | 4,074        |
| Net current period other comprehensive income (loss)                          | 14,263                                 | (154)                                                     | 3,746                 | 48                                                               | 17,903       |
| Balance at September 30, 2013                                                 | \$ 6,349                               | \$ (533)                                                  | \$ 148,310            | \$ (4,153)                                                       | \$ (146,647) |
| Balance at July 1, 2012                                                       | \$ (15,618)                            | \$ 844                                                    | \$ (146,969)          | \$ (3,966)                                                       | \$ (165,709) |
| Other comprehensive income before reclassifications (net of tax)              | 9,048                                  | 18                                                        |                       |                                                                  | 9,066        |
| Amounts reclassified from accumulated other comprehensive income (net of tax) |                                        | (513)                                                     | 3,057                 | (44)                                                             | 2,500        |
| Net current period other comprehensive income (loss)                          | 9,048                                  | (495)                                                     | 3,057                 | (44)                                                             | 11,566       |
| Balance at September 30, 2012                                                 | \$ (6,570)                             | \$ 349                                                    | \$ (143,912)          | \$ (4,010)                                                       | \$ (154,143) |

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the nine months ended September 30, 2013 and 2012.

| <i>in thousands</i>                                                           | Currency<br>Translation<br>Adjustments | Unrealized<br>gain (loss)<br>on<br>cash flow<br>hedges | Change in<br>pensions | Change in<br>other<br>postretirement<br>defined<br>benefit plans | Total        |
|-------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------|-----------------------|------------------------------------------------------------------|--------------|
| Balance at January 1, 2013                                                    | \$ 316                                 | \$ (425)                                               | \$ (159,560)          | \$ (4,297)                                                       | \$ (163,966) |
| Other comprehensive income before reclassifications (net of tax)              | 6,033                                  | (575)                                                  |                       |                                                                  | 5,458        |
| Amounts reclassified from accumulated other comprehensive income (net of tax) |                                        | 467                                                    | 11,250                | 144                                                              | 11,861       |
| Net current period other comprehensive income (loss)                          | 6,033                                  | (108)                                                  | 11,250                | 144                                                              | 17,319       |
| Balance at September 30, 2013                                                 | \$ 6,349                               | \$ (533)                                               | \$ 148,310            | \$ (4,153)                                                       | \$ (146,647) |
| Balance at January 1, 2012                                                    | \$ (11,043)                            | \$ 1,185                                               | \$ (153,002)          | \$ (3,881)                                                       | \$ (166,741) |
| Other comprehensive income before reclassifications (net of tax)              | 4,473                                  | 479                                                    |                       |                                                                  | 4,952        |

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|                                                                               |            |         |              |            |              |
|-------------------------------------------------------------------------------|------------|---------|--------------|------------|--------------|
| Amounts reclassified from accumulated other comprehensive income (net of tax) |            | (1,315) | 9,090        | (129)      | 7,646        |
| Net current period other comprehensive income (loss)                          | 4,473      | (836)   | 9,090        | (129)      | 12,598       |
| Balance at September 30, 2012                                                 | \$ (6,570) | \$ 349  | \$ (143,912) | \$ (4,010) | \$ (154,143) |

- 9 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

The following table sets forth reclassifications out of accumulated other comprehensive income for the three months and nine months ended September 30, 2013 and 2012.

| <i>In thousands</i><br>Description                  | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |            | Line Item in Statements of Income   |
|-----------------------------------------------------|------------------------------------|----------|-----------------------------------|------------|-------------------------------------|
|                                                     | 2013                               | 2012     | 2013                              | 2012       |                                     |
| <b>Cash flow hedges (Note 15)</b>                   |                                    |          |                                   |            |                                     |
| (Gains) losses on cash flow hedges                  | \$ 384                             | \$ (715) | \$ 641                            | \$ (1,832) | Costs of products sold              |
|                                                     | (104)                              | 202      | (174)                             | 517        | Income tax provision                |
| Net of tax                                          | 280                                | (513)    | 467                               | (1,315)    |                                     |
| <b>Retirement plan obligations (Note 9)</b>         |                                    |          |                                   |            |                                     |
| Amortization of deferred benefit pension plan items |                                    |          |                                   |            |                                     |
| Prior service costs                                 | 572                                | 482      | 1,838                             | 1,519      | Costs of products sold              |
|                                                     | 201                                | 132      | 483                               | 322        | Selling, general and administrative |
| Actuarial losses                                    | 3,792                              | 3,272    | 12,209                            | 10,323     | Costs of products sold              |
|                                                     | 1,445                              | 983      | 3,502                             | 2,442      | Selling, general and administrative |
|                                                     | 6,010                              | 4,869    | 18,032                            | 14,606     |                                     |
|                                                     | (2,264)                            | (1,812)  | (6,782)                           | (5,516)    | Income tax provision                |
| Net of tax                                          | 3,746                              | 3,057    | 11,250                            | 9,090      |                                     |
| Amortization of deferred benefit other plan items   |                                    |          |                                   |            |                                     |
| Prior service costs                                 | (100)                              | (190)    | (301)                             | (570)      | Costs of products sold              |
|                                                     | (25)                               | (44)     | (74)                              | (133)      | Selling, general and administrative |
| Actuarial losses                                    | 155                                | 128      | 465                               | 384        | Costs of products sold              |
|                                                     | 47                                 | 37       | 141                               | 112        | Selling, general and administrative |
|                                                     | 77                                 | (69)     | 231                               | (207)      |                                     |
|                                                     | (29)                               | 25       | (87)                              | 78         | Income tax provision                |
| Net of tax                                          | 48                                 | (44)     | 144                               | (129)      |                                     |
| Total reclassifications, net of tax                 | \$ 4,074                           | \$ 2,500 | \$ 11,861                         | \$ 7,646   |                                     |

**7. INCOME TAXES**

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 September 30, 2013 and December 31, 2012, we had \$16.7 million and \$30.4 million of gross unrecognized tax benefits. As of September 30, 2013, if such benefits were to be recognized, approximately \$16.7 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate. The change was primarily due to the release of \$9.9 million of uncertain tax positions related to alternative fuel mixture credits. The release was recorded in the third quarter in connection with the lapse of the statute of limitations.

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.

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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        | 2010 - 2012                    | N/A                     |
| State          | 2008 -2012                     | 2009                    |
| Canada (1)     | 2010 - 2012                    | 2007 - 2011             |
| Germany (1)    | 2012                           | 2007 - 2012             |
| France         | 2010 -2012                     | N/A                     |
| United Kingdom | 2009 - 2012                    | N/A                     |
| Philippines    | 2012                           | 2010-2011               |

(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

- 10 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the lapse of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to \$5.9 million. Substantially all of this range relates to tax positions taken in the U.S., the U.K. and Germany.

We recognize interest and penalties related to uncertain tax positions as income tax expense. For the third quarter and first nine months of 2013, we recognized a net reduction of \$0.4 million and \$0.1 million, respectively, of interest expense. For the third quarter and first nine months of 2012, we recognized a net reduction of \$0.3 million and \$0.7 million, respectively, of interest expense. As of September 30, 2013 and December 31, 2012, we had recognized a liability for interest of \$1.1 million and \$1.4 million, respectively. We did not record any penalties associated with uncertain tax positions during the first nine months of 2013 or 2012.

In the third quarter of 2012, we amended our 2009 federal income tax return to claim a credit for a portion of the converted credits. This required us to return to the Internal Revenue Service \$16.8 million, net of credits used to reduce estimated tax payments.

**8. STOCK-BASED COMPENSATION**

The P. H. Glatfelter Amended and Restated Long Term Incentive Plan (the LTIP) provides for the issuance of Glatfelter common stock to eligible participants in the form of restricted stock units, restricted stock awards, non-qualified stock options, performance shares, incentive stock options and performance units. In May 2013, our shareholders approved an increase of 1,030,000 in the number shares authorized to be issued under the LTIP.

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

**Restricted Stock Units (RSU) and Performance Share Awards (PSAs)** Awards of RSUs and PSAs are made under our LTIP. The vesting of RSUs is based solely on the passage of time, generally on a graded scale over a three, four, and five-year period. PSAs are issued annually and cliff vest on December 31 of the third year following the grant assuming the achievement of predetermined, three-year cumulative performance targets. 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. For both

RSUs and PSAs, 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. 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 the first nine months of 2013 and 2012:

| <i>Units</i>          | 2013      | 2012     |
|-----------------------|-----------|----------|
| Balance January 1,    | 847,679   | 788,088  |
| Granted               | 210,856   | 207,728  |
| Forfeited             | (40,991)  | (29,825) |
| Shares delivered      | (113,230) | (95,430) |
| Balance September 30, | 904,314   | 870,561  |

The amount granted in 2013 and 2012 includes PSAs of 181,670 and 161,083, respectively, exclusive of reinvested dividends. The following table sets forth aggregate RSU and PSA compensation expense for the periods indicated:

September 30

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*Dollars in thousands*

|                    | 2013     | 2012   |
|--------------------|----------|--------|
| Three months ended | \$ 892   | \$ 680 |
| Nine months ended  | \$ 2,216 | 1,959  |

**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.

- 11 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

The following table sets forth information related to outstanding SOSARS.

|                                                         | 2013             |                        | 2012             |                        |
|---------------------------------------------------------|------------------|------------------------|------------------|------------------------|
|                                                         | Shares           | Wtd Avg Exercise Price | Shares           | Wtd Avg Exercise Price |
| <b>SOSARS</b>                                           |                  |                        |                  |                        |
| Outstanding at January 1,                               | 2,121,454        | \$ 12.93               | 2,298,288        | \$ 12.35               |
| Granted                                                 | 361,923          | 18.36                  | 364,114          | 15.23                  |
| Exercised                                               | (435,562)        | 12.63                  | (500,074)        | 12.06                  |
| Canceled / forfeited                                    | (73,901)         | 16.25                  | (12,000)         | 14.96                  |
| <b>Outstanding at September 30,</b>                     | <b>1,973,914</b> | <b>\$ 13.87</b>        | <b>2,150,328</b> | <b>\$ 12.94</b>        |
| <b>SOSAR Grants</b>                                     |                  |                        |                  |                        |
| Weighted average grant date fair value per share        | \$ 5.64          |                        | \$ 4.94          |                        |
| Aggregate grant date fair value ( <i>in thousands</i> ) | \$ 2,042         |                        | \$ 1,797         |                        |
| <b>Black-Scholes assumptions</b>                        |                  |                        |                  |                        |
| Dividend yield                                          | 2.18%            |                        | 2.31%            |                        |
| Risk free rate of return                                | 0.99%            |                        | 1.02%            |                        |
| Volatility                                              | 39.62%           |                        | 41.48%           |                        |
| Expected life                                           | 6 yrs            |                        | 6 yrs            |                        |

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

| <i>In thousands</i> | September 30 |        |
|---------------------|--------------|--------|
|                     | 2013         | 2012   |
| Three months ended  | \$ 398       | \$ 369 |
| Nine months ended   | 1,198        | 1,095  |

**9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS**

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

| <i>In thousands</i>                | Three months ended September 30 |                 |
|------------------------------------|---------------------------------|-----------------|
|                                    | 2013                            | 2012            |
| <b>Pension Benefits</b>            |                                 |                 |
| Service cost                       | \$ 2,897                        | \$ 2,778        |
| Interest cost                      | 5,504                           | 5,770           |
| Expected return on plan assets     | (10,857)                        | (10,541)        |
| Amortization of prior service cost | 773                             | 614             |
| Amortization of unrecognized loss  | 5,237                           | 4,255           |
| <b>Subtotal</b>                    | <b>\$ 3,554</b>                 | <b>\$ 2,876</b> |
| <b>Other Benefits</b>              |                                 |                 |
| Service cost                       | \$ 789                          | \$ 709          |
| Interest cost                      | 545                             | 608             |
| Expected return on plan assets     |                                 | (113)           |
| Amortization of prior service cost | (125)                           | (234)           |
| Amortization of unrecognized loss  | 202                             | 165             |
| <b>Net periodic benefit cost</b>   | <b>\$ 1,411</b>                 | <b>\$ 1,135</b> |

| <i>In thousands</i>                | Nine months ended<br>September 30 |                 |
|------------------------------------|-----------------------------------|-----------------|
|                                    | 2013                              | 2012            |
| <b>Pension Benefits</b>            |                                   |                 |
| Service cost                       | \$ 8,693                          | \$ 8,334        |
| Interest cost                      | 16,504                            | 17,304          |
| Expected return on plan assets     | (32,570)                          | (31,651)        |
| Amortization of prior service cost | 2,321                             | 1,841           |
| Amortization of unrecognized loss  | 15,711                            | 12,765          |
| <b>Subtotal</b>                    | <b>\$ 10,659</b>                  | <b>\$ 8,593</b> |
| <b>Other Benefits</b>              |                                   |                 |
| Service cost                       | \$ 2,367                          | \$ 2,127        |
| Interest cost                      | 1,635                             | 1,824           |
| Expected return on plan assets     |                                   | (339)           |
| Amortization of prior service cost | (375)                             | (703)           |
| Amortization of unrecognized loss  | 606                               | 496             |
| <b>Net periodic benefit cost</b>   | <b>\$ 4,233</b>                   | <b>\$ 3,405</b> |

