

GLATFELTER P H CO
Form DEF 14A
April 02, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

P. H. GLATFELTER COMPANY
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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P. H. GLATFELTER COMPANY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Thursday, May 7, 2015 at 9:00 a.m.

York County Heritage Trust, Historical Society Museum, 250 East Market Street, York, PA 17403

The 2015 Annual Meeting of the Shareholders (Annual Meeting) of P. H. Glatfelter Company (the Company), a Pennsylvania corporation, will be held on Thursday, May 7, 2015 at 9:00 a.m., to consider and act upon the following items:

the election of nine members of the Board of Directors to serve until our next Annual Meeting and until their successors are elected and qualified;

a proposal to ratify the appointment of Deloitte & Touche LLP (Deloitte) as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2015;

approval of the Company s Amended and Restated Management Incentive Plan for purposes of complying with Section 162(m) of the Internal Revenue Code;

advisory approval of the Company s executive compensation and pay practices; and

such other business as may properly come before the Meeting.

Only holders of record of the Company s common stock at the close of business on March 13, 2015 (the Record Date), will be entitled to notice of, and to vote at, the Annual Meeting.

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It is important that your shares be represented and voted at the Annual Meeting. Whether you plan to attend the Annual Meeting or not, please vote your proxy by telephone at 1-800-652-VOTE (8683), online at <http://www.investorvote.com/GLT> or by completing and signing the enclosed proxy card and returning it promptly in the enclosed envelope (requiring no postage if mailed in the United States). If you choose, you may still vote in person at the Annual Meeting, even if you previously voted by telephone, internet or mail.

Kent K. Matsumoto

Secretary

April 2, 2015

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2015 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 7, 2015.

P. H. Glatfelter Company's proxy statement for the 2015 Annual Meeting of Shareholders and 2014 Annual Report are available via the Internet at

www.glatfelter.com/about_us/investor_relations/sec_filings.aspx

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FREQUENTLY ASKED QUESTIONS

When and where is the Annual Meeting?

The 2015 Annual Meeting of Shareholders will be held on Thursday, May 7, 2015, at 9:00 a.m., at the York County Heritage Trust, Historical Society Museum, 250 East Market Street, York, PA 17403.

Who may attend the meeting and what else is required for admittance?

Only shareholders of the Company's common stock on the Record Date may attend the Annual Meeting, and those shareholders attending in person must present an admission ticket or other proof of stock ownership to be admitted to the Annual Meeting. For example, a shareholder may present an account statement or a letter from his/her bank or broker confirming that the shareholder owned Company common stock on the Record Date.

For registered shareholders of the Company, an admission ticket is attached to their proxy card. Registered shareholders planning to attend the Annual Meeting are requested to vote in advance of the Annual Meeting by telephone, internet or mail by completing and mailing in their proxy card, retaining the admission ticket and presenting the ticket at the Annual Meeting if they plan to attend.

Shareholders whose shares are registered in the name of a bank, broker or other institution are referred to as beneficial owners of Company stock. Beneficial owners should have received voting instructions or a proxy card from their broker or agent rather than from the Company and should follow the voting instructions provided by their broker or agent to ensure that their votes are counted.

What is the difference between a registered shareholder and a beneficial owner?

If your shares are registered in your name in the records of our transfer agent, Computershare, you are a registered shareholder, also sometimes called a shareholder (or stockholder) of record. If you are a registered shareholder, we sent this Notice directly to you.

If your shares are held in the name of your broker or bank, your shares are held in street name and you are considered the beneficial owner. This Notice has been forwarded to you by your broker, bank or other holder of record, who is considered the shareholder of record for those shares. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote your shares by following the voting instructions included in the mailing.

Why did I receive these materials?

You are receiving these materials because, as a shareholder, the Board of Directors is soliciting your vote on matters to be considered at the 2015 Annual Meeting. Please read this proxy statement and vote your shares by mailing the attached proxy card, voting online, by telephone or in person at the Annual Meeting. The Board has appointed directors J. Robert Hall and Lee C. Stewart, or either of them (the Proxy Holders) with power of substitution, to vote all properly executed proxies received from shareholders entitled to vote at the Annual Meeting or at any adjournment of the Annual Meeting.

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Who is entitled to vote?

Shareholders of record as of the close of business on March 13, 2015, the record date, may vote at the Annual Meeting. At the close of business on March 13, 2015, there were 43,187,297 shares of the Company's common stock issued and outstanding and eligible to vote at the Annual Meeting.

How do I vote?

If you are a registered shareholder. If you hold your shares in your own name as a holder of record, you may vote in person at the Annual Meeting or instruct the proxy holders named in the enclosed proxy card how to vote your shares. You may vote your proxy by telephone at 1-800-652-VOTE (8683), online at <http://www.investorvote.com/GLT> or by completing and signing the enclosed proxy card and returning it promptly in the enclosed envelope (requiring no postage if mailed in the United States). Please make certain you mark, sign and date your proxy card prior to mailing. All valid proxies received and not revoked prior to the Annual Meeting will be voted in accordance with your instructions.

If you are a beneficial owner. If your shares are held by a brokerage firm, bank or other nominee (i.e., in street name), you should receive directions from your bank or broker that you must follow in order to have your shares voted.

Will my shares be voted if I do not sign and return my proxy card?

If a shareholder of record signs and returns the accompanying proxy card, but does not make any selections, the Board's appointed Proxy Holders will have discretion to vote the shareholder's shares on behalf of the shareholder at the Annual Meeting as recommended by the Board.

If a beneficial owner of shares does not provide the bank or broker holding such shares with specific voting instructions, under the rules of various national and regional securities exchanges, the shareholder's bank or broker may generally vote on routine matters but cannot vote on non-routine matters. Proposal 1 (election of directors), Proposal 3 (adoption of amendments to Management Incentive Plan) and Proposal 4 (advisory vote on executive compensation) are non-routine matters. The Company believes Proposal 2 (ratification of auditors) is routine.

If a shareholder's bank or broker does not receive the shareholder's instructions how to vote the shareholder's shares on a non-routine matter, the shareholder's bank or broker will inform the Company it does not have the beneficial owner's authority to vote on the non-routine matter. **We encourage beneficial shareholders to provide voting instructions to the bank, broker or agent holding their shares by carefully following the instructions in the notice provided by the shareholder's bank, broker or agent.**

How do I change my vote or revoke my proxy, if I wish to do so?

Shareholders of record can revoke their proxy at any time before their shares are voted if they (1) deliver a written revocation of their proxy to the Company's Secretary; (2) submit a later-dated proxy (or voting instruction form if they hold their shares in street name); or (3) vote in person at the Annual Meeting. Shareholders who are beneficial owners should follow the instructions provided by their respective broker or bank to change their vote.

Table of Contents**What is the required quorum to hold this Annual Meeting?**

As of March 13, 2015, 43,187,297 shares of the Company's common stock were outstanding and entitled to vote. The presence of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter will constitute a quorum for the purposes of such matter. Abstentions or broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker or bank holding shares for a beneficial owner does not vote on a particular matter because the broker or bank does not have discretionary voting authority to vote on the proposal, and the beneficial owner has not provided voting instructions.

May shareholders ask questions at the Annual Meeting?

Yes. After the formal business of the meeting has concluded and adjourned, the chairman of the meeting will answer questions from shareholders during the designated question and answer period of the meeting. To provide an opportunity for everyone wishing to ask a question, shareholders will be limited to three (3) minutes each to present their question. When speaking, shareholders must direct questions to the chairman and confine their questions to matters relating directly to the business of the meeting. Shareholders will not be permitted to make statements.

Who pays for the proxy solicitation related to the Annual Meeting?

The Company pays the cost of preparing, printing, assembling and mailing this proxy statement and other proxy solicitation materials. The Company will also reimburse brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding the proxy statement and other proxy soliciting materials to beneficial owners. In addition to the solicitation of proxies by mail, some of our directors, officers, other employees and agents may solicit proxies personally, by telephone and by other means. The officers and directors who may solicit proxies personally receive no special compensation for any solicitation activities.

What proposals will be acted upon at the meeting, and what number of votes is needed for the proposals to be adopted?

| Proposal | Vote Required | Broker Discretionary Voting Allowed? |
|---|---------------------------------------|--------------------------------------|
| 1 Election of Directors | Majority of Votes Cast | No |
| 2 Ratification of Deloitte as Independent Registered Public Accounting Firm | Majority of Votes Entitled to be Cast | Yes |
| 3 Approval of Amended and Restated Management Incentive Plan | Majority of Votes Entitled to be Cast | No |
| 4 Advisory Vote on Executive Compensation | Majority of Votes Entitled to be Cast | No |

Election of Directors. The nine nominees for election as directors must be elected by a majority of votes cast, as this is an uncontested election. Thus, the number of votes cast For a director nominee must exceed the number of votes cast Against the nominee. In contested elections, directors would be elected by a plurality of votes cast. Our by-laws provide that each person nominated for election must submit an irrevocable resignation in advance. The resignation will be effective if the nominee does not receive a majority of votes cast and, if the nominee is an incumbent director, the Board of Directors will accept the resignation.

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Ratification of Independent Registered Public Accounting Firm. A majority of the votes entitled to be cast at the meeting, in person or by proxy, must vote **For** the ratification of Deloitte & Touche LLP as the Company's independent public accounting firm for the proposal to be adopted.

Advisory Vote on Executive Compensation. This proposal gives you, as a shareholder, the opportunity to endorse, not endorse or take no position on our compensation program for the Named Executive Officers (**NEOs**). A majority of the votes entitled to be cast at the meeting, in person or by proxy, must vote **For** the proposal to approve the executive compensation for the proposal to be adopted. While the Board of Directors intends to carefully consider the shareholder vote on this proposal, this vote is not binding on the Company and is advisory in nature.

What are the Board of Director's recommendations for voting on these proposals?

The Board recommends a vote:

FOR the election of the nine nominees for Director;

FOR the ratification of Deloitte & Touche LLP as the Company's independent registered public accounting firm;

FOR approval of the Amended and Restated Management Incentive Plan; and

FOR approval of the Company's compensation policies and practices, and current executive compensation as discussed in this proxy statement.

What are my options for voting on these proposals?

A shareholder is entitled to one vote per share of stock owned on the record date, on each item of business presented at the Annual Meeting, except each shareholder has cumulative voting rights for electing Directors. Cumulative voting means a shareholder is entitled to as many votes in electing Directors as is equal to the number of shares of common stock owned by the shareholder on the record date, multiplied by the number of Directors to be elected. Accordingly, for the election of nine Directors, a shareholder may either cast that total number of votes **For** or **Withhold** all of those votes from a single nominee. The shareholder may also distribute or withhold the total number of votes among the nine nominees as the shareholder determines, up to the number of shares of common stock owned by the shareholder on the record date, multiplied by nine.

For the proposal to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015, a shareholder may either vote **For** or **Against** the proposal or **Abstain** from voting.

For the proposal to approve the Amended and Restated Management Incentive Plan, a shareholder may vote **For** or **Against** the proposal or **Abstain** from voting.

For the advisory vote on executive compensation, commonly known as a **say-on-pay** vote, a shareholder may either vote **For** or **Against** the proposal or **Abstain** from voting.

Aside from these proposals, will any other business be acted upon at the meeting?

No. The Company's by-laws required shareholders to submit to the Company, by November 28, 2014, notice of all Director nominations and shareholder proposals to be considered at the 2015 Annual Meeting, regardless of whether shareholders sought inclusion of their nomination or proposal in this

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proxy statement or intended to solicit proxies on their own. Because the Company did not receive any such notice of nominations or proposals, no other Director nominations, shareholder proposals or other matters will be considered at the 2015 Annual Meeting.