- 12 -

GLATFELTER

9.30.13 Form 10-Q



**Table of Contents****10. INVENTORIES**

Inventories, net of reserves, were as follows:

| <i>In thousands</i>     | <b>September 30<br/>2013</b> | December 31<br>2012 |
|-------------------------|------------------------------|---------------------|
| Raw materials           | <b>\$ 61,246</b>             | \$ 61,084           |
| In-process and finished | <b>102,745</b>               | 102,331             |
| Supplies                | <b>66,427</b>                | 58,951              |
| <br>Total               | <br><b>\$ 230,418</b>        | <br>\$ 222,366      |

**11. OTHER LONG-TERM ASSETS**

Other long-term assets consist of the following:

| <i>In thousands</i>      | <b>September 30<br/>2013</b> | December 31<br>2012 |
|--------------------------|------------------------------|---------------------|
| Pension                  | <b>\$ 62,775</b>             | \$ 53,734           |
| Goodwill and intangibles | <b>189,862</b>               | 24,902              |
| Other                    | <b>22,763</b>                | 24,305              |
| <br>Total                | <br><b>\$ 275,400</b>        | <br>\$ 102,941      |

In connection with the Dresden acquisition completed April 30, 2013, we recorded \$74.9 million of goodwill and \$87.6 million of intangible assets.

**12. LONG-TERM DEBT**

Long-term debt is summarized as follows:

| <i>In thousands</i>                        | <b>September 30<br/>2013</b> | December 31<br>2012 |
|--------------------------------------------|------------------------------|---------------------|
| Revolving credit facility, due Nov. 2016   | <b>\$ 130,940</b>            | \$                  |
| 5.375% Notes, due Oct. 2020                | <b>250,000</b>               | 250,000             |
| 2.05% Term Loan, due Mar. 2023             | <b>57,641</b>                |                     |
| <br>Total long-term debt                   | <br><b>438,581</b>           | <br>250,000         |
| Less current portion                       |                              |                     |
| <br>Long-term debt, net of current portion | <br><b>\$ 438,581</b>        | <br>\$ 250,000      |

On November 21, 2011, we entered into an amendment to our revolving credit agreement with a consortium of banks (the Revolving Credit Facility) which increased the amount available for borrowing to \$350 million, extended the maturity of the facility to November 21, 2016, and instituted a lower interest rate pricing grid.

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For all U.S. dollar denominated borrowings under the Revolving Credit Facility, the borrowing rate is, at our option, (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 plus an applicable spread ranging from 25 basis points to 125 basis points based on our corporate

credit ratings determined by Standard & Poor's Rating Services and Moody's Investor Service, Inc. (the Corporate Credit Rating); or iii) the daily Euro-rate plus 100 basis points; or (b) the daily Euro-rate plus an applicable margin ranging from 125 basis points to 225 basis points based on 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, limit 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 earnings before interest, taxes, depreciation and amortization (EBITDA) ratio; and ii) a consolidated EBITDA to interest expense ratio. 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 an offering of \$250 million aggregate principal amount of 5.375% Senior Notes due 2020 (the 5.375% Notes). The 5.375% Notes are fully and unconditionally guaranteed, jointly and severally, by PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, and Glatfelter Holdings, LLC (the Guarantors).

Unamortized deferred debt issuance costs related to the offering of the 5.375% Notes totaled \$4.3 million and \$4.8 million as of September 30, 2013 and December 31, 2012, respectively, and are reported under the caption Other assets in the accompanying condensed consolidated balance sheets. The deferred costs are being amortized on a straight line basis over the life of the 5.375% Notes.

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 anytime on or after October 15, 2016 at the redemption prices specified in the applicable Indenture. Prior to October 15, 2016, we may redeem some or all of the Notes at a make-whole premium as specified in the 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.

- 13 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

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 Agreement at maturity or a default under the Revolving Credit Agreement that accelerates the debt outstanding thereunder. As of September 30, 2013, we met all of the requirements of our debt covenants.

On April 11, 2013, Glatfelter Gernsbach GmbH & Co. KG ( Gernsbach ), a wholly-owned subsidiary of ours, entered into an agreement with IKB Deutsche Industriebank AG, Düsseldorf ( IKB ), pursuant to which Gernsbach borrowed from IKB approximately 42.7 million (or \$57.6 million) aggregate principal amount (the IKB Loan ).

The IKB Loan, guaranteed in full by us, is repayable in 32 quarterly installments beginning on June 30, 2015 and ending on March 31, 2023 and will bear interest at a rate of 2.05% per annum. Interest on the IKB Loan or portion thereof is payable quarterly in each year of the term of the loan with interest accruing from the date the loan or portion thereof is drawn.

The IKB Loan provides for representations, warranties and covenants customary for financings of this type. The financial covenants contained in the IKB Loan, 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, will be calculated by reference to our Amended and Restated Credit Agreement, dated November 21, 2011.

As of September 30, 2013 and December 31, 2012, we had \$5.2 million of letters of credit issued to us by certain financial institutions. The letters of credit, which reduce amounts available under our revolving credit facility, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

**13. ASSET RETIREMENT OBLIGATION**

During 2008, we recorded \$11.5 million, net present value, of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, lagoons were used to dispose of residual waste material. Closure of the lagoons, which is expected to be completed in 2016, will be accomplished by filling the lagoons, installing a non-permeable liner

which will be covered with soil to construct the required cap over the lagoons. The amount referred to above, in addition to upward revisions, was accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the consolidated balance sheet. The amount capitalized is being amortized as a charge to operations on the straight-line basis in relation to the expected closure period. Following is a summary of activity recorded during the first nine months of 2013 and 2012:

| <i>In thousands</i>      | 2013     | 2012     |
|--------------------------|----------|----------|
| Balance at January 1,    | \$ 8,882 | \$ 9,679 |
| Accretion                | 234      | 347      |
| Payments                 | (2,719)  | (945)    |
| Gain                     | (1,255)  |          |
| Balance at September 30, | \$ 5,142 | \$ 9,081 |

During the third quarter of 2013, we recognized a \$1.3 million gain related to the progress of closure activities for a portion of the lagoons required to be retired. The gain is reflected in the accompanying condensed consolidated statements of income under the caption costs of products sold.

The following table summarizes the line items in the accompanying condensed consolidated balance sheets where the asset retirement obligations are recorded:

| <i>In millions</i> | September 30<br>2013 | December 31<br>2012 |
|--------------------|----------------------|---------------------|
|--------------------|----------------------|---------------------|

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|                             |           |            |           |            |
|-----------------------------|-----------|------------|-----------|------------|
| Other current liabilities   | \$        | 1.2        | \$        | 3.6        |
| Other long-term liabilities |           | 3.9        |           | 5.3        |
| <b>Total</b>                | <b>\$</b> | <b>5.1</b> | <b>\$</b> | <b>8.9</b> |

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

| <i>In thousands</i> | September 30, 2013 |                   | December 31, 2012 |                   |
|---------------------|--------------------|-------------------|-------------------|-------------------|
|                     | Carrying Value     | Fair Value        | Carrying Value    | Fair Value        |
| Fixed-rate bonds    | \$ 250,000         | \$ 254,321        | \$ 250,000        | \$ 260,340        |
| 2.05% Term loan     | 57,641             | 55,917            |                   |                   |
| Variable rate debt  | 130,940            | 130,940           |                   |                   |
| <b>Total</b>        | <b>\$ 438,581</b>  | <b>\$ 441,178</b> | <b>\$ 250,000</b> | <b>\$ 260,340</b> |

As of September 30, 2013, and December 31, 2012, we had \$250.0 million of 5.375% fixed rate bonds. These bonds are publicly registered, but thinly traded. Accordingly, the values set forth above for the bonds, as

- 14 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

well as our other debt instruments, are based on observable inputs and other relevant market data (Level 2). 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 expected to be incurred over a maximum of twelve months. Currency forward contracts involve fixing the EUR-USD exchange rate or USD-CAD for delivery of a specified amount of foreign currency on a specified date.

We designate certain currency forward contracts as cash flow hedges of forecasted raw material purchases or certain production costs 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 and is subsequently reclassified into costs of products sold in the period that inventory produced using the hedged transaction affects earnings. 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:

| <i>In thousands</i>           | <b>September 30<br/>2013</b> | December 31<br>2012 |
|-------------------------------|------------------------------|---------------------|
| Derivative                    |                              | Buy Notional        |
| Sell / Buy                    |                              |                     |
| Euro / U.S. dollar            | <b>25,275</b>                | 27,003              |
| U.S. dollar / Canadian dollar | <b>13,317</b>                | 12,369              |

These contracts have maturities of twelve months or less.

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

| <i>In thousands</i>           | <b>September 30<br/>2013</b> | December 31<br>2012 |
|-------------------------------|------------------------------|---------------------|
| Derivative                    |                              | Sell (Buy) Notional |
| Sell / Buy                    |                              |                     |
| Euro / U.S. dollar            | <b>18,000</b>                | 13,000              |
| Euro / British Pound          | <b>(8,000)</b>               | 4,000               |
| Euro / British Pound          | <b>5,000</b>                 |                     |
| Canadian dollar / U.S. dollar | <b>2,000</b>                 | 2,000               |
| U.S. dollar / Euro            | <b>6,000</b>                 | 2,000               |

U.S. dollar / British Pound

6,000

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

- 15 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**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:

| <i>In thousands</i>                         | September 30<br>2013                         | December 31<br>2012 | September 30<br>2013         | December 31<br>2012 |
|---------------------------------------------|----------------------------------------------|---------------------|------------------------------|---------------------|
| Balance sheet caption                       | Prepaid Expenses and Other<br>Current Assets |                     | Other Current<br>Liabilities |                     |
| <b>Designated as hedging:</b>               |                                              |                     |                              |                     |
| Forward foreign currency exchange contracts | \$ 40                                        | \$ 107              | \$ 675                       | \$ 751              |
| <b>Not designated as hedging:</b>           |                                              |                     |                              |                     |
| Forward foreign currency exchange contracts | \$ 42                                        | \$ 159              | \$ 67                        | \$ 16               |

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:

| <i>In thousands</i>                          | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|----------------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                              | 2013                               | 2012     | 2013                              | 2012     |
| <b>Designated as hedging:</b>                |                                    |          |                                   |          |
| Forward foreign currency exchange contracts: |                                    |          |                                   |          |
| Effective portion cost of products sold      | \$ (384)                           | \$ 715   | \$ (641)                          | \$ 1,832 |
| Ineffective portion other net                | 49                                 | 18       | 74                                | 244      |
| <b>Not designated as hedging:</b>            |                                    |          |                                   |          |
| Forward foreign currency exchange contracts: |                                    |          |                                   |          |
| Other net                                    | \$ (348)                           | \$ (684) | \$ (794)                          | \$ (290) |

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 is as follows:

| <i>In thousands</i>                         | 2013     | 2012     |
|---------------------------------------------|----------|----------|
| Balance at January 1,                       | \$ (599) | \$ 1,649 |
| Deferred (losses) gains on cash flow hedges | (778)    | 663      |
| Reclassified to earnings                    | 641      | (1,832)  |
| Balance at September 30,                    | \$ (736) | \$ 480   |

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

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Credit risk related to derivative activity arises in the event a 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 -

GLATFELTER

9.30.13 Form 10-Q



**Table of Contents****16. SHARE REPURCHASES**

In May 2012, our Board of Directors authorized a new share repurchase program for up to \$25.0 million of our outstanding common stock, exclusive of commissions. The following table summarizes share repurchases through September 30, 2013, made under this program:

|                         | shares  | (thousands) |
|-------------------------|---------|-------------|
| Authorized amount       | n/a     | \$ 25,000   |
| Repurchases             | 291,120 | (4,462)     |
| Remaining authorization |         | \$ 20,538   |

During the first nine months of 2013, no shares were repurchased.

**17. 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 ). The United States, the State of Wisconsin, and two Indian tribes (collectively, the Governments ) seek to require (a) a cleanup of the Site ( response actions ), (b) reimbursement of cleanup costs ( response costs ), and (c) natural resource damages ( NRDs ). They claim that we, together with seven other entities that have been formally notified that they are potentially responsible parties ( PRPs ) under CERCLA for response costs or NRDs, are jointly and severally responsible under the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA or Superfund ) for those response actions, response costs, and NRDs, all of which may total in excess of \$1 billion.

The PRPs consist of us, Appvion, Inc. (formerly known as Appleton Papers Inc.), CBC Coating, Inc. (formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation ( NCR ), U.S. Paper Mills Corp., and WTM I Company.

The Governments have identified manufacturing and recycling of NCR®-brand carbonless copy paper as the

principal source of the PCBs in sediments at the Site. Our predecessor, the Bergstrom Paper Company, and later we operated a deinking paper mill in Neenah, Wisconsin. This mill received NCR®-brand carbonless copy paper in its furnish and discharged PCBs to Little Lake Butte des Morts, an impoundment of the river at the upstream end of the Site.

The United States Environmental Protection Agency ( EPA ) has divided the Site into five operable units , including the most upstream ( OU1 ) and four downstream reaches of the river and bay ( OU2-5 ). OU1 extends from primarily Lake Winnebago to the dam at Appleton, and is comprised of Little Lake Butte des Morts. The Neenah Facility discharged its wastewater into this portion of the site.

We have resolved our liability for response actions and response costs associated with the permanent cleanup of Little Lake Butte des Morts through a consent decree, and amendments, entered in *United States v. P.H. Glatfelter Co.*, No. 2:03-cv-949-LA (E.D. Wis.). Together with WTM I Company and with assistance from Menasha Corporation, we have completed that cleanup except for on-going operation and maintenance.

In November 2007, the EPA issued a unilateral administrative order for remedial action ( UAO ) to us and to seven other respondents directing us to implement the cleanup of the Site downstream of Little Lake Butte des Morts. Since that time, the district court has held that one of the respondents, Appvion, is not liable for this Site. In addition, the United States and the State of Wisconsin have entered into a settlement with another respondent, Georgia-Pacific LLP ( GP ), limiting GP s responsibility to the downstream-most three miles of the river. Work has proceeded to implement the UAO, mostly funded by NCR and its indemnitors.

In January 2008, two of the UAO respondents, NCR and Appleton Papers Inc. (now known as Appvion), brought two actions, consolidated under the caption *Appleton Papers Inc. v. George A. Whiting Paper Co.*, No. 2:08-cv-16-WCG (E.D. Wis.) ( Whiting Litigation ), that ultimately involved us and more than two dozen parties in litigation to allocate among the parties the responsibility for response actions, response costs,

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and NRDs for this Site. Most of the parties responsible for relatively small discharges of PCBs settled with the Governments, resolving their liability. On June 27, 2013, the district court entered a final judgment that (a) neither NCR nor Appvion may pursue any other party for contribution, (b) NCR owes us and the other non-settling parties full contribution for any amounts we may have to pay on account of response actions or response costs downstream of Little Lake Butte des Morts or on account of NRDs, (c) NCR is not liable for response costs, response actions, or

- 17 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

NRDs in Little Lake Butte des Morts, and (d) NCR owes us reimbursement of \$4.28 million in costs we incurred in the past. NCR and Appvion have appealed that judgment. We have filed a cross-appeal of that judgment (as have several other defendants), challenging those portions of the judgment with which we disagree, including the ruling that NCR is not liable for response costs, response actions, or NRDs in Little Lake Butte des Morts. Until the Whiting Litigation judgment is affirmed on appeal, all past and future costs or damages incurred by any person remain the subject of litigation against us.

In October 2010, the United States and the State of Wisconsin sued us and thirteen other defendants to recover an injunction requiring the UAO respondents to complete the response actions required by the UAO and all parties to reimburse past and future response costs incurred by the Governments as well as to pay NRDs. That case is captioned *United States v. NCR Corp.*, No. 1:10-cv-910-WCG (E.D. Wis.) ( Government Action ). To date, litigation of the Government Action has been limited to the United States' claim against the UAO respondents for a mandatory injunction to require implementation of the remaining work under the UAO, that is, completion of the remedy in the 33 miles of the river downstream of Little Lake Butte des Morts. Following a trial in December 2012, on May 1, 2013, the district court granted that injunction ( May 2013 Order ). The May 2013 Order directs the Company jointly and severally along with three other defendants that are also enjoined (NCR, WTM I Company, and Menasha Corporation) to comply with the UAO. An accompanying declaratory judgment declares the Company and those three defendants jointly and severally liable with three additional defendants (Georgia-Pacific, LLP, U.S. Paper Mills, Inc., and CBC Coatings, Inc.) that have entered into agreements with the United States governing those parties' compliance with the UAO. The district court has denied NCR's motion to require us to contribute to compliance with the injunction. We have appealed the May 2013 Order, as have NCR, WTM I, and Menasha.

**Cost estimates.** Estimates of the Site remediation change over time as we, or others, gain additional data and experience at the Site. In addition, disagreement exists over the likely costs for some of this work. Based upon estimates made by the Governments and independent estimates commissioned by various potentially responsible parties, we have no reason to disagree with the Governments' assertion that total past and future response costs and NRDs at this site may exceed \$1 billion and that \$1.5 billion is a reasonable outside estimate. Much of that amount has already been incurred. As described below, some of that amount is NRDs. The parties implementing the response action under the UAO in the downstream part of the river estimate the cost of work being done in 2013 and the future cost of work yet to be done totals approximately \$360 million. The Governments seek to have that work done at a rate estimated to cost approximately \$70 million each year from 2013 through 2016, and at lower rate afterward.

**NRDs.** The Governments' NRD assessment documents claimed that we are jointly and severally responsible for NRDs with a value between \$176 million and \$333 million. The Governments now claim that this range should be inflated to 2009 dollars and then certain unreimbursed past assessment costs should be added, so that the range of their claim would be \$287 million to \$423 million. We deny liability for most of these NRDs and believe that even if anyone is liable, that we are not jointly and severally liable for the full amount. The May 2013 Order does not determine whether liability for NRDs would be joint and several. Moreover, we believe that the Natural Resource Trustees may not legally pursue this claim at this late date, as the limitations period for NRD claims is three years from discovery.

**Reserves for the Site.** As of September 30, 2013, our reserve for the Site, including our remediation and ongoing monitoring obligations in Little Lake Butte des Morts, our share of remediation of the rest of the Site, NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled \$16.3 million. Of our total reserve for the Fox River, \$0.1 million is recorded in the accompanying condensed consolidated balance sheets under the caption Environmental liabilities and the remainder is recorded under the caption Other long term liabilities.

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## Table of Contents

Although we believe that amounts already funded by us and WTM I to implement the Little Lake Butte des Morts remedy are adequate and no payments have been required since January 2009, there can be no assurance that these amounts will in fact suffice. WTM I has filed a bankruptcy petition in the Bankruptcy Court in Richmond; accordingly, there can be no assurance that WTM I will be able to fulfill its obligation to pay half of any additional costs, if required.

We do not believe that we will be allocated a significant percentage share of liability in any final equitable allocation of the response costs and NRDs. The accompanying consolidated financial statements do not include reserves for defense costs for the Whiting Litigation, the Government Action, or any future defense costs related to our involvement at the Site, which could be significant.

In setting our reserve for the Site, we have assessed our legal defenses, including our successful defenses to the allegations made in the Whiting Litigation and the determination in the Whiting Litigation that NCR owes us full contribution for response costs and NRDs that we may become obligated to pay except in OU1, and assumed that we will not bear the entire cost of remediation or damages to the exclusion of other known parties at the Site, who are also potentially jointly and severally liable. The existence and ability of other parties to participate has also been taken into account in setting our reserve, and is generally based on our evaluation of recent publicly available financial information on certain of the responsible parties and any known insurance, indemnity or cost sharing agreements between responsible parties and third parties. In addition, our assessment is based upon the magnitude, nature, location and circumstances associated with the various discharges of PCBs to the river and the relationship of those discharges to identified contamination. We will continue to evaluate our exposure and the level of our reserves, including, but not limited to, our potential share of the costs and NRDs, if any, associated with the Site.

The amount and timing of future expenditures for environmental compliance, cleanup, remediation and personal injury, NRDs and property damage liabilities cannot be ascertained with any certainty due to, among other things, the unknown extent and nature of any contamination, the response actions that may ultimately be required, the availability of remediation equipment and landfill space, and the number and financial resources of any other PRPs.

**Other Information.** The Governments have published studies estimating the amount of PCBs discharged by each identified potentially responsible party's (PRP's) facility to the lower Fox River and Green Bay. These reports estimate our Neenah mill's share of the mass of PCBs discharged to be as high as 27%. The district court in its May 2013 Order found the discharge mass estimates used in these studies not to be accurate. We believe that the Neenah mill's absolute and relative contribution of PCB mass is significantly lower than the estimates set forth in these studies. The trial court in the Government Action has found that the Neenah mill discharged an unknown amount of PCBs.

In any event, based upon the rulings in the Whiting Litigation and the Government Action, neither of which endorsed an equitable allocation in proportion to the mass of PCBs discharged, we continue to believe that an allocation in proportion to mass of PCBs discharged would not constitute an equitable allocation of the potential liability for the contamination at the Fox River. We contend that other factors, such as the location of contamination, the location of discharge, and a party's role in causing discharge, must be considered in order for the allocation to be equitable.

In the 1990s, we entered into interim cost-sharing agreements with six of the other PRPs, which provided for those PRPs to share certain costs relating to scientific studies of PCBs discharged at the Site (Interim Cost Sharing Agreements). These Interim Cost Sharing Agreements do not establish the final allocation of remediation costs incurred at the Site. Based upon our evaluation of the rulings in the Whiting Litigation as well as the volume, nature and location of the various discharges of PCBs at the Site and the relationship of those discharges to identified contamination, we believe our allocable share of liability at the Site is less than our share of costs under the Interim Cost Sharing Agreements.

**Range of Reasonably Possible Outcomes.** Our analysis of the range of reasonably possible outcomes is derived from all available information, including but not limited to decisions of the courts, official documents such as records of decision, discussions with the United States and other parties, as well as legal counsel and engineering consultants. Based on our analysis of the current records of decision and cost estimates for work to be performed at the Site, we believe that it is reasonably possible that our costs associated with the Fox River matter may exceed our cost estimates and the aggregate amounts accrued for the Fox River matter by amounts that are insignificant or that could range up to \$275 million over an undeterminable period that could range beyond 10 years. We believe that the likelihood of an outcome in the upper end of the monetary range is significantly less than other



**Table of Contents**

possible outcomes within the range and that the possibility of an outcome in excess of the upper end of the monetary range is remote. The rulings in our favor in the Whiting Litigation, if sustained on appeal, suggest that outcomes in the upper end of the monetary range have become somewhat less likely, while adverse rulings on some issues in the Whiting Litigation and the Government Action and increases in cost estimates for some of the work may make an outcome in the upper end of the range more likely. The Company also believes that the effect of reading the Whiting Litigation decisions together with the May 2013 Order requires the ongoing compliance with the UAO to be funded by NCR, or to the extent that the Company is required to provide any such funding, that NCR will be required to reimburse the Company. There can be no assurance, however, that the May 2013 Order will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operation.