How may a shareholder present a proposal for next year's Annual Meeting?

A shareholder wishing to present a proposal at the 2016 Annual Meeting must submit it to the Company's Secretary prior to the preparation of the 2016 proxy statement, and the Company's by-laws prescribe the procedures a shareholder must follow. To present a proposal for consideration at the 2016 Annual Meeting, and to include a matter in the proxy statement for that meeting, a notice including all of the information required by the Company's by-laws must be submitted in writing to the Company's Secretary and delivered to, or mailed and received by, the Company no later than the close of business on December 7, 2015, regardless of delivery method.

How may a shareholder nominate a candidate to sit on the Board of Directors?

A shareholder may recommend nominees for consideration by the Board's Nominating and Corporate Governance Committee for nomination for election to the Board. Shareholder recommendations for Director nominees will receive the same consideration by the Committee that all other Director nominee recommendations receive. If a shareholder wishes to recommend a nominee for Director, the shareholder must submit such recommendation in writing, together with any supporting materials deemed appropriate, to the Company's Secretary. Such recommendation must be made in accordance with the procedures described herein and in the Company's by-laws. To nominate a candidate for Director at the 2016 Annual Meeting, notice of the nomination must be in writing and delivered to, or mailed and received by, the Company no later than the close of business on December 7, 2015.

What must be included in the notice to submit a shareholder proposal or to nominate a Director candidate?

Requirements for the notice are as follows:

A proposal submitted by a shareholder must include a description of the business desired to be brought before the meeting, the reasons for conducting the business at the meeting and any material interest the shareholder has in the business.

A nomination for election to the Board must include information regarding the nominee(name, address, occupation, number of shares held and a representation by both shareholder and nominee that there are no undisclosed voting arrangements).

The notice must include:

the shareholder's name and address, a description of the shares held and a description of any arrangement or agreement with other shareholders or the nominee with respect to the nomination;

a representation that the shareholder will attend the 2016 Annual Meeting, in person or by proxy, and will submit the proposal or make the nomination;

a description of any hedging arrangements for Company stock into which the shareholder has entered; and

a statement whether the shareholder intends to solicit, or participate in the solicitation of, proxies for the proposal or nomination.

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This is a general description of the notice required to submit a proposal or nomination for consideration at the 2016 Annual Meeting. The Company's by-laws contain a complete description of the notice requirements for shareholder proposals. Copies of the Company's by-laws may be obtained from the Company's website at www.glatfelter.com/about_us/corporate_governance/bylaws.aspx or at no charge from the Secretary. The proposal and notice must otherwise comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act).

How may a shareholder communicate with the Company's Board or the non-management Directors of the Company?

A shareholder may address written correspondence to the Board or any individual Director (whether management or non-management), c/o Company Secretary, P. H. Glatfelter Company, 96 South George Street, Suite 520, York, PA 17401-1434. The Company's Board has approved a process whereby the Secretary of the Company will receive, review and, as appropriate, forward any communications addressed to the Board or a Director to the Chair of the committee responsible for the matter addressed in the communication. All communications regarding accounting, internal controls or auditing matters will be forwarded to the Chair of the Audit Committee. Alternatively, the Board has established a method for interested parties to communicate directly with the entire Board or any non-management Director by calling the Company's toll-free Helpline at 800-346-1676.

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At the Annual Meeting, the Company's shareholders will vote to fill nine Director positions, each for one-year terms expiring on the date of the Company's 2016 Annual Meeting of Shareholders and until their respective successors are elected and qualified. The Board recommends that shareholders vote For each of the following Director nominees: Bruce Brown, Kathleen A. Dahlberg, Nicholas DeBenedictis, Kevin M. Fogarty, J. Robert Hall, Richard C. III, Ronald J. Naples, Dante C. Parrini and Lee C. Stewart, each of whom is currently serving as a Director of the Company, for a one-year term expiring at the 2016 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified. Mr. Richard L. Smoot, having reached the mandatory retirement age set forth in the Company's by-laws, will not be standing for re-election. All nominees have consented to serve if elected to the Board.

If at the time of the Annual Meeting a Director nominee is unable to serve, an event the Board does not anticipate, the Proxy Holders will vote for a substitute nominee as may be designated by the Board unless the Board reduces the number of Directors accordingly.

The following table highlights Director nominee information obtained in part from the respective nominees and in part from Company records.

| Name | Age | Director Since | Occupation | Other Public Boards | Committee Memberships | | | |
|------------------------|-----|----------------|---|---------------------|-----------------------|------|-----|-----------|
| | | | | | Audit | Comp | Fin | Nom & Gov |
| Bruce Brown* | 56 | 2014 | Chief Technology Officer, Procter & Gamble, Retired | 1 ü | | | | ü |
| Kathleen A. Dahlberg* | 62 | 2001 | CEO G.G.I., Inc. | - ü | | ü | | |
| Nicholas DeBenedictis* | 69 | 1995 | Chairman, CEO, President, Aqua America | 2 | | ü | ü C | |
| Kevin M. Fogarty* | 49 | 2012 | President, CEO, Kraton Performance Polymers, Inc. | 1 | | | ü | ü |
| J. Robert Hall* | 62 | 2002 | Managing Director, Centerview Capital | - | | ü | | ü C |
| Richard C. III* | 71 | 2004 | Chairman, Triumph Group, Inc. | 3 ü C | | | ü | |
| Ronald J. Naples* | 69 | 2000 | Chairman Emeritus, Quaker Chemical Corp. | 1 ü | | | | ü |
| Dante C. Parrini | 50 | 2010 | Chairman, CEO, P. H. Glatfelter Co. | 1 | | | ü | |
| Lee C. Stewart* | 66 | 2002 | Private Financial Consultant | 2 | | ü C | ü | |

* indicates Director is *independent*

C indicates *Committee Chair*

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Additional Information about Director Nominees

Bruce Brown

Mr. Brown retired in 2014 from his position as the Chief Technology Officer of Procter & Gamble, Inc. (P&G). With 34 years of experience at P&G, Mr. Brown s responsibilities included leadership for P&G s Innovation and Technology Program and Global Research & Development. Globally recognized as an innovation thought leader, Mr. Brown also serves on the Board of Directors for Nokia in Finland; the Government of Singapore s Agency for Science, Technology and Research; and the Board of Trustees at Xavier University.

Specific qualifications and experience of particular relevance to the Company:

Mr. Brown is a proven leader in innovation, global expansion and organizational leadership development; and has familiarity with a number of the Company s specific products and materials. He brings over three decades of business-building experience to our Board and has three years of experience as a Director of a public company.

Kathleen A. Dahlberg

Ms. Dahlberg has since 2006 been the Chief Executive Officer of G.G.I., Inc. (formerly known as 2Unify LLC), a private company specializing in strategic consulting for companies in various industries and sectors. She served as a Director of Theragenics Corporation from May 2008 to November 2013. Ms. Dahlberg has held Vice President positions with BP Amoco, Viacom International, McDonald s Corporation, Grand Metropolitan PLC and American Broadcasting.

Specific qualifications and experience of particular relevance to the Company:

Ms. Dahlberg has significant experience in emerging technologies, acquisitions and divestitures, manufacturing, consumer goods, professional services, international operations, strategic planning, operations and risk management and corporate governance. She has more than 14 years of experience as a Director of public companies.

Nicholas DeBenedictis

Mr. DeBenedictis has been the Chairman, Chief Executive Officer and President of Aqua America, Inc., a publicly traded water company, since May 1992. He has also served as a Director of Exelon Corporation since 2003. Prior to joining Aqua America, Mr. DeBenedictis was Senior Vice President of Corporate and Public Affairs for PECO Energy, a \$4 billion nuclear utility, responsible for government relations, overseeing development of economic and environmental policies and implementation of the utility s public policy positions. Mr. DeBenedictis was President of the Greater Philadelphia Chamber of Commerce from 1986 to 1989. He also served in two Pennsylvania government cabinet positions: Secretary of the Department of Environmental Resources and Director of the Office of Economic Development, and has held senior-level positions with the U.S. Environmental Protection Agency.

Specific qualifications and experience of particular relevance to the Company:

Mr. DeBenedictis has significant experience with government and public policy, regulated industries, public-company finance and financial reporting, as well as strategic planning, operations and risk management and corporate governance. He has more than 20 of years experience as a Director of public companies.

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Kevin M. Fogarty

Mr. Fogarty has been the President and Chief Executive Officer of Kraton Performance Polymers, Inc., since 2008. He is also a Director of both the company and its principal operating subsidiary, Kraton Polymers LLC, a leading global producer of engineered polymers and styrenic block copolymers. Mr. Fogarty served as Executive Vice President of Global Sales and Marketing at Kraton from 2005 to 2008. Prior to joining Kraton, Mr. Fogarty spent 14 years with the Koch Industries, Inc., family of companies, where he held a variety of roles, including President for Polymer and Resins at Invista and President of KoSa's Polymer and Intermediaries business.

Specific qualifications and experience of particular relevance to the Company:

Mr. Fogarty has significant experience with manufacturing, international operations, strategic partnerships, public-company accounting and financial reporting and new product development, as well as strategic planning, operations and risk management and corporate governance. He has more than four years of experience as a Director of public companies.

J. Robert Hall

Mr. Hall has been a Managing Director of Centerview Capital, an operationally oriented private equity firm focused on the U.S. consumer middle market, since January 2014. Previously he was the Chief Executive Officer of Ardale Enterprises LLC, a private company specializing in acquisition-related activities in the food, beverage and consumer products industry, and in this role was a Senior Advisor to Centerview Capital since 2009. Prior to forming Ardale, Mr. Hall spent over 20 years in the food and consumer goods industry, holding various positions with Nabisco, Kraft and Nestle. While at Nabisco, he was President of Nabisco's Specialty Products Company in the United States and President of Christie Brown & Company, Ltd., the maker of Nabisco cookies and crackers in Canada. Mr. Hall has also been President of Lenox Brands, Chairman of Wise Foods and has served on the board of Ault Foods Ltd., a \$1.3 billion dairy products company in Canada.

Specific qualifications and experience of particular relevance to the Company:

Mr. Hall has significant experience in general management, financial services, consumer goods, manufacturing, marketing, sales, new product development, strategic planning, M&A and corporate governance. Mr. Hall has more than 15 years of experience as a Director of public companies.

Richard C. Ill

Mr. Ill has been the Chairman of the Board of Triumph Group, Inc., a publicly held, international aviation services company, since 2012. Mr. Ill served as the Chairman and Chief Executive Officer of Triumph Group from 2009 to 2012 and as its President and Chief Executive Officer from 1993 to 2009. Mr. Ill previously held a variety of senior executive positions with Alco Standard Corporation before he founded what is now Triumph Group. He has over 45 years of public company experience in management, manufacturing and operations. Mr. Ill was appointed a Director of Mohawk Industries, Inc., in May 2011 and was re-elected to the board of Airgas, Inc., in November 2013. He previously served as a Director of Airgas from July 2004 through September 2010.

Specific qualifications and experience of particular relevance to the Company:

Mr. Ill has significant experience with general management, acquisitions and strategic partnerships, manufacturing, professional services, international operations, research and

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development and regulated industries, strategic planning, operations and risk management and corporate governance. He has 20 years of experience as a Director of public companies.