**Summary.** Our current assessment is that 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 that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or damages will not exceed our available resources, or that those obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations. Should a court grant the United States or the State of Wisconsin relief that requires us individually either to perform directly or to contribute significant amounts towards remedial action downstream of Little Lake Butte des Morts or to NRDs, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.

- 20 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****18. SEGMENT INFORMATION**

The following table sets forth financial and other information by business unit for the period indicated:

Three months ended September 30

| <i>In millions</i>                                                | Specialty Papers |          | Composite Fibers |          | Advanced Airlaid<br>Materials |         | Other and<br>Unallocated |          | Total    |          |
|-------------------------------------------------------------------|------------------|----------|------------------|----------|-------------------------------|---------|--------------------------|----------|----------|----------|
|                                                                   | 2013             | 2012     | 2013             | 2012     | 2013                          | 2012    | 2013                     | 2012     | 2013     | 2012     |
| Net sales                                                         | \$ 225.7         | \$ 232.6 | \$ 161.5         | \$ 110.8 | \$ 69.5                       | \$ 60.9 | \$                       | \$       | \$ 456.6 | \$ 404.4 |
| Energy and related sales, net                                     | 1.2              | 1.9      |                  |          |                               |         |                          |          | 1.2      | 1.9      |
| Total revenue                                                     | 226.9            | 234.5    | 161.5            | 110.8    | 69.5                          | 60.9    |                          |          | 457.8    | 406.2    |
| Cost of products sold                                             | 196.4            | 199.1    | 129.5            | 91.2     | 63.7                          | 54.1    | 2.3                      | 2.6      | 391.8    | 347.0    |
| Gross profit (loss)                                               | 30.5             | 35.4     | 31.9             | 19.7     | 5.8                           | 6.8     | (2.3)                    | (2.6)    | 66.0     | 59.2     |
| SG&A                                                              | 12.5             | 14.0     | 13.0             | 9.4      | 1.9                           | 2.2     | 7.1                      | 3.9      | 34.5     | 29.4     |
| Gains on dispositions of plant,<br>equipment and timberlands, net |                  |          |                  |          |                               |         | (0.3)                    | (1.5)    | (0.3)    | (1.5)    |
| Total operating income (loss)                                     | 18.1             | 21.4     | 18.9             | 10.3     | 3.9                           | 4.6     | (9.1)                    | (5.0)    | 31.8     | 31.3     |
| Non-operating expense                                             |                  |          |                  |          |                               |         | (4.7)                    | (4.1)    | (4.7)    | (4.1)    |
| Income (loss) before income taxes                                 | \$ 18.1          | \$ 21.4  | \$ 18.9          | \$ 10.3  | \$ 3.9                        | \$ 4.6  | \$ (13.8)                | \$ (9.0) | \$ 27.1  | \$ 27.2  |

**Supplementary Data**

|                                             |        |        |        |        |        |        |     |     |         |         |
|---------------------------------------------|--------|--------|--------|--------|--------|--------|-----|-----|---------|---------|
| Net tons sold                               | 203.6  | 204.5  | 40.3   | 23.5   | 24.8   | 22.8   |     |     | 268.7   | 250.9   |
| Depreciation, depletion and<br>amortization | \$ 8.3 | \$ 9.2 | \$ 7.1 | \$ 5.7 | \$ 2.2 | \$ 2.1 | 0.4 |     | \$ 18.0 | \$ 17.1 |
| Capital expenditures                        | 11.1   | 5.4    | 12.8   | 7.5    | 0.8    | 1.4    | 0.7 | 0.1 | 25.3    | 14.4    |

Nine months ended September 30

| <i>In millions</i>                                                | Specialty Papers |          | Composite Fibers |          | Advanced Airlaid<br>Materials |          | Other and<br>Unallocated |           | Total      |            |
|-------------------------------------------------------------------|------------------|----------|------------------|----------|-------------------------------|----------|--------------------------|-----------|------------|------------|
|                                                                   | 2013             | 2012     | 2013             | 2012     | 2013                          | 2012     | 2013                     | 2012      | 2013       | 2012       |
| Net sales                                                         | \$ 669.8         | \$ 670.5 | \$ 415.9         | \$ 331.4 | \$ 202.2                      | \$ 184.5 | \$                       | \$        | \$ 1,287.8 | \$ 1,186.4 |
| Energy and related sales, net                                     | 2.7              | 5.4      |                  |          |                               |          |                          |           | 2.7        | 5.4        |
| Total revenue                                                     | 672.5            | 675.9    | 415.9            | 331.4    | 202.2                         | 184.5    |                          |           | 1,290.5    | 1,191.8    |
| Cost of products sold                                             | 599.7            | 585.2    | 334.5            | 273.5    | 182.0                         | 164.3    | 10.0                     | 7.8       | 1,126.3    | 1,030.7    |
| Gross profit (loss)                                               | 72.8             | 90.7     | 81.3             | 57.9     | 20.1                          | 20.2     | (10.0)                   | (7.8)     | 164.3      | 161.0      |
| SG&A                                                              | 40.3             | 41.3     | 34.4             | 28.8     | 6.4                           | 7.2      | 21.3                     | 12.2      | 102.5      | 89.5       |
| Gains on dispositions of plant,<br>equipment and timberlands, net |                  |          |                  |          |                               |          | (0.4)                    | (8.5)     | (0.4)      | (8.5)      |
| Total operating income (loss)                                     | 32.5             | 49.4     | 46.9             | 29.1     | 13.7                          | 13.0     | (31.0)                   | (11.5)    | 62.1       | 80.1       |
| Non-operating expense                                             |                  |          |                  |          |                               |          | (12.5)                   | (12.0)    | (12.5)     | (12.0)     |
| Income (loss) before income taxes                                 | \$ 32.5          | \$ 49.4  | \$ 46.9          | \$ 29.1  | \$ 13.7                       | \$ 13.0  | \$ (43.5)                | \$ (23.4) | \$ 49.6    | \$ 68.1    |

**Supplementary Data**

|                                    |       |       |      |      |      |      |  |  |       |       |
|------------------------------------|-------|-------|------|------|------|------|--|--|-------|-------|
| Net tons sold ( <i>thousands</i> ) | 601.6 | 587.1 | 97.9 | 69.2 | 72.4 | 67.9 |  |  | 771.9 | 724.2 |
|------------------------------------|-------|-------|------|------|------|------|--|--|-------|-------|

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|                                          |         |         |         |         |        |        |     |         |         |      |
|------------------------------------------|---------|---------|---------|---------|--------|--------|-----|---------|---------|------|
| Depreciation, depletion and amortization | \$ 24.9 | \$ 27.1 | \$ 17.7 | \$ 17.6 | \$ 6.6 | \$ 6.5 | 0.8 | \$ 50.0 | \$ 51.1 |      |
| Capital expenditures                     | 27.9    | 19.1    | 49.0    | 22.9    | 4.8    | 2.8    | 4.4 | 0.2     | 86.1    | 45.0 |

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

On April 30, 2013, we completed the acquisition of Dresden for \$211 million. Dresden's results are included prospectively from the acquisition date as part of the Composite Fibers business unit. For additional information related to this acquisition, refer to Note 3 Acquisition.

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 pension expense, 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. 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

9.30.13 Form 10-Q



**Table of Contents****19. GUARANTOR FINANCIAL STATEMENTS**

Our 5.375% Notes 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., The Glatfelter Pulp Wood Company, 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; and (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 among us, the Guarantors and US Bank National Association, as Trustee, relating to the 5.375% Notes. The following presents our condensed consolidating statements of income, including comprehensive income for the three months and nine months ended September 30, 2013 and 2012, our condensed consolidating balance sheets as of September 30, 2013 and December 31, 2012 and condensed consolidating cash flows for the nine months ended September 30, 2013 and 2012. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis.

**Condensed Consolidating Statements of Income and Comprehensive Income for the  
three months ended September 30, 2013**

| <i>In thousands</i>                                            | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|----------------------------------------------------------------|-------------------|------------|-------------------|------------------------------|--------------|
| Net sales                                                      | \$ 225,690        | \$ 12,688  | \$ 230,958        | \$ (12,688)                  | \$ 456,648   |
| Energy and related sales, net                                  | 1,196             |            |                   |                              | 1,196        |
| Total revenues                                                 | 226,886           | 12,688     | 230,958           | (12,688)                     | 457,844      |
| Costs of products sold                                         | 201,414           | 10,907     | 192,209           | (12,725)                     | 391,805      |
| Gross profit                                                   | 25,472            | 1,781      | 38,749            | 37                           | 66,039       |
| Selling, general and administrative expenses                   | 15,716            | 677        | 18,087            |                              | 34,480       |
| Gains on dispositions of plant, equipment and timberlands, net | (3)               | (282)      | 3                 |                              | (282)        |
| Operating income                                               | 9,759             | 1,386      | 20,659            | 37                           | 31,841       |
| Other non-operating income (expense)                           |                   |            |                   |                              |              |
| Interest expense                                               | (3,885)           |            | (903)             |                              | (4,788)      |
| Interest income                                                | (621)             | 2,344      | (1,631)           |                              | 92           |
| Other, net                                                     | 19,377            | 162        | (587)             | (18,986)                     | (34)         |
| Total other non-operating income (expense)                     | 14,871            | 2,506      | (3,121)           | (18,986)                     | (4,730)      |
| Income (loss) before income taxes                              | 24,630            | 3,892      | 17,538            | (18,949)                     | 27,111       |
| Income tax provision (benefit)                                 | (9,489)           | (364)      | 2,827             | 18                           | (7,008)      |
| Net income (loss)                                              | 34,119            | 4,256      | 14,711            | (18,967)                     | 34,119       |
| Other comprehensive income                                     | 17,903            | 6,400      | (219)             | (6,181)                      | 17,903       |
| Comprehensive income (loss)                                    | \$ 52,022         | \$ 10,656  | \$ 14,492         | \$ (25,148)                  | \$ 52,022    |

- 22 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**Condensed Consolidating Statements of Income and Comprehensive Income for the  
three months ended September 30, 2012**

| <i>In thousands</i>                                            | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|----------------------------------------------------------------|-------------------|------------|-------------------|------------------------------|--------------|
| Net sales                                                      | \$ 232,620        | \$ 13,936  | \$ 171,734        | \$ (13,936)                  | \$ 404,354   |
| Energy and related sales, net                                  | 1,867             |            |                   |                              | 1,867        |
| Total revenues                                                 | 234,487           | 13,936     | 171,734           | (13,936)                     | 406,221      |
| Costs of products sold                                         | 203,084           | 12,472     | 145,377           | (13,904)                     | 347,029      |
| Gross profit                                                   | 31,403            | 1,464      | 26,357            | (32)                         | 59,192       |
| Selling, general and administrative expenses                   | 16,842            | 880        | 11,658            |                              | 29,380       |
| Gains on dispositions of plant, equipment and timberlands, net | 16                | (1,489)    |                   |                              | (1,473)      |
| Operating income                                               | 14,545            | 2,073      | 14,699            | (32)                         | 31,285       |
| Other non-operating income (expense)                           |                   |            |                   |                              |              |
| Interest expense                                               | (4,152)           |            |                   |                              | (4,152)      |
| Interest income                                                | (765)             | 1,779      | (908)             |                              | 106          |
| Other, net                                                     | 12,016            | 269        | 238               | (12,527)                     | (4)          |
| Total other non-operating income (expense)                     | 7,099             | 2,048      | (670)             | (12,527)                     | (4,050)      |
| Income (loss) before income taxes                              | 21,644            | 4,121      | 14,029            | (12,559)                     | 27,235       |
| Income tax provision (benefit)                                 | 1,545             | 1,637      | 3,967             | (13)                         | 7,136        |
| Net income (loss)                                              | 20,099            | 2,484      | 10,062            | (12,546)                     | 20,099       |
| Other comprehensive income                                     | 11,566            | 3,923      | 5,356             | (9,279)                      | 11,566       |
| Comprehensive income (loss)                                    | \$ 31,665         | \$ 6,407   | \$ 15,418         | \$ (21,825)                  | \$ 31,665    |