Ronald J. Naples

Mr. Naples served as Chairman of the Pennsylvania Stimulus Oversight Commission and Chief Accountability Officer for the Commonwealth of Pennsylvania, having been appointed to that position by the Governor of Pennsylvania, from April 2009 until February 2011. From 1997 until May 2009, Mr. Naples was the Chairman of Quaker Chemical Corporation, a publicly held, specialty chemical company serving the metalworking and manufacturing industries worldwide, and he served as Quaker's Chief Executive Officer from 1995 to 2008. Mr. Naples previously was Chairman and Chief Executive of Hunt Manufacturing Company, a publicly held company, from 1981 to 1995. He is a former White House Fellow and served in the Ford Administration as Assistant to the Counselor to the President for Economic Affairs and as a Special Assistant to the head of the Federal Energy Administration. Mr. Naples currently serves as a Director of Glenmede Trust Company, the Philadelphia Contributionship and Penn National Gaming, and is a former Chairman of the Federal Reserve Bank of Philadelphia.

Specific qualifications and experience of particular relevance to the Company:

Mr. Naples has significant experience with government and public policy, professional services, manufacturing, international operations, public-company finance and financial reporting, strategic planning, operations and risk management and corporate governance. Mr. Naples has over 30 years of experience as a Director of public companies.

Dante C. Parrini

Mr. Parrini is currently the Chairman, President and Chief Executive Officer of P. H. Glatfelter Company. He has been President and Chief Executive since January 2011 and Chairman of the Board since May 2011. Mr. Parrini previously served as Glatfelter's Executive Vice President and Chief Operating Officer from 2005 until 2010. From 2003 to 2005, he was Senior Vice President and General Manager of the Company. Mr. Parrini joined Glatfelter in 1997 and, prior to 2003, held various executive positions responsible for the Company's operations, sales and marketing. He has served on the board of H. B. Fuller Company since 2012.

Specific qualifications and experience of particular relevance to the Company:

Mr. Parrini has significant experience leading worldwide operations, including international and domestic sales, marketing, research and development, global supply chain, information technology and corporate program management, overseeing legal and human resource functions and leading strategy development. His more than 21 years of executive experience include five years as a public company Director.

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Lee C. Stewart

Mr. Stewart is a private financial consultant with over 25 years experience as an investment banker. He was a Vice President at Union Carbide Corporation from 1996 to 2001, responsible for various treasury and finance functions, and from 2001 to 2002 was CFO of Foamex International, Inc. Mr. Stewart is a director of AEP Industries, Inc., a NASDAQ-listed chemical company, and a director of ITC Holdings Corp. a NYSE-listed electricity transmission company. Mr. Stewart served as a director of Marsulex, Inc., a chemical company listed on the Toronto Stock Exchange, from 2000 until its sale in 2011. In May of 2013, Mr. Stewart was appointed to the Board of Momentive Performance Materials Inc., a specialty chemical company in silicone and advanced materials. In April of 2014, Momentive Performance Materials filed a voluntary bankruptcy petition from which it successfully emerged in October of 2014, at which time Mr. Stewart stepped down from the board.

Specific qualifications and experience of particular relevance to the Company:

Mr. Stewart has significant experience with professional services, financial services, finance and banking, public-company accounting and financial reporting, strategic planning, operations and risk management and corporate governance. He has over 19 years of experience as a Director, having first served on the board of a public company in 1996.

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**PROPOSAL 2: RATIFICATION OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has appointed Deloitte & Touche LLP (Deloitte) as the Company's independent registered public accounting firm for the fiscal year 2015, subject to ratification by the Company's shareholders. Deloitte audited the Company's consolidated financial statements for the fiscal year ended December 31, 2014.

A Deloitte representative is expected to attend the Annual Meeting and will be available to respond to appropriate shareholder questions.

What did the Company pay its independent registered public accounting firm in 2014 and 2013?

For the years ended December 31, 2014, and December 31, 2013, the aggregate fees billed by Deloitte and paid by the Company to Deloitte were as follows:

| | 2014 | 2013 |
|-----------------------------------|---------------------|---------------------|
| Audit Fees ⁽¹⁾ | \$ 3,171,603 | \$ 2,932,092 |
| Audit Related Fees ⁽²⁾ | 68,018 | 15,090 |
| Tax Fees ⁽³⁾ | 305,000 | 235,425 |
| Other | 17,245 | 17,200 |
| Total Fees | \$ 3,561,866 | \$ 3,199,807 |

(1) Audit Fees - For Deloitte's audit of the Company's annual consolidated financial statements, review of consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q, Sarbanes-Oxley Section 404 attestation services, due diligence services and services normally provided for statutory and regulatory filings or engagements.

(2) Audit-Related Fees - For Deloitte's assurance and related services reasonably related to the performance of the audit or review of the Company's consolidated financial statements that are not reported under footnote (1) above.

(3) Tax Fees - For Deloitte's tax compliance, tax advice and tax planning services, including tax planning and consultations; tax audit assistance; and tax work stemming from Audit-Related items.

All of Deloitte's 2014 services for the Company were permissible under applicable laws and regulations and were pre-approved by the Audit Committee. The Audit Committee's Audit and Non-Audit Services Pre-Approval Policy (Pre-Approval Policy) provides for the pre-approval of audit and non-audit services performed by the Company's

independent registered public accounting firm. Under the Pre-Approval Policy, the Audit Committee may pre-approve specific services, including fee levels, by the independent registered public accounting firm in a designated category (audit, audit-related, tax services and all other services). The Audit Committee may delegate this authority in writing to one or more of its members, and in such case the member or members to whom such authority is delegated must report their decisions to the Audit Committee at its next scheduled meeting.

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PROPOSAL 3: APPROVAL OF THE AMENDED AND RESTATED MANAGEMENT INCENTIVE PLAN FOR PURPOSES OF COMPLYING WITH SECTION 162(m) OF THE INTERNAL REVENUE CODE

The Board has adopted, and recommends the shareholders approve, the P. H. Glatfelter Company Amended and Restated Management Incentive Plan (referred to as the Plan). We are seeking shareholder approval of the Plan to comply with Section 162(m) of the Internal Revenue Code (referred to as Section 162(m)). Generally, Section 162(m) does not allow a publicly held company to take a tax deduction for compensation paid to the Chief Executive Officer and the three most highly compensated executive officers, other than the Chief Executive Officer and Chief Financial Officer (each a covered employee), to the extent compensation paid to any of these covered employees exceeds \$1 million in any year. However, awards made pursuant to a performance-based compensation plan approved by a company s shareholders at least every five years will not be subject to the deduction limit. To allow the Compensation Committee to make performance-based compensation grants under Section 162(m), we are submitting the Plan for shareholder approval at this Annual Meeting. Prior versions of the Plan have been approved by the shareholders, most recently at the 2010 annual meeting. The amendment and restatement of the Plan includes changes summarized below. The effective date of the amended and restated Plan will be January 1, 2015, subject to approval of the amended and restated Plan by the shareholders (referred to as the effective date).

If the shareholders do not approve the amendment and restatement of the Plan, the prior version of the Plan will continue in effect, but the Compensation Committee will no longer be able to grant awards that qualify for the performance-based compensation exemption under Section 162(m). Additionally, any awards granted to Company officers and other key employees that were conditioned on shareholder approval of the amended and restated Plan will not be payable.

The Board has adopted the Plan to provide incentives to key employees with significant responsibility for our success and growth. The Plan is designed to (1) promote the attainment of our significant business objectives, (2) encourage and reward management teamwork across the Company, and (3) assist in the attraction and retention of employees vital to long-term success. Please see page 40 of this proxy statement for a description of the awards made under the Plan to the Named Executive Officers for 2014.

The entire Plan is attached as Appendix A; a summary is set forth below.

What changes have been made to the existing Plan?

The amended and restated Plan:

updates the performance measures that may be used as the basis for setting performance goals under the Plan;

increases the individual award limit so that an award under the Plan for any calendar year within a performance period may not exceed \$3.5 million. A performance period may not exceed three years;

revises the definition of retirement to mean termination upon or after attainment of age 65, or age 55 with a minimum service of ten years;

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provides the Compensation Committee with additional flexibility in granting awards, including the ability to allow deferral of awards and to allow payment of pro-rated awards as determined by the Compensation Committee to participants whose employment is terminated;

provides the Compensation Committee with discretion to make payments of awards to participants in the event of a change in control of the Company; and

subjects awards to applicable clawback policies, insider trading policies, policies prohibiting pledging or hedging of shares and other policies approved by the Board.

How is the Plan administered?

The Plan is administered by the Compensation Committee, and all acts and authority of the Compensation Committee under the Plan are subject to the provisions of its charter and such other authority as may be delegated to the Compensation Committee by the Board. The Compensation Committee has full authority and discretion to determine eligibility for participation in the Plan, make awards under the Plan, establish the terms and conditions of such awards (including the performance goals and performance measures) and determine if the performance goals applicable to performance measures for awards have been achieved. The Compensation Committee is authorized to interpret the Plan, correct any defect and supply any omission or reconcile any inconsistency or conflict in the Plan, or in any award under it. For awards not intended to be performance-based compensation under Section 162(m), the Compensation Committee may delegate such power and authority under the Plan to Company officers, as it deems necessary or appropriate.

The Compensation Committee has the authority and discretion to determine the extent to which awards under the Plan will be structured to conform to the requirements applicable to performance-based compensation under Section 162(m).

Who is eligible to participate in the Plan?

Participation in the Plan is limited to officers and key employees who have significant responsibility for corporate, business segment or facility-based operations. Individual plan participants must be nominated by management and approved by the Compensation Committee. Approximately 12 eligible employees are currently in the plan.

What types of awards are made under the Plan?

The Compensation Committee may, in its discretion, make cash awards to eligible participants under the Plan. The amount of a participant's award may be based on a percentage of the participant's salary or such other methods as may be established by the Compensation Committee. The terms of awards need not be uniform among all participants, or classes or categories of participants. No award may exceed \$3.5 million for a calendar year within a performance period. A performance period generally is a calendar year, but a performance period can be another period, not exceeding three years, as selected by the Compensation Committee, for which performance is being measured. If a performance period consists of more than one calendar year, the individual \$3.5 million limit above shall be multiplied by the number of years in the performance period to determine the aggregate limit for the performance period.

What performance measures are used?

For awards intended to be performance-based compensation under Section 162(m), each award will be conditioned upon achievement of one or more pre-established performance goals with respect to one or

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more performance measures established by the Compensation Committee. The Compensation Committee may use any of the following performance measures as the basis for performance goals: cash flow; cash flow from operations; earnings (including earnings before interest, taxes, depreciation, and amortization [EBITDA], or some variation thereof, or earnings reflecting the elimination of the impact of certain specified non-core sources, such as pension income or expense and gains or losses from asset dispositions, acquisition and integration related costs); earnings per share, diluted or basic; earnings per share from continuing operations; net asset turnover; inventory turnover; capital expenditures; debt, net debt, debt reduction; working capital; return on investment; return on sales; net or gross sales; market share; economic value added; cost of capital; change in assets; expense reduction levels; productivity; delivery performance; safety record; stock price; return on equity; total shareholder return; return on capital; return on assets or net assets; revenue; income or net income; operating income or net operating income; operating profit or net operating profit; gross margin, operating margin or profit margin; completion of acquisitions, business expansion, product diversification; and, for awards that are not intended to be performance-based compensation under Section 162(m), other non-financial operating and management performance objectives.