- 23 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**Condensed Consolidating Statements of Income and Comprehensive Income for the  
nine months ended September 30, 2013**

| <i>In thousands</i>                                            | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|----------------------------------------------------------------|-------------------|------------|-------------------|------------------------------|--------------|
| Net sales                                                      | \$ 669,792        | \$ 40,988  | \$ 618,012        | \$ (40,988)                  | \$ 1,287,804 |
| Energy and related sales net                                   | 2,721             |            |                   |                              | 2,721        |
| Total revenues                                                 | 672,513           | 40,988     | 618,012           | (40,988)                     | 1,290,525    |
| Costs of products sold                                         | 614,507           | 35,843     | 516,747           | (40,826)                     | 1,126,271    |
| Gross profit                                                   | 58,006            | 5,145      | 101,265           | (162)                        | 164,254      |
| Selling, general and administrative expenses                   | 52,640            | 1,909      | 47,946            |                              | 102,495      |
| Gains on dispositions of plant, equipment and timberlands, net | (17)              | (357)      |                   |                              | (374)        |
| Operating income                                               | 5,383             | 3,593      | 53,319            | (162)                        | 62,133       |
| Other non-operating income (expense)                           |                   |            |                   |                              |              |
| Interest expense                                               | (11,573)          |            | (1,570)           |                              | (13,143)     |
| Interest income                                                | (2,031)           | 5,697      | (3,426)           |                              | 240          |
| Other, net                                                     | 45,342            | 283        | 868               | (46,105)                     | 388          |
| Total other non-operating income (expense)                     | 31,738            | 5,980      | (4,128)           | (46,105)                     | (12,515)     |
| Income (loss) before income taxes                              | 37,121            | 9,573      | 49,191            | (46,267)                     | 49,618       |
| Income tax provision (benefit)                                 | (13,560)          | 1,210      | 11,353            | (66)                         | (1,063)      |
| Net income (loss)                                              | 50,681            | 8,363      | 37,838            | (46,201)                     | 50,681       |
| Other comprehensive income                                     | 17,319            | 3,171      | (5,078)           | 1,907                        | 17,319       |
| Comprehensive income (loss)                                    | \$ 68,000         | \$ 11,534  | \$ 32,760         | \$ (44,294)                  | \$ 68,000    |

- 24 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**Condensed Consolidating Statements of Income and Comprehensive Income for the  
nine months ended September 30, 2012**

| <i>In thousands</i>                                            | Parent<br>Company | Guarantors       | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated     |
|----------------------------------------------------------------|-------------------|------------------|-------------------|------------------------------|------------------|
| Net sales                                                      | \$ 670,536        | \$ 41,307        | \$ 515,874        | \$ (41,318)                  | \$ 1,186,399     |
| Energy and related sales, net                                  | 5,358             |                  |                   |                              | 5,358            |
| <b>Total revenues</b>                                          | <b>675,894</b>    | <b>41,307</b>    | <b>515,874</b>    | <b>(41,318)</b>              | <b>1,191,757</b> |
| Costs of products sold                                         | 596,508           | 37,524           | 437,945           | (41,260)                     | 1,030,717        |
| <b>Gross profit</b>                                            | <b>79,386</b>     | <b>3,783</b>     | <b>77,929</b>     | <b>(58)</b>                  | <b>161,040</b>   |
| Selling, general and administrative expenses                   | 51,570            | 2,220            | 35,670            |                              | 89,460           |
| Gains on dispositions of plant, equipment and timberlands, net | (506)             | (7,940)          | (25)              |                              | (8,471)          |
| <b>Operating income</b>                                        | <b>28,322</b>     | <b>9,503</b>     | <b>42,284</b>     | <b>(58)</b>                  | <b>80,051</b>    |
| <b>Other non-operating income (expense)</b>                    |                   |                  |                   |                              |                  |
| Interest expense                                               | (12,575)          |                  | (5)               |                              | (12,580)         |
| Interest income                                                | (2,129)           | 5,121            | (2,660)           |                              | 332              |
| Other, net                                                     | 36,817            | 642              | 1,099             | (38,263)                     | 295              |
| <b>Total other non-operating income (expense)</b>              | <b>22,113</b>     | <b>5,763</b>     | <b>(1,566)</b>    | <b>(38,263)</b>              | <b>(11,953)</b>  |
| <b>Income (loss) before income taxes</b>                       | <b>50,435</b>     | <b>15,266</b>    | <b>40,718</b>     | <b>(38,321)</b>              | <b>68,098</b>    |
| Income tax provision (benefit)                                 | (1,974)           | 6,523            | 11,165            | (25)                         | 15,689           |
| <b>Net income (loss)</b>                                       | <b>52,409</b>     | <b>8,743</b>     | <b>29,553</b>     | <b>(38,296)</b>              | <b>52,409</b>    |
| Other comprehensive income                                     | 12,598            | 1,815            | 1,366             | (3,181)                      | 12,598           |
| <b>Comprehensive income (loss)</b>                             | <b>\$ 65,007</b>  | <b>\$ 10,558</b> | <b>\$ 30,919</b>  | <b>\$ (41,477)</b>           | <b>\$ 65,007</b> |

- 25 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****Condensed Consolidating Balance Sheet as of****September 30, 2013**

| <i>In thousands</i>                        | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--------------------------------------------|-------------------|------------|-------------------|------------------------------|--------------|
| <b>Assets</b>                              |                   |            |                   |                              |              |
| Cash and cash equivalents                  | \$ 34,505         | \$ 88      | \$ 29,042         | \$                           | \$ 63,635    |
| Other current assets                       | 277,452           | 365,428    | 302,465           | (467,259)                    | 478,086      |
| Plant, equipment and timberlands, net      | 244,090           | 5,877      | 464,371           |                              | 714,338      |
| Other assets                               | 848,779           | 244,498    | 210,969           | (1,028,846)                  | 275,400      |
| Total assets                               | \$ 1,404,826      | \$ 615,891 | \$ 1,006,847      | \$ (1,496,105)               | \$ 1,531,459 |
| <b>Liabilities and Shareholders Equity</b> |                   |            |                   |                              |              |
| Current liabilities                        | \$ 409,815        | \$ 56,244  | \$ 264,980        | \$ (467,656)                 | \$ 263,383   |
| Long-term debt                             | 250,000           |            | 503,131           | (314,550)                    | 438,581      |
| Deferred income taxes                      | 32,601            | 1,893      | 77,880            | (17,528)                     | 94,846       |
| Other long-term liabilities                | 114,650           | 6,234      | 13,250            | 2,755                        | 136,889      |
| Total liabilities                          | 807,066           | 64,371     | 859,241           | (796,979)                    | 933,699      |
| Shareholders equity                        | 597,760           | 551,520    | 147,606           | (699,126)                    | 597,760      |
| Total liabilities and shareholders equity  | \$ 1,404,826      | \$ 615,891 | \$ 1,006,847      | \$ (1,496,105)               | \$ 1,531,459 |

**Condensed Consolidating Balance Sheet as of****December 31, 2012**

| <i>In thousands</i>                        | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--------------------------------------------|-------------------|------------|-------------------|------------------------------|--------------|
| <b>Assets</b>                              |                   |            |                   |                              |              |
| Cash and cash equivalents                  | \$ 43,748         | \$ 4,311   | \$ 49,620         | \$                           | \$ 97,679    |
| Other current assets                       | 204,961           | 387,627    | 214,568           | (385,977)                    | 421,179      |
| Plant, equipment and timberlands, net      | 241,969           | 6,204      | 373,013           |                              | 621,186      |
| Other assets                               | 787,348           | 160,741    | 45,133            | (890,281)                    | 102,941      |
| Total assets                               | \$ 1,278,026      | \$ 558,883 | \$ 682,334        | \$ (1,276,258)               | \$ 1,242,985 |
| <b>Liabilities and Shareholders Equity</b> |                   |            |                   |                              |              |
| Current liabilities                        | \$ 337,761        | \$ 6,041   | \$ 291,547        | \$ (384,441)                 | \$ 250,908   |
| Long-term debt                             | 250,000           |            |                   |                              | 250,000      |
| Deferred income taxes                      | 34,604            | 3,691      | 40,972            | (17,221)                     | 62,046       |
| Other long-term liabilities                | 115,982           | 10,602     | 11,093            | 2,675                        | 140,352      |
| Total liabilities                          | 738,347           | 20,334     | 343,612           | (398,987)                    | 703,306      |
| Shareholders equity                        | 539,679           | 538,549    | 338,722           | (877,271)                    | 539,679      |
| Total liabilities and shareholders equity  | \$ 1,278,026      | \$ 558,883 | \$ 682,334        | \$ (1,276,258)               | \$ 1,242,985 |

- 26 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**Condensed Consolidating Statement of Cash Flows for the nine  
months ended September 30, 2013**

| <i>In thousands</i>                                                 | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|---------------------------------------------------------------------|-------------------|------------|-------------------|------------------------------|--------------|
| Net cash provided (used) by                                         |                   |            |                   |                              |              |
| Operating activities                                                | \$ 36,772         | \$ (4,431) | \$ 63,123         | \$ 229                       | \$ 95,693    |
| Investing activities                                                |                   |            |                   |                              |              |
| Expenditures for plant, equipment and timberlands                   | (32,007)          | (68)       | (53,805)          | (209)                        | (86,089)     |
| Proceeds from disposals of plant, equipment and timberlands,<br>net | 22                | 357        |                   |                              | 379          |
| Repayments from (advances of) intercompany loans, net and<br>other  | 820               | (810)      |                   | (10)                         |              |
| Intercompany capital contributed                                    |                   | (91)       |                   | 91                           |              |
| Acquisitions, net of cash acquired                                  |                   |            | (210,911)         |                              | (210,911)    |
| Other                                                               | (325)             |            |                   |                              | (325)        |
| Total investing activities                                          | (31,490)          | (612)      | (264,716)         | (128)                        | (296,946)    |
| Financing activities                                                |                   |            |                   |                              |              |
| Net proceeds from indebtedness                                      |                   |            | 182,230           |                              | 182,230      |
| Payments of note offering costs                                     | (160)             |            | (259)             |                              | (419)        |
| Payment of dividends to shareholders                                | (12,603)          |            |                   |                              | (12,603)     |
| (Repayments) borrowings of intercompany loans, net                  | 570               | 820        | (1,380)           | (10)                         |              |
| Intercompany capital received                                       |                   |            | 91                | (91)                         |              |
| Payments for share-based compensation awards and other              | (2,332)           |            |                   |                              | (2,332)      |
| Total financing activities                                          | (14,525)          | 820        | 180,682           | (101)                        | 166,876      |
| Effect of exchange rate on cash                                     |                   |            | 333               |                              | 333          |
| Net decrease in cash                                                | (9,243)           | (4,223)    | (20,578)          |                              | (34,044)     |
| Cash at the beginning of period                                     | 43,748            | 4,311      | 49,620            |                              | 97,679       |
| Cash at the end of period                                           | \$ 34,505         | \$ 88      | \$ 29,042         | \$                           | \$ 63,635    |

- 27 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**Condensed Consolidating Statement of Cash Flows for the nine  
months ended September 30, 2012**

| <i>In thousands</i>                                                 | Parent<br>Company | Guarantors       | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated     |
|---------------------------------------------------------------------|-------------------|------------------|-------------------|------------------------------|------------------|
| <b>Net cash provided (used) by</b>                                  |                   |                  |                   |                              |                  |
| Operating activities                                                | \$ 9,196          | \$ 4,971         | \$ 34,298         | \$                           | \$ 48,465        |
| <b>Investing activities</b>                                         |                   |                  |                   |                              |                  |
| Expenditures for plant, equipment and timberlands                   | (19,035)          | (281)            | (25,711)          |                              | (45,027)         |
| Proceeds from disposals of plant, equipment and timberlands,<br>net | 654               | 8,185            | 36                |                              | 8,875            |
| Repayments from (advances of) intercompany loans, net               | 13,397            | (2,722)          | (514)             | (10,161)                     |                  |
| Other                                                               | (150)             |                  |                   |                              | (150)            |
| <b>Total investing activities</b>                                   | <b>(5,134)</b>    | <b>5,182</b>     | <b>(26,189)</b>   | <b>(10,161)</b>              | <b>(36,302)</b>  |
| <b>Financing activities</b>                                         |                   |                  |                   |                              |                  |
| Net (repayments of) proceeds from indebtedness                      | (8,000)           |                  |                   |                              | (8,000)          |
| Payments of note offering costs                                     | (102)             |                  |                   |                              | (102)            |
| Payment of dividends to shareholders                                | (11,696)          |                  |                   |                              | (11,696)         |
| Repurchases of common stock                                         | (4,060)           |                  |                   |                              | (4,060)          |
| (Repayments) borrowings of intercompany loans, net                  | 18,510            | (7,400)          | (21,271)          | 10,161                       |                  |
| Proceeds from stock options exercised and other                     | 1,434             |                  | 27                |                              | 1,461            |
| <b>Total financing activities</b>                                   | <b>(3,914)</b>    | <b>(7,400.0)</b> | <b>(21,244)</b>   | <b>10,161</b>                | <b>(22,397)</b>  |
| Effect of exchange rate on cash                                     |                   |                  | 279               |                              | 279              |
| <b>Net increase (decrease) in cash</b>                              | <b>148</b>        | <b>2,753</b>     | <b>(12,856)</b>   |                              | <b>(9,955)</b>   |
| Cash at the beginning of period                                     | 3,007             | 2,894            | 32,376            |                              | 38,277           |
| <b>Cash at the end of period</b>                                    | <b>\$ 3,155</b>   | <b>\$ 5,647</b>  | <b>\$ 19,520</b>  | <b>\$</b>                    | <b>\$ 28,322</b> |

- 28 -

GLATFELTER

9.30.13 Form 10-Q



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**Table of Contents**

**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 2012 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, 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 any unplanned market-related downtime, or variations in product pricing;
- ii. changes in the cost or availability of raw materials we use, in particular pulpwood, pulp, pulp substitutes, caustic soda and abaca fiber;
- iii. changes in energy-related costs and commodity raw materials with an energy component;
- iv. our ability to develop new, high value-added products;
- v. the impact of exposure to volatile market-based pricing for sales of excess electricity;
- vi. the impact of competition, changes in industry production capacity, including the construction of new mills, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- vii. the gain or loss of significant customers and/or on-going viability of such customers;
- viii. 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;
- ix. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- x. geopolitical events, including war and terrorism;
- xi. disruptions in production and/or increased costs due to labor disputes;

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- xii. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities;
  - xiii. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation;
  - xiv. adverse results in litigation in the Fox River matter;
  - xv. our ability to finance, consummate and integrate acquisitions; and
  - xvi. the cost, and successful design and construction, of the Composite Fibers capacity expansion project.
- We manufacture a wide array of specialty papers and fiber-based engineered materials. We manage our company along three business units:

*Specialty Papers* with revenue from the sale of carbonless papers and forms, book publishing, envelope & converting papers, and fiber-based engineered products;

*Composite Fibers* with revenue from the sale of single-serve coffee and tea filtration papers, non-woven wall covering, metallized papers, composite laminates used for decorative furniture and flooring applications, and other technical specialty papers; and

*Advanced Airlaid Materials* with revenue from the sale of airlaid non-woven fabric like materials used in feminine hygiene products, adult incontinence products, cleaning pads, food pads, napkins, tablecloths, and baby wipes.

- 29 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****RESULTS OF OPERATIONS***Nine months ended September 30, 2013 versus the Nine months ended September 30, 2012*

**Overview** For the first nine months of 2013, net income was \$50.7 million, or \$1.15 per diluted share, compared with \$52.4 million, or \$1.20 per diluted share, in the same period of 2012.

The following table sets forth summarized results of operations:

| <i>In thousands, except per share</i> | Nine months ended<br>September 30 |              |
|---------------------------------------|-----------------------------------|--------------|
|                                       | 2013                              | 2012         |
| Net sales                             | \$ 1,287,804                      | \$ 1,186,399 |
| Gross profit                          | 164,254                           | 161,040      |
| Operating income                      | 62,133                            | 80,051       |
| Net income                            | 50,681                            | 52,409       |
| Earnings per diluted share            | 1.15                              | 1.20         |

Effective April 30, 2013, we completed the acquisition of Dresden Papier GmbH ( Dresden ) for approximately \$211 million, net of cash acquired. Our reported results include Dresden prospectively from the acquisition date, including \$67.8 million of net sales and \$12.3 million of operating profit.

In addition to the impact of including Dresden, the consolidated results of operations for the nine months ended September 30, 2013 and 2012 include the following significant items:

| <i>In thousands, except per share</i>               | After-tax<br>Gain (loss) | Diluted EPS |
|-----------------------------------------------------|--------------------------|-------------|
|                                                     | 2013                     | 2012        |
| Acquisition and integration costs                   | \$ (5,884)               | \$ (0.13)   |
| International legal entity restructuring costs      | (570)                    | (0.01)      |
| Alternative fuel mixture/Cellulosic biofuel credits | 9,866                    | 0.22        |
| Timberland sales and related costs                  | 424                      | 0.01        |
|                                                     | 2012                     | 2012        |
| Alternative fuel mixture/Cellulosic biofuel credits | \$ 4,329                 | \$ 0.10     |
| Timberland sales and related costs                  | 4,554                    | 0.10        |

The above items increased earnings by \$3.8 million, or \$0.09 per diluted share, in the first nine months of 2013. Comparatively, in the first nine months of 2012 earnings benefited by \$8.9 million or \$0.20 per diluted share from the items set forth above.

Our growth-oriented fiber-based materials businesses reported improved results evidenced by an \$18.5 million increase in operating profit. However, total operating income from all of our business units increased \$1.6 million reflecting the impact of lower contribution from Specialty Papers and the impact of two fires in the Advanced Airlaid Materials business unit. Overall, shipping volumes increased 6.6% in the year-over-year comparison, or 2.6% excluding Dresden.

Specialty Papers operating income totaled \$32.5 million and \$49.4 million for the first nine months of 2013 and 2012, respectively. Although shipping volumes increased 2.5%, this unit's profitability was unfavorably impacted by lower selling prices and operational disruptions.

Composite Fibers operating income increased to \$46.9 million from \$29.1 million in the first nine months of 2012 primarily due to the inclusion of Dresden, improved selling prices, better mix and lower depreciation. Excluding Dresden, shipping volumes were essentially unchanged although the mix improved.

Advanced Airlaid Materials operating income increased to \$13.7 million compared with \$13.0 million for the first nine months of 2012. Fires at both of this business unit's facilities adversely impacted results by \$1.7 million, largely offsetting the benefits of a 6.6% increase in shipping volumes.

- 30 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****Business Unit Performance**

Nine months ended September 30

| <i>In millions</i>                                                | Specialty Papers |          | Composite Fibers |          | Advanced Airlaid<br>Materials |          | Other and<br>Unallocated |           | Total      |            |
|-------------------------------------------------------------------|------------------|----------|------------------|----------|-------------------------------|----------|--------------------------|-----------|------------|------------|
|                                                                   | 2013             | 2012     | 2013             | 2012     | 2013                          | 2012     | 2013                     | 2012      | 2013       | 2012       |
| Net sales                                                         | \$ 669.8         | \$ 670.5 | \$ 415.9         | \$ 331.4 | \$ 202.2                      | \$ 184.5 | \$                       | \$        | \$ 1,287.8 | \$ 1,186.4 |
| Energy and related sales, net                                     | 2.7              | 5.4      |                  |          |                               |          |                          |           | 2.7        | 5.4        |
| Total revenue                                                     | 672.5            | 675.9    | 415.9            | 331.4    | 202.2                         | 184.5    |                          |           | 1,290.5    | 1,191.8    |
| Cost of products sold                                             | 599.7            | 585.2    | 334.5            | 273.5    | 182.0                         | 164.3    | 10.0                     | 7.8       | 1,126.3    | 1,030.7    |
| Gross profit (loss)                                               | 72.8             | 90.7     | 81.3             | 57.9     | 20.1                          | 20.2     | (10.0)                   | (7.8)     | 164.3      | 161.0      |
| SG&A                                                              | 40.3             | 41.3     | 34.4             | 28.8     | 6.4                           | 7.2      | 21.3                     | 12.2      | 102.5      | 89.5       |
| Gains on dispositions of plant,<br>equipment and timberlands, net |                  |          |                  |          |                               |          | (0.4)                    | (8.5)     | (0.4)      | (8.5)      |
| Total operating income (loss)                                     | 32.5             | 49.4     | 46.9             | 29.1     | 13.7                          | 13.0     | (31.0)                   | (11.5)    | 62.1       | 80.1       |
| Non-operating expense                                             |                  |          |                  |          |                               |          | (12.5)                   | (12.0)    | (12.5)     | (12.0)     |
| Income (loss) before income taxes                                 | \$ 32.5          | \$ 49.4  | \$ 46.9          | \$ 29.1  | \$ 13.7                       | \$ 13.0  | \$ (43.5)                | \$ (23.4) | \$ 49.6    | \$ 68.1    |

**Supplementary Data**

|                                             |         |         |         |         |        |        |     |     |         |         |
|---------------------------------------------|---------|---------|---------|---------|--------|--------|-----|-----|---------|---------|
| Net tons sold ( <i>thousands</i> )          | 601.6   | 587.1   | 97.9    | 69.2    | 72.4   | 67.9   |     |     | 771.9   | 724.2   |
| Depreciation, depletion and<br>amortization | \$ 24.9 | \$ 27.1 | \$ 17.7 | \$ 17.6 | \$ 6.6 | \$ 6.5 | 0.8 |     | \$ 50.0 | \$ 51.1 |
| Capital expenditures                        | 27.9    | 19.1    | 49.0    | 22.9    | 4.8    | 2.8    | 4.4 | 0.2 | 86.1    | 45.0    |

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 pension expense, 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. 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.

**Sales and Costs of Products Sold**

Nine months ended  
September 30

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| <i>In thousands</i>                    | 2013         | 2012         | Change     |
|----------------------------------------|--------------|--------------|------------|
| Net sales                              | \$ 1,287,804 | \$ 1,186,399 | \$ 101,405 |
| Energy and related sales net           | 2,721        | 5,358        | \$ (2,637) |
| Total revenues                         | 1,290,525    | 1,191,757    | 98,768     |
| Costs of products sold                 | 1,126,271    | 1,030,717    | 95,554     |
| Gross profit                           | \$ 164,254   | \$ 161,040   | \$ 3,214   |
| Gross profit as a percent of Net sales | 12.8%        | 13.6%        |            |

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

| <i>Percent of Total<br/>Business Unit</i> | Nine months ended<br>September 30 |        |
|-------------------------------------------|-----------------------------------|--------|
|                                           | 2013                              | 2012   |
| Specialty Papers                          | 52.0%                             | 56.5%  |
| Composite Fibers                          | 32.3                              | 27.9   |
| Advanced Airlaid Material                 | 15.7                              | 15.6   |
| Total                                     | 100.0%                            | 100.0% |

**Net sales** for the first nine months of 2013 totaled \$1,287.8 million, an 8.5% increase compared with \$1,186.4 million for the same period of 2012. Organic growth totaled 2.1% and the remainder related to the Dresden acquisition and an \$8.3 million favorable impact from the translation of foreign currencies.

- 31 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

In the Specialty Papers business unit, net sales in the first nine months of 2013 decreased by \$0.7 million. Lower average selling prices adversely impacted net sales by \$8.9 million in the comparison to the first nine months of 2012 and shipping volumes increased 2.5%.

Specialty Papers 2013 operating income for the first nine months totaled \$32.5 million, which was \$16.9 million lower than the same period of 2012. Operating income was adversely impacted by lower average selling prices, operating disruptions, and lower sales of renewable energy credits.

We sell excess power generated by the Spring Grove, PA facility. The following table summarizes this activity for the first nine months of 2013 and 2012:

| <i>In thousands</i>      | Nine months ended<br>September 30 |          | Change     |
|--------------------------|-----------------------------------|----------|------------|
|                          | 2013                              | 2012     |            |
| Energy sales             | \$ 6,379                          | \$ 3,911 | \$ 2,468   |
| Costs to produce         | (5,235)                           | (3,064)  | (2,171)    |
| Net                      | 1,144                             | 847      | 297        |
| Renewable energy credits | 1,577                             | 4,511    | (2,934)    |
| Total                    | \$ 2,721                          | \$ 5,358 | \$ (2,637) |

Renewable energy credits ( RECs ) represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste. We sell RECs into an emerging and somewhat 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.