To the extent consistent with Section 162(m), the Compensation Committee may determine that adjustments shall apply, in whole or in part, in such manner as specified by the Compensation Committee, to exclude the effect of any of the following events that occur during a performance period: the impairment of tangible or intangible assets; litigation or claim judgments or settlements; the effect of changes in tax law, accounting standards or principles or other such laws or provisions affecting reported results; accruals for reorganization and restructuring programs, including but not limited to reductions in force and early retirement incentives; currency fluctuations; and any extraordinary, unusual, infrequent or non-recurring items, including, but not limited to, such items described in management's discussion and analysis of financial condition and results of operations or the financial statements and notes thereto appearing in our annual report to shareholders for the applicable year.

Performance measures may be determined either individually, alternatively or in any combination; applied to either the Company as a whole or to a business unit or subsidiary entity, either individually, alternatively or in any combination; and may be measured over a period of time, including any portion of a year, annually or cumulatively over a period of years in the performance period, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Compensation Committee.

For awards intended to be performance-based compensation under Section 162(m), no later than 90 days after the beginning of an applicable performance period, the Compensation Committee will establish in writing the performance goals, performance measures and the methods for computing the amount of compensation that will be payable under the Plan to each participant if the performance goals established by the Compensation Committee are attained, and for a performance period of less than one year, the Compensation Committee will take any action prior to the lapse of 25% of the performance period. In addition to establishing minimum performance goals below which no compensation will be paid with respect to an award, the Compensation Committee may create a performance schedule under which an amount less than or more than the target award may be paid if the performance goals have been achieved.

The Compensation Committee may also establish additional restrictions or conditions that must be satisfied as a condition precedent to the payment of all or a portion of any awards. Such additional restrictions and conditions may include the receipt by a participant of a specified annual performance

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rating, continued employment by the participant until a date that may be beyond the end of a performance period, or the achievement of specified performance goals by the Company, a business unit or the participant. The Compensation Committee may also reduce the amount of any award if it concludes that such reduction is necessary or appropriate based on: (i) an evaluation of a participant's performance; (ii) comparisons with compensation received by other similarly situated individuals working within our industry; (iii) our financial results and conditions; or (iv) other factors or conditions that the Compensation Committee deems relevant. The Compensation Committee may not use its discretionary authority to increase any award that is intended to be performance-based compensation under Section 162(m).

When are awards paid?

Unless payment of an award is deferred, the award is subject to a vesting requirement, or payment of an award is in connection with death, disability or a change in control, payment of an award will be made as promptly as practicable (but in no event later than two-and-one-half months after the close of the fiscal year in which the performance period ends) after our certified public accountants have completed their examination of our year-end consolidated financial statements. For awards that are intended to be performance-based compensation under Section 162(m), except as described below with respect to death, disability or a change in control, no payment shall be made unless the Compensation Committee has certified in writing the extent to which the applicable performance goals and other material terms have been achieved.

If an award is subject to a vesting requirement whereby payment is contingent on the participant's continued employment beyond the end of a performance period, payment will be made as soon as practicable following the participant's satisfaction of the vesting requirement (but in no event later than two-and-one-half months after the close of the fiscal year in which the vesting requirement has been satisfied).

Unless otherwise determined by the Compensation Committee and except in the case of death, retirement, or disability, participants who terminate employment prior to the end of the performance period will forfeit any rights to payment under any awards then outstanding under the Plan.

Unless otherwise determined by the Compensation Committee, if a participant's employment with the Company terminates during a performance period by reason of death, retirement, or disability, the participant's award will be pro-rated to reflect the period of service prior to his or her death, retirement, or disability. The Compensation Committee may also provide for payment of a prorated or other award if a participant's employment is terminated by us without cause or under other circumstances as the Compensation Committee deems appropriate. The Compensation Committee may determine that awards for a performance period will be paid without regard to attainment of the applicable performance goals at the time of death, retirement, disability or such other termination, for awards that are not intended to be performance-based compensation under Section 162(m); or with respect to awards payable in connection with death, disability or a change in control.

Except for awards payable in connection with death, disability or a change in control, no full or prorated award that is intended to be performance-based compensation under Section 162(m) shall be paid unless the Compensation Committee has certified attainment of the performance goals.

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May participants defer the payment of awards?

The Compensation Committee may permit a participant to defer the payment of an award that would have otherwise been payable under the Plan as described above. Any deferral election will be subject to rules determined by the Compensation Committee, consistent with the requirements of Section 409A of the Internal Revenue Code (referred to as "Section 409A").

What are the consequences of a change in control?

In the event of a change in control of the Company, the Compensation Committee may take such actions as it deems appropriate, including paying a participant's award without regard to attainment of performance goals, consistent with the terms of a participant's change in control employment agreement, if applicable. The Compensation Committee may provide for payment of full or prorated awards at the time of the change in control.

A "change in control" of the Company means:

the acquisition, directly or indirectly, other than from us, by any person, entity or group (excluding, for this purpose, our company, our subsidiaries, and any of our employee benefit plans) (referred to as a third party) of beneficial ownership of 20% or more of the combined voting power of our then outstanding voting securities entitled to vote generally in the election of directors;

individuals who, as of the effective date, constitute the Board (referred to as the "incumbent directors") cease in any 12 month period to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the effective date whose election, or nomination for election by our shareholders, was approved by a vote of at least a majority of the incumbent directors who are directors at the time of such vote shall be, for purposes of this Plan, an incumbent director. However, the term incumbent director excludes any such person whose initial election as a member of the Board occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a third party other than the Board; and

consummation of (a) a reorganization, merger or consolidation, in each case, with respect to which persons who were our shareholders immediately prior to such reorganization, merger or consolidation (other than the surviving entity) do not, immediately thereafter, beneficially own more than 50% of the combined voting power of the reorganized, merged or consolidated company's then outstanding voting securities entitled to vote generally in the election of directors, or (b) a liquidation or dissolution of our company or the sale of all or substantially all of our assets (whether such assets are held directly or indirectly) to a third party.

The Compensation Committee may provide for another definition of change in control for a particular award if necessary or appropriate to comply with Section 409A or as the Compensation Committee otherwise deems appropriate.

Are awards transferable?

No. A participant's rights under the Plan may not be assigned, pledged or otherwise transferred except, in the event of the participant's death, to the participant's designated beneficiary or by the laws of descent and distribution.

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Are awards subject to clawback or other Board policies?

Awards made under the Plan are subject to any applicable clawback or recoupment policies, insider trading policies, policies prohibiting pledging or hedging of shares, and other policies that may be implemented by the Board from time to time.

Can the Plan be amended or terminated?

Although we intend to continue to use the Plan from year to year, the Company reserves the right, by action of the Board or the Compensation Committee, to amend, modify or terminate the Plan at any time. No amendment, modification or termination will, without the participant's consent, materially adversely affect the rights of such participant to any payment that has been determined by the Compensation Committee to be due and owing to the participant under the Plan, but not yet paid. However, the Compensation Committee may at any time (without the consent of participants) modify, amend or terminate any or all of the provisions of the Plan to the extent necessary to ensure that the provisions of the Plan conform to Section 409A.

What are the Federal income tax consequences to participants?

An award paid in cash to a participant represents compensation that is taxable to the participant as ordinary income in the amount of the cash paid. The Company will generally be entitled to a deduction in the amount of the award and at the same time as the participant recognizes ordinary income, except as described below.

Are there any limitations on Company tax deductions?

With certain exceptions, Section 162(m) limits the Company's deduction for compensation in excess of \$1 million paid to certain executives. Compensation paid to such executives is not subject to the deduction limit if it is considered performance-based compensation within the meaning of Section 162(m). If our shareholders approve the Plan at the Annual Meeting, the Compensation Committee may grant awards that are intended to be treated as performance-based compensation and thus deductible by the Company.

The Compensation Committee retains full discretion to determine whether or not to grant awards that are intended to be treated as performance-based compensation under Section 162(m), and to make such decisions on a grant-by-grant basis. The Compensation Committee has no obligation to grant awards that are intended to be treated as performance-based compensation under Section 162(m). For awards that are not intended to be treated as performance-based compensation, the deduction that the Company might otherwise receive with respect to such awards may be disallowed.

Table of Contents***Has the Company made awards conditioned on approval of this proposal by our shareholders?***

The following table lists 2015 target awards that were approved by the Compensation Committee (or by the Board in the case of the CEO) in February 2015. All awards listed below are subject to shareholder approval of the amendment and restatement of the Plan at the Annual Meeting. If our shareholders do not approve the amended and restated Plan, these awards will not be payable under the Plan. The award amounts listed below are at the target, threshold and maximum levels. The actual award amounts will be based on the level at which the performance goals are attained for the fiscal year and such other factors as the Compensation Committee may deem appropriate, consistent with the Plan, and may range from 0% for performance goal attainment below threshold level to a maximum bonus equal to 200% of the individual's target award amount.

| Name and Position ⁽¹⁾ | 2015 Fiscal Year (\$) | | |
|---|------------------------------|---------------|----------------|
| | Threshold | Target | Maximum |
| Dante C. Parrini, Chairman & Chief Executive Officer | 472,750 | 945,500 | 1,891,000 |
| John P. Jacunski, Executive Vice President & Chief Financial Officer | 146,748 | 293,495 | 586,990 |
| Martin Rapp, Senior Vice President & Business Unit President, Composite Fibers ⁽²⁾ | 101,762 | 203,524 | 407,048 |
| Christopher W. Astley, Senior Vice President & Business Unit President, Advanced Airland Materials | 89,333 | 178,666 | 357,332 |
| Brian E. Janki, Senior Vice President & Business Unit President, Specialty Papers | 98,977 | 197,953 | 395,906 |
| Executive Group | 1,320,381 | 2,640,762 | 5,281,524 |

(1) The Plan does not include any non-executive Directors or Officers.

(2) Mr. Rapp's bonus is calculated in Euros. Amounts presented here have been converted to United States dollars (\$) using the rate of 1.21 \$/Euro.

The Board believes that approval by shareholders of the Amended and Restated Management Incentive Plan is in the best interests of the Company and shareholders and unanimously recommends a vote FOR the proposal.

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PROPOSAL 4: ADVISORY APPROVAL OF EXECUTIVE COMPENSATION (Say-on-Pay Vote)

Executive compensation is an important topic for our shareholders. At the core of our executive compensation philosophy is the belief that compensation should reflect performance; be fair, competitive and reasonable; and be determined in a manner consistent with the Company's long-term strategy, competitive industry practice, sound corporate governance principles and shareholder interests. We believe our compensation program is strongly aligned with the long-term interests of our shareholders. We urge our shareholders to read the Compensation Discussion and Analysis (CD&A) section of this proxy statement for additional details on the Company's compensation philosophy and objectives and the 2014 compensation of the Named Executive Officers.

Pursuant to Section 14A of the Exchange Act, we are asking shareholders to vote on the following resolution:

RESOLVED, that the shareholders of P. H. Glatfelter Company (the Company) approve the compensation philosophy, policies and procedures described in the Compensation Discussion and Analysis; and the compensation of the Company's Named Executive Officers as disclosed in this proxy statement in accordance with the Securities Exchange Act of 1934 and the implementing rules of the U.S. Securities and Exchange Commission.

As an advisory vote, the results on this proposal are non-binding. Nevertheless, the Board and the Compensation Committee value the opinions of our shareholders and will consider the outcome of the vote when making future compensation decisions for our Named Executive Officers.

The Board has adopted a policy providing for annual say-on-pay advisory votes. Last year, the Company's shareholders approved the Company's compensation practices and executive pay with a 96.68% affirmative vote. Unless the Board modifies this policy, the next say-on-pay advisory vote will be held at our 2016 Annual Meeting.

OWNERSHIP OF COMPANY STOCK

To the best of the Company's knowledge, the following table sets forth information regarding ownership of the Company's outstanding common stock as of March 13, 2015, (except as otherwise noted) by: (1) each person who is known by the Company to own beneficially more than 5% of the common stock of the Company; (2) each Director, Director nominee and Named Executive Officer; and (3) all Directors, Director nominees and executive officers as a group. Except as otherwise indicated and subject to applicable community property laws, each owner has sole voting and investment powers for the securities listed. The number of shares beneficially owned by each person is determined under the rules of the Securities and Exchange Commission (SEC), and the information is not necessarily indicative of beneficial ownership for any other purpose. Under the rules of the SEC, all shares to which a person has the right to acquire beneficial ownership within sixty (60) days are considered beneficially owned by that person.

Table of Contents**Security Ownership of Certain Beneficial Owners and Management**

| | | Shares Beneficially | | Total Number of Shares | | % of Class |
|--|---|----------------------|------------------|---------------------------------|---|------------|
| Name of Beneficial Owner | | Owned ⁽¹⁾ | | Owned ⁽¹⁾ | | |
| BlackRock, Inc. | | 4,048,316 | | 4,048,316 (2) | | 9.40% |
| Dimensional Fund Advisors LP | | 3,620,262 | | 3,620,262 (3) | | 8.43% |
| NWQ Investment Management Company, LLC | | 3,250,253 | | 3,250,253 (4) | | 7.57% |
| The Vanguard Group, Inc. | | 2,827,067 | | 2,827,067 (5) | | 6.58% |
| Name of Beneficial Owner | Position | Directly Owned | Indirectly Owned | Outstanding Options to Purchase | Total Number of Shares Owned ⁽¹⁾ | % of Class |
| Christopher W. Astley | Senior V.P. & Business Unit President, Advanced Airlaid Materials | 6,233 | 777 (6) | | 7,010 | * |
| Bruce Brown | Director | | | | | * |
| Kathleen A. Dahlberg | Director | 33,294 | | | 33,294 | * |
| Nicholas DeBenedictis | Director | 30,946 | | | 30,946 | * |
| Kevin M. Fogarty | Director | | | | | * |
| J. Robert Hall | Director | 30,044 | | | 30,044 | * |
| Richard C. Ill | Director | 28,974 | | | 28,974 | * |
| John P. Jacunski | Executive V. P. & CFO | 55,415 | 3,138 (7) | | 58,553 | * |
| Brian E. Janki | Senior V.P. & Business Unit President, Specialty Papers | 5,761 | 204 (8) | | 5,965 | * |
| Ronald J. Naples | Director | 31,260 | | | 31,260 | * |
| Dante C. Parrini | Chairman of the Board & CEO | 87,032 | 6,556 (9) | | 93,588 | * |
| Martin Rapp | Senior V.P. & Business Unit President, Composite Fibers | 51,145 | | | 51,145 | * |
| Richard L. Smoot | Director | 18,579 | | | 18,579 | * |
| Lee C. Stewart | Director | 28,294 | | | 28,294 | * |
| All Directors and executive officers as a group (18 individuals) | | 480,447 | 19,235 | | 499,682 | 1% |

a group (18 individuals)

* indicates ownership of < 1%

- (1) For purposes of the table, shares of common stock are considered beneficially owned by a person if such person has, or shares, voting or investment power for such stock. As a result, more than one person may beneficially own the same security and, in some cases, the same shares are listed opposite more than one name in the table. The table includes, in some cases, shares beneficially held by spouses or minor children, as to which beneficial ownership is disclaimed. The address of each Director, Director nominee and Named Executive Officer of the Company is c/o P. H. Glatfelter Company, 96 South George Street, Suite 520, York, PA 17401.
- (2) Pursuant to a Schedule 13G filed on January 12, 2015, consists of shares beneficially owned, as of December 31, 2014, by BlackRock, Inc. BlackRock, Inc. is a parent holding company with sole voting authority over 3,935,220 shares and sole investment authority over 4,048,316 shares. BlackRock Advisors LLC, BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management (Australia) Limited, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Advisors (UK) Limited, BlackRock Investment Management, LLC, BlackRock Investment Management (UK) Limited, BlackRock Life Limited and BlackRock International Limited are subsidiaries of BlackRock, Inc., that have acquired the shares reported by BlackRock, Inc. The address of BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022.

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- (3) Pursuant to a Schedule 13G filed on February 5, 2015, consists of shares beneficially owned, as of December 31, 2014, by Dimensional Fund Advisors LP. Dimensional Fund Advisors LP possesses sole voting power over 3,482,786 shares and investment authority over 3,620,262 shares. Dimensional Fund Advisors LP is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940. All 3,620,262 shares are owned by four investment companies registered under Section 203 of the Investment Advisors Act of 1940, and to which Dimensional Fund Advisors LP furnishes investment advice. Dimensional Fund Advisors LP serves as investment manager for certain other commingled group trusts and separate accounts. Dimensional Fund Advisors LP disclaims beneficial ownership of such shares. The address of Dimensional Fund Advisors LP is Building One, 6300 Bee Cave Road, Austin, TX 78746.
- (4) Pursuant to a Schedule 13G filed on January 30, 2015, consists of shares beneficially owned, as of December 31, 2014, by NWQ Investment Management Company, LLC. NWQ Investment Management Company, LLC is an investment advisor with sole voting power of 3,249,227 and sole investment authority over 3,250,253 shares. The address of NWQ Investment Management Company, LLC is 2049 Century Park East, 16th Floor, Los Angeles, CA 90067.
- (5) Pursuant to a Schedule 13G filed on February 11, 2015, consists of shares beneficially owned, as of December 31, 2014, by The Vanguard Group, Inc. The Vanguard Group, Inc. is an investment advisor which has sole voting and investment authority over 2,827,067 shares. Vanguard Fiduciary Trust Company is a subsidiary of the Vanguard Group, Inc. and is the beneficial owner of 51,801 of the shares reported by The Vanguard Group, Inc. Vanguard Investments Australia, Ltd. is a subsidiary of the Vanguard Group, Inc. and is the beneficial owner of 3,900 of the shares reported by The Vanguard Group, Inc. The address of The Vanguard Group, Inc., is 100 Vanguard Boulevard, Malvern, PA 19355.
- (6) Consists of 777 shares held by Mr. Astley through the Company's 401(k) Plan.
- (7) Consists of 3,138 shares held by Mr. Jacunski through the Company's 401(k) Plan.
- (8) Consists of 204 shares held by Mr. Janki through the Company's 401(k) Plan.
- (9) Consists of 6,556 shares held by Mr. Parrini through the Company's 401(k) Plan.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2014, regarding the Company's equity compensation plans.

| Plan Category | (a) | (b) | (c) |
|----------------------|-----------------------------|---|-----------------------------|
| | Number of securities | Weighted-average exercise price of | Number of securities |

| | to be issued upon exercise of | outstanding options, warrants and rights ⁽²⁾ | remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ⁽³⁾⁽⁴⁾ |
|--|--|---|--|
| Equity compensation plans approved by security holders | 2,753,649 | \$ 16.20 | 1,873,027 |
| Equity compensation plans not approved by security holders | | | |
| Total | 2,753,649 | \$ 16.20 | 1,873,027 |

(1) Includes 496,428 restricted stock units (RSUs); 392,514 performance shares; and 1,864,707 stock-only stock appreciation rights (SOSARs).

(2) Weighted average exercise price is based on outstanding SOSAR prices only.

(3) Represents the securities remaining available for issuance under the Amended and Restated Long-Term Incentive Plan.

(4) For purposes of this calculation, it is assumed that Performance Share Awards will be paid at 100% of target.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's Directors and executive officers and persons who own more than ten percent (10%) of a registered class of the Company's equity securities ("10% Holders") to file reports of holdings and transactions in the Company's common stock with the SEC and the New York Stock Exchange (the "NYSE"). Based on the Company's review of such reports (and amendments thereto), the Company believes that, in 2014, its Directors, executive officers and 10% Holders filed all required reports of holdings and transactions in the Company's common stock with the SEC and the NYSE on a timely basis.

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

Corporate Governance Principles

The Board and Management are dedicated to effective corporate governance. The Board has adopted Corporate Governance Principles that provide a framework for the Company's governance. The Board has also adopted a Code of Business Conduct and a Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter. The Corporate Governance Principles are set forth in full on the Company's website at www.glatfelter.com/about_us/corporate_governance/principles.aspx. The Company's corporate website (www.glatfelter.com) includes a Corporate Governance page containing, among other information, the Code of Business Conduct, a list of its Board of Directors and Executive Officers, the charters of each of the Committees of the Board of Directors, the Company's Code of Business Ethics for the CEO and Senior Financial Officers and other related information. Copies of these materials are available, in print at no charge, upon request to the Secretary of the Company at 96 South George Street, Suite 520, York, PA 17401-1434.

The Company intends to satisfy the disclosure requirement for any future amendments to, or waivers from, its Code of Business Conduct or Code of Business Ethics for the CEO and Senior Financial Officers by posting such information on its website.

Board Composition and Leadership

The Board currently consists of ten members and will be reduced to nine members at the 2015 Annual Meeting of Shareholders. Each year, the Board elects one of its members to serve as Chair. Under the Board's governance structure, the Chair:

presides at all meetings of the Board, other than executive sessions;

identifies strategic issues to be considered for the Board agenda; and

consults with Directors on the development of the schedule, agenda and materials for all meetings of the Board.

When considering the election of a Chair, the Board reviews its governance structure and the qualifications of each Director and determines which is best qualified to chair the Board. The Board believes the Company and its

shareholders are best served by having a Chair with wide-ranging, in-depth knowledge of the Company's business operations and the Company's industry and who can best execute the Company's strategic plan. Based on his extensive experience and knowledge of the Company's operations, industry, competitive challenges and opportunities, the Board has determined

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that Dante C. Parrini is the Director best qualified to serve in the role of Chairman. The Board therefore nominated Mr. Parrini in February 2015 as Chairman, subject to his re-election as a Director at the Annual Meeting.

The Board has also determined that when the same person serves as both Chairman and CEO, the interests of the Company and the shareholders are best served by appointment of an independent Lead Director. In February 2015 the Nominating & Corporate Governance Committee recommended, and the independent Directors nominated, Ronald J. Naples to be the next independent Lead Director, effective on the date of the 2015 Annual Meeting. The Lead Director presides over the executive sessions of the Board and coordinates and develops the agenda for those sessions. The Lead Director communicates to the Chairman and CEO regarding the discussions at executive sessions as appropriate. In the absence or disability of the Chairman, the Lead Director assumes the authority of and performs the duties of the Chairman, as provided in Section 2.18 of the Company's by-laws, including presiding at any Board meeting at which the Chairman is not in attendance.

Board Independence

The Corporate Governance Principles and the Company's policies and procedures provide for an empowered, independent Board and the full involvement of the independent members of the Board in the Board's operations and decision making.

In the Company's Corporate Governance Principles, the Board has adopted the New York Stock Exchange (NYSE) standards for determining the independence of Directors, which require that a Director not have a material relationship with the Company.

Annually, each member of the Board is required to complete a questionnaire designed in part to provide information to assist the Board in determining if the Director is independent under NYSE rules and our Corporate Governance Principles. In addition, each Director or nominee for Director has an affirmative duty to disclose to the Nominating and Corporate Governance Committee relationships between and among that Director (or an immediate family member), the Company, and/or Company Management.

The Board has determined the following Directors are independent and have no material relationship with the Company: Ms. Dahlberg and Messrs. Brown, DeBenedictis, Fogarty, Hall, III, Naples and Stewart. The Board has determined Mr. Parrini, as the Company's CEO, is deemed not to be an independent Director by NYSE standards and the Company's Corporate Governance Principles.