Composite Fibers net sales totaled \$415.9 million in the first nine months of 2013, an increase of \$84.5 million compared to the same period of 2012. The Dresden acquisition accounted for \$67.8 million of the increase. On an organic basis, shipping volumes were essentially unchanged with a favorable mix. Higher selling prices and the translation of foreign currencies benefited the comparison by \$2.1 million and \$5.2 million, respectively.

Operating income in the first nine months increased \$17.8 million, of which Dresden represented \$12.3 million. The remaining increase was primarily due to higher selling prices and improved mix. Foreign currency translation favorably impacted operating income by \$0.5 million compared with the prior-year period.

In Advanced Airlaid Materials, net sales increased \$17.7 million, or 9.6%, primarily due to a 6.6% increase in shipping volumes, partially offset by \$1.2 million from lower average selling prices. Foreign currency translation favorably affected the comparison by \$3.2 million

This business unit s operating income for the first nine months of 2013 increased \$0.7 million, or 5.4%, compared with the year-ago period, primarily due to the increase in shipping volumes and a \$0.5 million benefit from translation of foreign currencies. These favorable factors were partially offset by \$1.7 million adverse impact of fires at the business unit s facilities and by lower selling prices.

**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 \$31.0 million in the first nine months of 2013 compared with \$11.5 million in the first nine months of 2012. Excluding the impact of sales of timberlands in the comparison, unallocated net operating expenses increased \$11.4 million. The increase is primarily due to acquisition and integration, legal entity restructuring related costs and higher pension expense.

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

Nine months ended  
September 30

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| <i>In thousands</i>    | 2013      | 2012     | Change   |
|------------------------|-----------|----------|----------|
| <i>Recorded as:</i>    |           |          |          |
| Costs of products sold | \$ 9,274  | \$ 6,804 | \$ 2,470 |
| SG&A expense           | 1,385     | 1,789    | (404)    |
| Total                  | \$ 10,659 | \$ 8,593 | \$ 2,066 |

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.

**Income taxes** For the first nine months of 2013, we recorded an income tax benefit of \$1.1 million on pretax income of \$49.6 million. The comparable amounts in the first nine months 2012 were income tax expense of \$15.7 million on \$68.1 million of pretax income. Income taxes recorded in the first nine months of 2013 benefited by \$14.5 million from the release of reserves due to lapse of statutes of limitation, changes in valuation allowances, changes in statutory tax rates, and a benefit from research and development credits. Since the applicable U.S. Federal legislation was not signed into law until after year end 2012, the 2013 effective tax rate includes a \$1.3 million benefit from 2012 research and development tax credits in addition to those earned in the first nine months of 2013.

- 32 -

GLATFELTER

9.30.13 Form 10-Q



**Table of Contents**

**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. During the first nine months of 2013, Euro functional currency operations generated approximately 30.4% of our sales and 28.6% of operating expenses and British Pound Sterling operations represented 6.2% of net sales and 5.7% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

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 operations results for the first nine months of 2013 compared to the first nine months 2012:

| <i>In thousands</i>    | <b>Nine months ended<br/>September 30<br/>Favorable<br/>(unfavorable)</b> |
|------------------------|---------------------------------------------------------------------------|
| Net sales              | <b>\$ 8,325</b>                                                           |
| Costs of products sold | <b>(5,718)</b>                                                            |
| SG&A expenses          | <b>(559)</b>                                                              |
| Income taxes and other | <b>(534)</b>                                                              |
| <b>Net income</b>      | <b>\$ 1,514</b>                                                           |

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2013 were the same as 2012. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

- 33 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents***Three months ended September 30, 2013 versus the**Three months ended September 30, 2012*

**Overview** For the third quarter of 2013, net income was \$34.1 million, or \$0.77 per diluted share, compared with \$20.1 million, or \$0.46 per diluted share, in the third quarter of 2012.

The following table sets forth summarized results of operations:

| <i>In thousands, except per share</i> | Three months ended<br>September 30 |            |
|---------------------------------------|------------------------------------|------------|
|                                       | 2013                               | 2012       |
| Net sales                             | \$ 456,648                         | \$ 404,354 |
| Gross profit                          | 66,039                             | 59,192     |
| Operating income                      | 31,841                             | 31,285     |
| Net income                            | 34,119                             | 20,099     |
| Earnings per diluted share            | 0.77                               | 0.46       |

The consolidated results of operations for the three months ended September 30, 2013 and 2012 include the following significant items:

| <i>In thousands, except per share</i>                | After-tax<br>Gain (loss) | Diluted EPS |
|------------------------------------------------------|--------------------------|-------------|
| <b>2013</b>                                          |                          |             |
| Acquisition and integration related costs            | \$ (154)                 | \$          |
| Alternative fuel mixture/ Cellulosic biofuel credits | 9,866                    | 0.22        |
| Timberland sales and related costs                   | 142                      |             |
| International legal entity restructuring costs       | (117)                    |             |
| <b>2012</b>                                          |                          |             |
| Alternative fuel mixture/ Cellulosic biofuel credits | \$ (111)                 | \$          |
| Timberland sales and related costs                   | 859                      | 0.02        |

The above items increased earnings by \$9.7 million, or \$0.22 per diluted share, in the third quarter of 2013. Earnings in the third quarter of 2012 benefited by \$0.7 million, or \$0.02 per diluted share due to the items identified above.

**Business Unit Performance**

Three months ended September 30

| <i>In millions</i>            | Specialty Papers |          | Composite Fibers |          | Advanced<br>Airlaid Materials |         | Other and<br>Unallocated |       | Total    |          |
|-------------------------------|------------------|----------|------------------|----------|-------------------------------|---------|--------------------------|-------|----------|----------|
|                               | 2013             | 2012     | 2013             | 2012     | 2013                          | 2012    | 2013                     | 2012  | 2013     | 2012     |
| Net sales                     | \$ 225.7         | \$ 232.6 | \$ 161.5         | \$ 110.8 | \$ 69.5                       | \$ 60.9 | \$                       | \$    | \$ 456.6 | \$ 404.4 |
| Energy and related sales, net | 1.2              | 1.9      |                  |          |                               |         |                          |       | 1.2      | 1.9      |
| Total revenue                 | 226.9            | 234.5    | 161.5            | 110.8    | 69.5                          | 60.9    |                          |       | 457.8    | 406.2    |
| Cost of products sold         | 196.4            | 199.1    | 129.5            | 91.2     | 63.7                          | 54.1    | 2.3                      | 2.6   | 391.8    | 347.0    |
| Gross profit (loss)           | 30.5             | 35.4     | 31.9             | 19.7     | 5.8                           | 6.8     | (2.3)                    | (2.6) | 66.0     | 59.2     |

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|                                                                |                |         |                |         |               |        |                  |          |                |         |
|----------------------------------------------------------------|----------------|---------|----------------|---------|---------------|--------|------------------|----------|----------------|---------|
| SG&A                                                           | <b>12.5</b>    | 14.0    | <b>13.0</b>    | 9.4     | <b>1.9</b>    | 2.2    | <b>7.1</b>       | 3.9      | <b>34.5</b>    | 29.4    |
| Gains on dispositions of plant, equipment and timberlands, net |                |         |                |         |               |        | <b>(0.3)</b>     | (1.5)    | <b>(0.3)</b>   | (1.5)   |
| Total operating income (loss)                                  | <b>18.1</b>    | 21.4    | <b>18.9</b>    | 10.3    | <b>3.9</b>    | 4.6    | <b>(9.1)</b>     | (5.0)    | <b>31.8</b>    | 31.3    |
| Non-operating expense                                          |                |         |                |         |               |        | <b>(4.7)</b>     | (4.1)    | <b>(4.7)</b>   | (4.1)   |
| Income (loss) before income taxes                              | <b>\$ 18.1</b> | \$ 21.4 | <b>\$ 18.9</b> | \$ 10.3 | <b>\$ 3.9</b> | \$ 4.6 | <b>\$ (13.8)</b> | \$ (9.0) | <b>\$ 27.1</b> | \$ 27.2 |

**Supplementary Data**

|                                          |               |        |               |        |               |        |            |     |                |         |
|------------------------------------------|---------------|--------|---------------|--------|---------------|--------|------------|-----|----------------|---------|
| Net tons sold                            | <b>203.6</b>  | 204.5  | <b>40.3</b>   | 23.5   | <b>24.8</b>   | 22.8   |            |     | <b>268.7</b>   | 250.9   |
| Depreciation, depletion and amortization | <b>\$ 8.3</b> | \$ 9.2 | <b>\$ 7.1</b> | \$ 5.7 | <b>\$ 2.2</b> | \$ 2.1 | <b>0.4</b> |     | <b>\$ 18.0</b> | \$ 17.1 |
| Capital expenditures                     | <b>11.1</b>   | 5.4    | <b>12.8</b>   | 7.5    | <b>0.8</b>    | 1.4    | <b>0.7</b> | 0.1 | <b>25.3</b>    | 14.4    |

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

- 34 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****Sales and Costs of Products Sold**

| <i>In thousands</i>                    | Three months ended |            | Change    |
|----------------------------------------|--------------------|------------|-----------|
|                                        | 2013               | 2012       |           |
| Net sales                              | \$ 456,648         | \$ 404,354 | \$ 52,294 |
| Energy and related sales net           | 1,196              | 1,867      | (671)     |
| Total revenues                         | 457,844            | 406,221    | 51,623    |
| Costs of products sold                 | 391,805            | 347,029    | 44,776    |
| Gross profit                           | \$ 66,039          | \$ 59,192  | \$ 6,847  |
| Gross profit as a percent of Net sales | 14.5%              | 14.6%      |           |

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

| <i>Percent of Total</i>   | Three months ended |        |
|---------------------------|--------------------|--------|
|                           | 2013               | 2012   |
| <b>Business Unit</b>      |                    |        |
| Specialty Papers          | 49.4%              | 57.5%  |
| Composite Fibers          | 35.4               | 27.4   |
| Advanced Airlaid Material | 15.2               | 15.1   |
| Total                     | 100.0%             | 100.0% |

**Net sales** for the third quarter of 2013 totaled \$456.6 million, 12.9% increase compared with \$404.4 million in the third quarter of 2012 reflecting organic growth of 1.5% and acquisition growth of 9.9%. The Dresden acquisition, whose results are included in Composite Fibers prospectively from the April 30, 2013 acquisition date, represented \$40.1 million of the \$52.3 million increase.

In the Specialty Papers business unit, net sales decreased \$6.9 million, or 3.0%, primarily due to a \$3.6 million impact of lower average selling prices, slightly lower volumes and mix changes in the comparison to the third quarter of 2012.

We sell excess power generated by the Spring Grove, PA facility. The following table summarizes this activity for the third quarters of 2013 and 2012:

| <i>In thousands</i>      | Three months ended |          | Change   |
|--------------------------|--------------------|----------|----------|
|                          | 2013               | 2012     |          |
| Energy sales             | \$ 2,722           | \$ 1,799 | \$ 923   |
| Costs to produce         | (1,941)            | (1,259)  | (682)    |
| Net                      | 781                | 540      | 241      |
| Renewable energy credits | 415                | 1,327    | (912)    |
| Total                    | \$ 1,196           | \$ 1,867 | \$ (671) |

Renewable energy credits ( RECs ) represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste. We sell RECs into an emerging and somewhat illiquid market. The extent and value of future revenues from REC sales is

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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.

Specialty Papers' operating income declined \$3.3 million in the comparison primarily due to lower selling prices.

Third quarter 2013 net sales for the Composite Fibers business unit increased \$50.6 million, or 45.7%, in the comparison to the third quarter of 2012 primarily due to the inclusion of Dresden. On an organic basis, Composite Fibers' net sales increased \$6.5 million or 5.9%, primarily due to stronger shipments of single-serve coffee and technical specialties products.

Composite Fibers' third-quarter 2013 operating income increased by \$8.6 million including \$6.8 million from the Dresden acquisition, improved product mix, and lower depreciation. Dresden's third quarter results were adversely affected by approximately \$2.2 million due to an annual maintenance outage completed during August 2013 during which we successfully increased capacity by 10%. Foreign currency translation favorably impacted operating income by \$0.9 million compared with the prior-year quarter.