Evaluation of Nominees for Board of Directors

The Nominating and Corporate Governance (NCG) Committee reviews all Director nominations submitted to the Company, including individuals recommended by shareholders, Directors or members of Management. When evaluating whether to recommend an individual for nomination or re-nomination, the NCG Committee will consider, at a minimum and in accordance with the Company's Corporate Governance Principles, the nominee's independence, availability to serve on the Board and the candidate's knowledge, experience, skills, expertise, wisdom, integrity, business acumen and understanding of the Company's business environment.

In evaluating Director candidates, the NCG Committee considers a wide variety of qualifications, attributes and other factors and recognizes that a diversity of viewpoints and practical experiences can

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enhance the effectiveness of the Board. Accordingly, as part of its evaluation of each Director candidate, the NCG Committee takes into account how that candidate's background, experience, qualifications, attributes and skills may complement, supplement or duplicate those of other prospective candidates.

The NCG Committee specifically reviews the qualifications of each Director candidate for election or re-election, including those of incumbent Directors, the Directors' understanding of the Company's businesses and the environment in which the Company operates, attendance and participation at meetings and independence, including any relationships with the Company. Prior to nomination, each candidate for Director must consent to stand for election, and each Director nominee must agree in writing to abide by the Company's majority voting policy.

After the NCG Committee has completed its evaluation of all Director candidates, it presents a recommended slate of Directors to the Board for consideration and approval. The NCG Committee also discusses with the Board any candidates considered by the NCG Committee but not recommended for election or re-election as a Director.

We will report any material change to this procedure in a quarterly or annual filing with the SEC. In addition, we will make any changes to this procedure available promptly by posting that information on the Corporate Governance section of our website at http://www.glatfelter.com/about_us/corporate_governance/default.aspx.

Based on the process described above, the NCG Committee recommended and the Board decided to nominate each of the incumbent Directors for re-election at the Annual Meeting. These decisions were based on the individual experience, qualifications, attributes and skills of each candidate. The NCG Committee and the Board assessed these factors in light of the Company's businesses, which provide a diverse line of specialty papers and fiber-based engineered materials. In particular, the NCG Committee and the Board considered the following:

Each nominee has extensive experience guiding large, complex organizations as executive leaders or board members.

Each nominee has experience with a broad range of occupations and industries, providing the Company's leadership with differing viewpoints and familiarity with many diverse markets targeted by the Company's businesses and environments affecting the implementation and execution of the Company's business plans.

Each nominee possesses a wide array of specific skills and areas of experience and expertise, as discussed earlier in the Director Nominee section.

Majority Voting Policy

The Company's by-laws and Corporate Governance Principles provide a majority-voting policy for the election of Directors. Each person nominated for election as a Director must submit an irrevocable resignation in advance of the election. In an uncontested election, any nominee who is not an incumbent director and receives a plurality of the votes but does not receive a majority of votes cast, the resignation will be automatically accepted. If a nominee is an incumbent Director and receives a plurality of the votes but not a majority of votes cast, the NCG Committee will consider the resignation tendered by the affected Director and make a recommendation to the Board whether to accept it. The Board will act on the NCG Committee's recommendation within 90 days following certification of the

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shareholder vote. In making their determinations, the NCG Committee and the Board may consider other factors or information they consider appropriate or relevant. Thereafter, the Board will promptly disclose its decision whether to accept the Director's resignation (and the reasons for rejecting the resignation, if applicable) in either a press release or a filing with the SEC. Any Director tendering his or her resignation pursuant to this provision may not participate in the NCG Committee's recommendation or Board decision whether to accept his or her resignation.

A Director whose resignation is not accepted by the Board shall continue to serve until the next annual meeting at which he or she is up for election and until his or her successor is duly elected, or until his or her earlier resignation or removal. If a Director's resignation is accepted by the Board, or if a nominee for Director who is not an incumbent Director is deemed to have been elected and to have automatically resigned, then the Board, in its sole discretion, may fill any resulting vacancy pursuant to the Company's by-laws, or may amend the Company's by-laws to decrease the size of the Board.

Continuing Board Education

The Nominating and Corporate Governance Committee periodically reviews and oversees orientation programs for newly elected Directors and continuing education programs for incumbent Directors. The Company is a member of the NYSE Corporate Board Member Board Leadership Program, which provides continuing education programs, conferences and other resources for the Company's Directors and executives.

Board Meetings

The Board held six meetings during 2014. The standing committees established by the Board held a total of 19 meetings in 2014. Each incumbent Director attended at least 93% of the total number of Board and Committee meetings on which he or she served in 2014. Independent Directors meet in regularly scheduled executive sessions (without Management), at which the Lead Director presides.

The Company does not have a policy regarding Director attendance at the Annual Meeting, though Directors traditionally attend the Annual Meeting. All Directors attended the 2014 Annual Meeting.

Committees of the Board of Directors

Audit Committee

The Audit Committee, established in accordance with Section 3(a)(58)(A) of the Exchange Act, currently consists of five Directors: Mr. Ill (Chair), Ms. Dahlberg, and Messrs. Brown, Naples and Smoot. In the opinion of the Board, all five Audit Committee members meet the Director independence requirements set forth in the NYSE listing standards and the SEC's applicable rules and regulations in effect on the date of this proxy statement. The Board has determined that, based on their experience, Messrs. Ill, Naples and Smoot are audit committee financial experts, as that term is defined in the applicable SEC regulations, and that all members of the Audit Committee are financially literate within the meaning of the NYSE listing standards.

In accordance with its Charter, the Audit Committee assists the Board with oversight of (1) the quality and integrity of the accounting, auditing, and financial reporting practices of the Company; (2) the

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compliance by the Company, its Directors and officers with applicable laws and regulations and its Code of Business Conduct; (3) the independent auditors' qualifications and independence; and (4) the performance of the Company's internal audit function and independent auditors. The specific duties of the Audit Committee are described in its Charter, which is available at no charge from the Secretary or on the Company's website at

http://www.glatfelter.com/about_us/corporate_governance/committees.aspx

The Audit Committee has the authority to retain specialized legal, accounting, or other experts it deems necessary to carry out its duties. The Audit Committee held seven meetings during 2014.

Compensation Committee

The Compensation Committee currently consists of four Directors: Mr. Stewart (Chair), Ms. Dahlberg, and Messrs. DeBenedictis and Hall. In the opinion of the Board, all four Compensation Committee members meet the Director independence requirements set forth in the NYSE listing standards in effect on the date of this proxy statement.

In accordance with its Charter, the Compensation Committee is responsible for an executive compensation policy designed to support overall business strategies and objectives; attract, retain, motivate and reward key executives; link compensation with organizational performance while appropriately balancing risk and reward; align executives' interests with those of the Company's shareholders; and provide competitive and reasonable compensation opportunities. The Compensation Committee also reviews, recommends for approval by the Board and oversees the Company's management plans, long-term incentive plans, defined benefit plans, contribution plans and other welfare benefit plans and perquisites. A complete description of the Compensation Committee's functions is contained in its Committee Charter, available at no charge from the Secretary or on the Company's website at

http://www.glatfelter.com/about_us/corporate_governance/committees.aspx.

Additional information regarding the engagement of an independent compensation consultant and the processes and procedures for consideration and determination of executive and Director compensation is discussed later in this proxy statement. The Compensation Committee held five meetings in 2014.

Finance Committee

The Finance Committee currently consists of five Directors: Mr. DeBenedictis (Chair) and Messrs. Fogarty, III, Parrini and Stewart. The Finance Committee advises the Board on the financial policies of the Company and has oversight over matters of financial significance to the Company. The specific functions of the Finance Committee are described in its Charter, available at no charge from the Secretary or on the Company's website at

http://www.glatfelter.com/about_us/corporate_governance/committees.aspx. The Finance Committee held four meetings during 2014.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee currently consists of five Directors: Mr. Hall (Chair) and Messrs. Brown, Fogarty, Naples and Smoot. In the opinion of the Board, all five members of the Nominating and Corporate Governance Committee meet the Director independence requirements as set forth in the NYSE listing standards in effect on the date of this proxy statement. Pursuant to its Charter, in addition to reviewing candidates for election to the Board, the Nominating and Corporate Governance Committee advises the Board on all corporate governance matters,

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monitors the Company's compliance with such guidelines and reviews corporate governance guidelines periodically to assure that they are appropriate for the Company and comply with the requirements of the SEC and the NYSE.

The specific functions of the Nominating and Corporate Governance Committee are outlined in its Charter, available at no charge from the Secretary or on the Company's website at http://www.glatfelter.com/about_us/corporate_governance/committees.aspx.

The Nominating and Corporate Governance Committee has the authority to retain Director search consultants and outside counsel or other experts as it deems necessary to carry out its duties. The Company makes funds available to the Committee for such retention. The Nominating and Corporate Governance Committee held three meetings during 2014.

Risk Oversight

The Board oversees the management of risks inherent in the operation of the Company's businesses and the implementation of its strategic plan. The Board performs this oversight role using several different levels of review. For its reviews of the Company's business unit operations and corporate functions, the Board reviews and considers the primary risks associated with those units and functions. The Board also reviews risks associated with the Company's strategic plan at an annual strategic planning session and periodically throughout the year as part of its consideration of the Company's strategic direction.

Each of the Committees also oversees the management of Company risks falling within a Committee's areas of responsibility. In performing this oversight function, each Committee has full access to Management as well as the ability to engage advisors. At each Board meeting, the Chair of each Committee reports to the Board on the Committee's oversight activities.

The Company continues to manage its enterprise risks through a variety of policies, programs and internal control functions and processes designed to identify the primary risks to the Company's business. This includes an enterprise risk management framework used to identify, assess and quantify significant organizational and business risks and to develop strategies and controls to protect the Company's operations and reputation while ensuring legal compliance. These programs and policies are overseen, supervised and administered by Management, which periodically updates the Board and the Committees of the Board on material risks that have been identified or publicly disclosed. The Company's Vice President, Internal Audit, who functionally reports to the Audit Committee, assists the Company in identifying, evaluating and implementing risk management controls and methodologies to address identified risks. As part of its risk management role, at each of its meetings the Audit Committee meets privately with both representatives from the Company's independent registered public accounting firm and the Company's Vice President, Internal Audit. The Audit Committee provides periodic reports to the Board on these activities.

As part of its oversight of the Company's executive compensation program, the Compensation Committee considers the impact of the Company's executive compensation program, and the incentives created by the compensation awards that it administers, on the Company's risk profile. In addition, the Company reviews all of its compensation policies and procedures, including the incentives that such policies create and factors that may reduce the likelihood of excessive risk taking, to determine whether such policies present a significant risk to the Company. Based on its review throughout the year, the Compensation Committee has concluded the Company's compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

Table of Contents**Director Compensation****Payments to Directors in 2014**

| Name⁽¹⁾ | Fees Earned or Paid in Cash (\$) ⁽²⁾ | Stock Awards (⁽³⁾) | All Other Compensation (⁽⁵⁾) | Total (⁽⁴⁾) |
|-------------------------------|--|--|--|-----------------------------------|
| Bruce Brown | \$30,000 | \$55,727 ⁽⁴⁾ | \$ 267 | \$85,994 |
| Kathleen A. Dahlberg | 78,000 | 89,989 | 4,905 | 172,894 |
| Nicholas DeBenedictis | 82,500 | 89,989 | 4,905 | 177,394 |
| Kevin M. Fogarty | 72,000 | 89,989 | 4,690 | 166,679 |
| J. Robert Hall ⁽⁶⁾ | 106,000 | 89,989 | 4,905 | 200,894 |
| Richard C. Ill | 93,000 | 89,989 | 4,905 | 187,894 |
| Ronald J. Naples | 76,500 | 89,989 | 4,905 | 171,394 |
| Richard L. Smoot | 76,500 | 89,989 | 4,905 | 171,394 |
| Lee C. Stewart | 87,500 | 89,989 | 4,905 | 182,394 |

(1) Only non-employee Directors receive compensation for service on the Board.

(2) The amounts include annual retainer fees, meeting fees and chair fees paid in cash.

(3) The amounts listed for all Directors except for Mr. Brown are based on the fair market value of \$26.19 per share in accordance with FASB ASC 718 for RSUs granted on May 1, 2014.

(4) The amount listed is based on the fair market value of \$22.94 per share in accordance with FASB ASC 718 for RSUs granted to Mr. Brown on October 3, 2014.

(5) Represents dividend equivalents paid to the non-employee Directors in 2014. The Directors earn dividend equivalents on their outstanding RSUs.

(6) Mr. Hall's compensation includes a Lead Director fee paid in cash.

Base Compensation Cash

In 2014, non-employee Directors received an annual retainer fee of \$60,000, paid in cash. In addition to the annual retainer, non-employee Directors were paid in cash \$1,500 for each Committee meeting they attended. The Director serving as Chair of the Audit Committee was paid an additional \$15,000 in cash for his service; the Director serving as Chair of the Compensation Committee was paid an additional \$12,500 in cash for his service; the Director serving as Chair of the Finance Committee was paid an additional \$7,500 in cash for his service; and the Director serving as Chair of the Nominating and Corporate Governance Committee received an additional \$7,500 in cash for his service.

The Lead Director received an additional \$20,000 for his service in that capacity. All accrued, but unpaid, Director cash compensation payments are made twice annually, on May 1 and November 1.

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Base Compensation Equity

In 2014, each non-employee Director received an annual restricted stock unit (RSU) award valued at \$90,000 on the grant date. Such awards vest over a three-year period, and all restrictions lapse and the shares are paid out on the third anniversary. RSUs granted to Directors will immediately vest upon a change in control. In the event of the death, disability or retirement of the Director, all unvested RSUs shall become immediately vested, and the restrictions with respect to such RSUs shall lapse.

Deferred Compensation

Pursuant to the Company s Deferred Compensation Plan for Directors, every year each Director may elect to defer 50%, 75% or 100% of his or her annual retainer for serving on the Board, but any fees paid to a Director for attending meetings of any Committee or for serving as a Chair may not be deferred. No such elections were made in 2014.

Other Benefits

Each non-employee Director is covered by the Company s Director and officer liability insurance policy and the Company s travel accident insurance policy.

Share Ownership Guidelines

The Company has established share ownership guidelines for its non-employee Directors, to enhance alignment with shareholders interests. For 2014, the share ownership guidelines precluded the sale of shares by a Director until he or she holds shares with a value equal to 5X the new annual Board retainer of \$60,000. Directly held shares and unvested RSUs continue to count toward attainment of the guideline.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis (CD&A) describes the Company's executive compensation philosophy and programs, the compensation decisions made by the Compensation Committee for the programs and the factors considered in making those decisions. The CD&A focuses on the compensation of the following 2014 Named Executive Officers (NEOs):

Dante C. Parrini, Chairman of the Board and Chief Executive Officer

John P. Jacunski, Executive Vice President and Chief Financial Officer

Martin Rapp, Senior Vice President and Business Unit President - Composite Fibers

Christopher W. Astley, Senior Vice President and Business Unit President - Advanced Airlaid Materials

Brian E. Janki, Senior Vice President and Business Unit President - Specialty Papers

Mr. Astley assumed the role of Senior Vice President and Business Unit President of Advanced Airlaid Materials in January of 2015. During 2014, he served as Senior Vice President of Corporate Strategy.

Executive Summary

Our Business

Glatfelter is a global leader in the manufacturing of specialty papers and fiber-based engineered materials. We operate twelve production facilities and employ approximately 4,600 employees worldwide. The Company marked its 150th anniversary in 2014, commemorating a legacy built on quality, integrity and innovation. Additional information about our business can be found in our Annual Report posted at http://www.glatfelter.com/about_us/investor_relations/annual_reports.aspx.

2014 Business Overview

For 2014, we reported record revenues, grew earnings and generated \$38 million of adjusted free cash flow. However, our results fell short of our operating targets for the year, driven by the cost of operational disruptions in Specialty Papers; economic weakness and geopolitical uncertainties impacting our businesses in Russia, Ukraine and parts of Europe; and increased capacity in key composite fibers markets that led to lower selling prices.

Highlights of our results for the year included:

An increase in net sales, to a record \$1.8 billion;

An 11% increase in adjusted earnings per share;

A 9% increase in the operating profit of Composite Fibers, though operating profit fell short of operating targets, due largely to the adverse impact of weak economic conditions and geopolitical uncertainties, increased competition and declining product prices. The business expanded its capacity to produce highly technical electrical papers through the acquisition of Spezialpapierfabrik Oberschmitten GmbH;

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An 18% increase in the operating profit of Advanced Airlaid Materials, driven by the successful launch of a new adult incontinence product;

A slight increase in the shipping volumes of Specialty Papers that outperformed the broader uncoated free sheet market for the 10th consecutive year, although operational disruptions had an adverse impact on performance relative to operating targets;

An 8.0% return on invested capital, exceeding our weighted average cost of capital; and

The Company returned \$12.2 million to our shareholders, in the form of share repurchases; and a 10% increase in our common stock dividend.

Compensation Program Objectives

The objectives of the Company's executive compensation programs are to attract, retain, motivate, and reward those executives crucial to the success of the Company and to create long-term shareholder value. Our programs are organized around three principles:

| Compensation Principles | Rationale |
|--------------------------------|--|
| Pay for Performance | To reward achievement of specific Company financial performance goals that are aligned with strategic initiatives the Company has determined drive shareholder value. |
| Pay at Risk | To provide a mix of compensation with strong emphasis on short- and long-term incentives linked to Company and individual performance. |
| Shareholder Alignment | To align the interests of our NEOs with shareholders by encouraging a meaningful personal stake in the Company through stock ownership guidelines, equity-based NEO compensation and incentive compensation performance goals linked to key financial metrics. |

Linkage of Company Performance with NEO Compensation

The Company provides four elements of compensation: base salary, short-term and long-term incentives and other benefits. Additional details regarding the compensation programs are included in the Compensation Programs and Elements of Compensation sections of this CD&A. Our executive compensation programs create close alignment between our performance and executive rewards because the value achievable from two of the four elements is variable and is directly tied to the Company's performance.

For 2014, the NEOs' annual incentives under the Company's Management Incentive Plan (MIP) were contingent on the achievement of Operating Net Income (ONI) and Free Cash Flow (each as defined on page 39), to encourage the executives to focus on earnings and cash flow generation at the corporate level. The business unit leaders (Messrs. Rapp and Janki in 2014, as well as Mr. Astley beginning in 2015) are also incented on an operating profit metric specifically aligned to the performance of their respective business unit.

The 2014 long-term incentive program (LTIP) consisted of a combination of performance share awards (PSAs) and stock-only stock appreciation rights (SOSARs) and thus is 100% performance-based. SOSARs directly link executive compensation to the interests of shareholders through awards having a value entirely dependent on appreciation in the Company's common stock price. The PSAs provide an opportunity to receive shares of Company common stock contingent upon the achievement

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of goals tied to three-year cumulative adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and pension expense and excluding unusual items) and Return on Capital Employed (ROCE).

The NEOs received the following compensation in 2014:

Base salaries:

Increases ranged from 3% to 10%, with Mr. Parrini receiving an 8% base salary increase in 2014 to recognize his leadership driving the Company's growth strategy and to ensure his base salary is competitively aligned to the 50th percentile of the peer group, marking the first year where his base salary was in alignment to the peer group median since assuming the role of CEO in 2011.

Short-term incentive (STI) awards payable under the MIP:

Despite delivering record sales and generating over \$38 million in cash flow, our results fell below the target for ONI and under the threshold for the cash flow metric, which impacted all NEO MIP awards.

Messrs. Parrini, Jacunski and Astley earned 43.3% of their individual payout target amount based on the achievement of ONI and Free Cash Flow results as compared to the financial targets established by the Compensation Committee at the start of the performance period.

Mr. Rapp earned 49.5% of his individual payout target based on a portion of his incentive from achievement of ONI and Free Cash Flow, and an additional component on the Composite Fibers operating profit results, which were below target performance.

Mr. Janki earned 26% of his individual payout target based on a portion of his incentive comprised of results from the achievement of ONI and Free Cash Flow, and an additional component based on Specialty Papers operating profit results, which were below threshold performance.

Long-term incentives (LTI):

The Company provided to all NEOs market-competitive annual equity awards tied to long-term performance measures that align with the Company's three-year strategic plan.

All NEOs earned and received 59.7% of the Performance Share Awards granted for the 2012 to 2014 performance period and vested on December 31, 2014 as a result of cumulative EBITDA and three-year average ROCE performance for the three-year performance period.

Messrs. Jacunski, Rapp and Astley were each provided a retention grant in February 2014; additional details regarding these grants are stated on page 41.

Additional details are provided in the **Elements of Compensation** and **Target Pay Mix** sections of the CD&A.
Compensation Programs

Overview

The Compensation Committee believes compensation should reflect the Company's financial performance and be competitive based on a person's responsibilities, individual performance and ability to exemplify the Company's Core Values. The Committee designed the Company's compensation programs to reward executive officers for creating long-term shareholder value and to attract, retain and motivate the executive officers crucial to the Company's success. The Committee

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recommends approval of the Company's compensation philosophy to the Board of Directors and oversees the compensation programs for the NEOs and other executive officers of the Company. All compensation decisions impacting the Chief Executive Officer are recommended by the Committee and require the approval of the Board of Directors.

Total compensation for the NEOs and other Company executive officers consists of base salary, short-term and long-term incentives, retirement and other benefits, and minimal perquisites. The Company's compensation programs generally target total compensation at the 50th percentile of the market and provide flexibility to deviate from the target to support Company growth strategies and evolving talent needs. A significant portion of each NEO's compensation is tied to the Company's financial performance. The opportunity to earn incentive compensation, and the risk, generally increases commensurate with the NEO's level of responsibility.

The Committee evaluates NEO incentive compensation under the Company's MIP and LTIP. MIP compensation is dependent on the Company achieving certain ONI and Free Cash Flow goals. LTIP compensation is dependent on longer-term performance metrics, including the achievement of cumulative three-year adjusted EBITDA and ROCE goals. The Committee reviews these incentive plans annually, as discussed in the Risk Oversight section, to determine whether they present undue risk to the Company.

Determination of Compensation Levels and Peer Group

The Compensation Committee seeks input from certain NEOs, external advisors and other Company executives when determining compensation decisions. Specifically:

The Committee retains an independent compensation consultant (Consultant) to provide advice, information and analysis on executive compensation and benefits.

The Committee consults with the Company's CEO, Senior Vice President of Human Resources and Administration and the Consultant to design the compensation programs.

The Committee consults with the CEO, CFO, the Consultant and external legal counsel to obtain background on the Company's key financial objectives, metrics and performance, and design of the Company's short- and long-term incentive compensation programs.

Compensation decisions pertaining to the NEOs (other than the CEO) are made by the Committee with consideration of recommendations from the CEO and guidance received from the Consultant.