In Advanced Airlaid Materials, net sales increased \$8.6 million, or 14.1%, primarily due to an 8.8% increase in shipping volumes and a \$2.2 million benefit from foreign currency translation.

The business unit's facilities in Gatineau, Ontario, Canada and Falkenhagen, Germany incurred downtime as a result of fires at each mill in August and September, respectively. The fires resulted in a limited loss of shipments during the quarter as customer orders were fulfilled by utilizing other available capacity; however operating results for the third quarter of 2013 were adversely impacted by \$1.7 million, net of insurance.

- 35 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

Third quarter 2013 operating income decreased \$0.6 million, or 14.0%, compared with the year-ago quarter due to the impact of the fires.

**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 \$9.1 million in the third quarter of 2013 compared with \$5.0 million in the third quarter of 2012. Excluding the impact of timberland sales in the comparison, unallocated net operating expenses increased \$2.9 million primarily due to acquisition and integration, international legal entity restructuring costs and higher pension expense.

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

| <i>In thousands</i>    | Three months ended |          | Change |
|------------------------|--------------------|----------|--------|
|                        | September 30       |          |        |
|                        | 2013               | 2012     |        |
| <i>Recorded as:</i>    |                    |          |        |
| Costs of products sold | \$ 3,092           | \$ 2,266 | \$ 826 |
| SG&A expense           | 462                | 610      | (148)  |
| Total                  | \$ 3,554           | \$ 2,876 | \$ 678 |

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.

**Income taxes** For the third quarter of 2013, we recorded an income tax benefit of \$7.0 million on pretax income of \$27.1 million. The comparable amounts in the third quarter of 2012 were income tax expense of \$7.1 million on \$27.2 million of pretax income. Income taxes in the third quarter of 2013 benefited by \$12.9 million related to the release of reserves due to lapse of statutes of limitation, changes in valuation allowances and the reduction of statutory tax rates in a foreign jurisdiction.

**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. During the third quarter of 2013, Euro functional currency operations generated approximately 33.8% of our sales and 32.4% of operating expenses and British Pound Sterling operations represented 5.6% of net sales and 5.1% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

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 operations results for the third quarter of 2013 compared to the third quarter of 2012:

| <i>In thousands</i>    | Three month ended          |
|------------------------|----------------------------|
|                        | September 30               |
|                        | Favorable<br>(unfavorable) |
| Net sales              | \$ 6,162                   |
| Costs of products sold | (3,815)                    |
| SG&A expenses          | (414)                      |
| Income taxes and other | (298)                      |
| Net income             | \$ 1,635                   |

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2013 were the same as 2012. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

- 36 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

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

| <i>In thousands</i>                              | Nine months ended<br>September 30 |                |
|--------------------------------------------------|-----------------------------------|----------------|
|                                                  | 2013                              | 2012           |
| Cash and cash equivalents at beginning of period | \$ 97,679                         | \$ 38,277      |
| Cash provided (used) by                          |                                   |                |
| Operating activities                             | 95,693                            | 48,465         |
| Investing activities                             | (296,946)                         | (36,302)       |
| Financing activities                             | 166,876                           | (22,397)       |
| Effect of exchange rate changes on cash          | 333                               | 279            |
| <b>Net cash used</b>                             | <b>(34,044)</b>                   | <b>(9,955)</b> |
| Cash and cash equivalents at end of period       | \$ 63,635                         | \$ 28,322      |

As of September 30, 2013, we had \$63.6 million in cash and cash equivalents and \$213.9 million available under our revolving credit agreement, which matures in November 2016.

Operating cash flow increased by \$47.2 million in the year-over-year comparison primarily due to improved working capital usage and a reduction in cash used for taxes of \$32.1 million, inclusive of amounts paid in 2012 related to the conversion of alternative fuel mixture credits for cellulosic biofuel production credits.

Net cash used by investing activities increased by \$260.6 million. In April 2013, we invested, net of cash acquired, \$211 million to complete the acquisition of Dresden. In addition, we used \$31.5 million to fund the Composite Fibers capacity expansion project. Total capital expenditures were \$86.1 million in 2013 compared with \$45.0 million in 2012 and are expected to approximate \$110 million for the full year 2013. During the first nine months of 2012, we received \$8.9 million in proceeds from sales of assets, primarily timberlands.

Net cash provided by financing activities totaled \$166.9 million in the first nine months of 2013, primarily reflecting additional borrowings to finance the Dresden acquisition as well as payment of dividends. On April 30, 2013 we completed the acquisition of Dresden for approximately

\$211 million, net of cash acquired. The acquisition was financed using a combination of cash on hand and borrowings under our revolving credit facility. In the first nine months of 2012, we used \$22.4 million primarily to reduce borrowings, pay dividends and repurchase common stock.

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

| <i>In thousands</i>                      | September 30<br>2013 | December 31<br>2012 |
|------------------------------------------|----------------------|---------------------|
| Revolving credit facility, due Nov. 2016 | \$ 130,940           | \$                  |
| 5.375% Notes, due Oct. 2020              | 250,000              | 250,000             |
| 2.05% Term Loan, due Mar. 2023           | 57,641               |                     |
| <b>Total long-term debt</b>              | <b>438,581</b>       | 250,000             |
| <b>Less current portion</b>              |                      |                     |
| Long-term debt, net of current portion   | \$ 438,581           | \$ 250,000          |



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Our revolving credit facility contains a number of customary compliance covenants. 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 credit agreement at maturity, or a default under the credit agreement that accelerates the debt outstanding thereunder. As of September 30, 2013, 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 12. As more fully discussed in this Note, in April 2013 we entered into a new ten year, fixed rate loan agreement in the amount of \$42.7 million.

Cash dividends paid on common stock totaled \$12.6 million and \$11.7 million in the first nine months of 2013 and 2012, respectively. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. In March 2013, the quarterly dividend was increased by 11%, to \$0.10 per common share. 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.

In May 2012, our Board of Directors authorized a share repurchase program for up to \$25.0 million, exclusive of commissions, of our outstanding common stock. The following table summarizes share repurchases made under this program through September 30, 2013:

|                         | shares  | (thousands) |
|-------------------------|---------|-------------|
| Authorized amount       | n/a     | \$ 25,000   |
| Repurchases             | 291,120 | (4,462)     |
| Remaining authorization |         | \$ 20,538   |

No shares were repurchased under this program during the first nine months of 2013.

- 37 -

GLATFELTER

9.30.13 Form 10-Q

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**Table of Contents**

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 a result of new air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT), we anticipate that we could incur material capital and operating costs. For example, on December 20, 2012, the Administrator of the U. S. Environmental Protection Agency signed new rules which could require process modifications and/or installation of air pollution controls on power boilers at two of our facilities. We are currently reviewing options available to comply with these rules to understand the effect they may have on our operations, such as reducing or curtailing boiler usage or modifying the types of boilers operated or fuel consumed. The cost of compliance is likely to be significant. Our current estimate to implement viable options could result in capital spending of between \$40 million to \$70 million depending on the solutions available to comply with the regulations. However, the amount ultimately incurred may differ depending on our successful implementation of the chosen options. In addition, the timing of any additional capital spending is uncertain, although we currently expect to incur the majority of expenditures generally in 2015 and 2016. Enactment of new environmental laws or regulations or changes in existing laws or regulations could significantly change our estimates.

In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 1 Financial Statements Note 17 for a summary of significant environmental matters.

We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, our credit facility or other bank lines of credit and other long-term debt. However, as discussed in Item 1 Financial Statements Note 17, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

**Off-Balance-Sheet Arrangements** As of September 30, 2013 and December 31, 2012, 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 and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 Financial Statements.

**Outlook** For Specialty Papers, we expect shipments to be slightly lower in the fourth quarter of 2013 compared to the third quarter reflecting normal seasonality. Overall selling prices are expected to increase slightly and input costs are expected to be in line with the third quarter.

Composite Fibers shipments are anticipated to be approximately 5% lower in the fourth quarter of 2013 compared to the third quarter due to seasonality and weakness in metallized products. Selling prices are expected to be generally in line with the third quarter levels and input costs are expected to increase slightly.

Shipping volumes in the Advanced Airlaid Materials business unit in the fourth quarter of 2013 are expected to be down approximately 5% reflecting normal seasonality and selling prices and input costs are expected to generally be in line with the third quarter.

- 38 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

| <i>Dollars in thousands</i>           | Year Ended December 31 |            |            |            |            | At September 30, 2013 |            |
|---------------------------------------|------------------------|------------|------------|------------|------------|-----------------------|------------|
|                                       | 2013                   | 2014       | 2015       | 2016       | 2017       | Carrying Value        | Fair Value |
| <b>Long-term debt</b>                 |                        |            |            |            |            |                       |            |
| Average principal outstanding         |                        |            |            |            |            |                       |            |
| At fixed interest rates               | Bond                   | \$ 250,000 | \$ 250,000 | \$ 250,000 | \$ 250,000 | \$ 250,000            | \$ 254,321 |
| At fixed interest rates               | Term Loan              | 40,829     | 57,641     | 56,560     | 50,436     | 43,231                | 57,641     |
| At variable interest rates            |                        | 87,837     | 130,940    | 130,940    | 112,860    |                       | 130,940    |
|                                       |                        |            |            |            |            | \$ 438,581            | \$ 441,178 |
| <b>Weighted-average interest rate</b> |                        |            |            |            |            |                       |            |
| On fixed rate debt                    | Bond                   | 5.375%     | 5.375%     | 5.375%     | 5.375%     | 5.375%                |            |
| On fixed rate debt                    | Term Loan              | 2.05%      | 2.05%      | 2.05%      | 2.05%      | 2.05%                 |            |
| On variable rate debt                 |                        | 1.85%      | 1.85%      | 1.85%      | 1.85%      | 1.85%                 |            |

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of September 30, 2013. 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 September 30, 2013, we had long-term debt outstanding of \$438.6 million, of which 29.9% is at variable interest rates. Variable-rate debt outstanding represents borrowings under our revolving credit agreement that accrues interest based on one month LIBOR plus a margin. At September 30, 2013, the weighted-average interest rate paid was approximately 1.85%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$1.3 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. During the first nine months of 2013, Euro functional currency operations generated approximately 30.4% of our sales and 28.6% of operating expenses and British Pound Sterling operations represented 6.2% of net sales and 5.7% of operating expenses.

**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 September 30, 2013, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

**Changes in Internal Controls** On April 30, 2013, we completed the acquisition of Dresden. We are in the process of incorporating Dresden's internal controls into our control structure. We consider the ongoing integration of Dresden a material change in our internal control over financial reporting. There were no other changes in our internal control over financial reporting during the three months ended September 30, 2013, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



**Table of Contents**

**PART II**

**ITEM 6. EXHIBITS**

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

|         |                                                                                                                                                                                         |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | Schedule of Change in Control Employee Agreements.*                                                                                                                                     |
| 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.*                                   |
| 31.2    | Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.*                      |
| 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.*              |
| 32.2    | Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.* |
| 101.INS | XBRL Instance Document *                                                                                                                                                                |
| 101.SCH | XBRL Taxonomy Extension Schema *                                                                                                                                                        |
| 101.CAL | XBRL Extension Calculation Linkbase *                                                                                                                                                   |
| 101.DEF | XBRL Extension Definition Linkbase *                                                                                                                                                    |
| 101.LAB | XBRL Extension Label Linkbase *                                                                                                                                                         |
| 101.PRE | XBRL Extension Presentation Linkbase *                                                                                                                                                  |

\* Filed herewith.

- 40 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

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)

November 12, 2013

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

- 41 -

GLATFELTER

9.30.13 Form 10-Q

**Table of Contents**

**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                              |
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| 31.2                  | Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 Chief Financial Officer, 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 Chief Executive Officer, filed herewith.*                                      |
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| 101.LAB               | XBRL Extension Label Linkbase *                                                                                                                                                                                                 |
| 101.PRE               | XBRL Extension Presentation Linkbase *                                                                                                                                                                                          |

\* Filed herewith.

- 42 -

GLATFELTER

9.30.13 Form 10-Q