The Company's legal counsel and human resources staff provide legal, governance and technical input to the Committee.

The Committee may invite NEOs to attend portions of its meetings; however, the Committee usually meets in executive session both alone and with the Consultant to reach final decisions regarding NEO compensation.

The compensation level for each NEO (other than the CEO) is approved by the Committee. In addition, the Committee approves stock-based compensation for executive officers who are not NEOs. In the case of the CEO, the Committee, with assistance from the Consultant, develops recommendations in executive session without the CEO or any other member of Management, and then provides its recommendation to the independent members of the Board for approval.

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To assist with reviewing NEO compensation, Management provides the Committee with a comprehensive document of the NEOs targeted compensation, vested and unvested equity and required share ownership. The Committee uses this information, in addition to individual and Company performance and talent, and succession planning when making compensation decisions.

For 2014 the Committee retained Compensation Strategies, Inc. (CSI), as its Consultant to assist with:

providing competitive market data;

assessing the competitiveness of the executive compensation programs;

making recommendations regarding program design based on prevailing market practices and business conditions; and

advising the Committee on:

the level of each NEO's compensation;

the compensation peer group composition;

incentive plan performance metrics and design;

external trends and regulatory developments; and

revisions or additions to the Company's executive compensation policies.

To determine market levels, generally targeting the 50th percentile, the Committee reviews a market analysis of total compensation for similarly situated executives from peer group companies (Compensation Peer Group) prepared by the Consultant. Market analysis is performed annually for the CEO and CFO and biennially for the remaining NEOs, unless market conditions warrant a market study for additional executive roles for the year. For 2014 compensation decisions, the review included the total compensation of the CEO and CFO, while market data for all other executive officers was aged from the prior year's review.

Due to the varying sizes of the companies included in the peer group, an analysis was performed comparing the Company's annual revenues with the annual revenues of the peer group companies, ensuring that all market compensation data is properly adjusted to reflect the Company's current revenue base. In determining appropriate individual compensation levels for the NEOs, the Committee considers the adjusted market compensation data, the NEO's skills and individual performance, and the Company's financial performance.

The Committee reviews the Company's Compensation Peer Group annually using an analysis conducted by the Consultant to establish a relevant and appropriate peer group size. The annual revenues of the companies in the 2014 peer group range from \$525 million to \$6 billion with median revenue of \$2.3 billion (versus the Company's 2014 annual revenue of \$1.8 billion). For 2015 there are no proposed changes to the compensation peer group because it remains appropriately sized. Because the Company competes for executive talent with a broad range of companies and industries, the companies included in the Compensation Peer Group are not the same as those included in assessing the Company's performance as disclosed in the performance graph in the Company's Annual Report to Shareholders.

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The following is a list of companies included in the Compensation Peer Group for 2014, together with the companies included in the performance graph appearing in the Company's Annual Report on Form 10-K:

2014 Compensation Peer Group

| | |
|----------------------------------|--|
| AEP Industries, Inc. | MeadWestvaco Corp. |
| Aptar Group, Inc. | Neenah Paper Inc. |
| Avery Dennison Corp. | Packaging Corp. of America |
| Bemis Company Inc. | Potlatch Corp. |
| Cenveo, Inc. | Rayonier, Inc. |
| Clearwater Paper Corp. | Schweitzer-Mauduit International, Inc. |
| Graphic Packaging Holding Co. | Silgan Holdings, Inc. |
| Greif, Inc. | Sonoco Products Co. |
| KapStone Paper & Packaging Corp. | Wausau Paper Corp. |

2014 10-K financial performance comparator company

Elements of Compensation

The elements of our executive compensation programs for 2014 included base salary, short- and long-term incentives, minimal perquisites, and retirement and other benefits, as summarized below:

Primary Elements of Compensation

| Compensation Element | Form | Relation to Performance |
|---------------------------------|--|--|
| Base Salary | Fixed Cash | Reflects each executive's performance, responsibilities, skills and value to the Company |
| Short-Term Incentive (STI) | Annual Cash Bonus (Management Incentive Plan) (MIP) Stock Only Stock Appreciation Rights (SOSARs) | Motivates and rewards executives for achieving annual financial results Provides value through stock price appreciation |
| Long-Term Incentives (LTI) | Performance Share Awards | Motivates and rewards executives for achieving three-year cumulative business |

(PSAs)

results derived from the Company's
strategic plan

Restricted Stock Units (RSUs)

Typically used on a limited basis to
promote retention of key executives to
support execution of the Company's
strategic plan

Other Benefits

Supplemental retirement plans,
change-in-control and minimal perquisites

Not performance-based; competitive
offerings to attract and retain high caliber
executive talent

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Target Pay Mix

Annually the Compensation Committee reviews the mix of base salary, STI and LTI for each NEO to ensure an appropriate level of the executives' recurring target compensation is tied to Company performance. This review does not include special retention awards as was the case with Messrs. Jacunski, Rapp and Astley in 2014 or benefits. The Committee believes this approach is appropriate in order to provide year-over-year consistency in analyzing the pay mix when compared to the peer group.

The mix of compensation varies among NEOs with at least 50% of their target pay considered at risk. Mr. Parrini has the greatest level of at-risk compensation, with 71% of his compensation tied to Company performance. The Committee believes this level is appropriate for Mr. Parrini given his role as CEO to deliver and sustain shareholder value.

Base Salary

The Compensation Committee believes base salary, which contributes to the Company's compensation objectives of attracting and retaining talented executives, is an important element of compensation. The base salaries of the NEOs are approved annually by the Committee typically during the first quarter of the calendar year. The Committee considers several factors, without any assigned relative weightings, when determining base salary increases for NEOs:

salary recommendations from the CEO for the NEOs other than himself;

Company and individual NEO performance;

the accountability and complexity of the NEO's role in attaining Company objectives;

the external competitiveness of the NEO's compensation; and

internal equity and retention considerations.

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For 2014, the following NEO base salary increases were approved, effective as of February 1, 2014:

| NEO Base Salaries | | | |
|--------------------------|---|---|-----------------|
| NEO | Prior Base Salary (effective February 1, 2013) | New Base Salary (effective February 1, 2014) | % change |
| Parrini | \$850,000 | \$ 918,000 | 8% |
| Jacunski | 440,159 | 475,372 | 8 |
| Rapp ⁽¹⁾ | 416,735 | 397,374 | 8 |
| Astley | 282,475 | 310,723 | 10 |
| Janki | 375,000 | 386,250 | 3 |

(1) Mr. Rapp's salary is paid in Euros and was 302,706 Euros in 2013, which was increased by 8% to 326,922 Euros on February 1, 2014. The amounts presented above have been converted to United States dollars (\$) based on year end exchange rates for comparison purposes only (2013: 1.3767 \$/Euro; 2014: 1.2155 \$/Euro).

As a group, the NEO base salaries were on average 4% above market when compared to the 50th percentile after salary increases. Mr. Parrini received a base salary increase to \$918,000 as of February 1, 2014, to recognize his leadership in driving the Company's growth strategy and to align his base salary to the 50th percentile of the peer group. Mr. Parrini does not have an employment agreement with the Company.

Short-Term Incentives: The Management Incentive Plan

The Company provides an annual, short-term incentive bonus opportunity to the NEOs under the Company's Management Incentive Plan (MIP). The Compensation Committee approves a target bonus for each NEO expressed as a percentage of the NEO's base salary. The Committee establishes target bonuses for the NEOs generally at the 50th percentile of the market and retains flexibility to deviate from the target.

For 2014 target bonuses as a percent of base salary for the NEOs remained unchanged. The following table sets forth targeted bonus levels for each NEO:

| NEO MIP Target Bonus | | | |
|-----------------------------|--------------------------|----------------------------|-------------|
| NEO | 2014 Target Bonus | Eligible Salary | 2014 |

| | (as a percentage of 2014 | | Target |
|---------------------|--------------------------|-----------|-----------|
| | Base Salary) | | Bonus |
| Parrini | 95% | \$918,000 | \$872,100 |
| Jacunski | 60 | 475,372 | 285,223 |
| Rapp ⁽¹⁾ | 50 | 397,374 | 198,687 |
| Astley | 45 | 310,723 | 139,825 |
| Janki | 50 | 386,250 | 193,125 |

(1) Mr. Rapp's salary and target bonus are calculated in Euros. Amounts presented here have been converted to United States dollars (\$) for comparison purposes only using the performance period year end rate of 1.2155 \$/Euro.

In February each year, the Compensation Committee, in consultation with the Audit Committee, determines the degree to which the pre-established MIP performance metrics have been met. The

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Compensation Committee also decides whether to award bonuses to the NEOs, and at what level. The amount ultimately received by the NEOs and other eligible executives depends on the achievement of performance metrics. The Compensation Committee may in its discretion adjust downward any bonus earned by any NEO or other executive. Any downward adjustment to the CEO's bonus requires approval by the independent members of the Board. The Compensation Committee does not have discretion to increase any bonus earned by any NEO or other executive.

For 2014, the Compensation Committee adopted a MIP design consistent with the design used in 2013, incorporating the following two metrics for all NEOs:

ONI defined as net income determined in accordance with accounting principles generally accepted in the United States (US GAAP), adjusted to exclude after-tax pension income or pension expense, gains from the sale of timberlands and certain other items as specified by the Committee.

Free Cash Flow defined as operating cash flows minus capital expenditures, and adjusted to exclude certain items as specified by the Committee.

The Company's business unit leaders (Messrs. Rapp and Janki in 2014) were also measured on operating profit for their respective business units in addition to the Company's ONI and Free Cash Flow. Operating profit is determined in accordance with US GAAP and is adjusted to exclude pension expense and certain non-recurring items as determined by the Committee.

These metrics were originally chosen to focus NEOs and other key executives on generating earnings and effectively managing cash flow. The Committee supported using these metrics in 2014 to reinforce the Company's operational and strategic objectives.

In 2014 the performance metrics were weighted as follows for the NEOs:

The targeted performance levels of ONI, Free Cash Flow, and business unit operating profit were derived using the Company's 2014 budgeted levels that were approved by the Board of Directors.

The Committee incorporated a requirement that the Company achieve minimum performance before any bonus may be earned (Bonus Threshold Performance). For 2014, the Bonus Threshold Performance was 80% of the financial target. A maximum performance (Maximum Performance) was established at 140% of the financial target for each metric. Payment amounts for achieving the Bonus Threshold Performance was 50% of the NEOs' target bonus opportunities; payment amounts for achieving the maximum performance was 200% of the NEOs' target bonus opportunities. The threshold and maximum payout opportunities are based on advice received from the Consultant regarding market practices and remained unchanged from 2013.

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The following table outlines the approved threshold, target and maximum payment opportunities and financial goals for the NEOs under the 2014 MIP, as well as the weighted payout results based on the performance metric weights shown in the chart above:

NEO MIP Performance Metrics and Payout Levels

| <i>Performance metric (millions)</i> | Threshold (50%) | Target (100%) | Maximum (200%) | Actual 2014 Result | Metric Achievement Factor | MIP Payout % (weighted) |
|---|----------------------------|--------------------------|---------------------------|-----------------------------------|--|--|
| Operating Net Income | \$ 69.7 | \$ 87.1 | \$ 121.9 | \$ 71.1 | 54.1% | } 43.3% |
| Free Cash Flow | 56.6 | 70.7 | 99.0 | 38.2 | 0 | |
| Specialty Papers Business Unit Operating Profit ⁽¹⁾ | 44.2 | 55.2 | 77.3 | 38.6 | 0 | 26.0 |
| Composite Fibers Business Unit Operating Profit ⁽¹⁾ | 65.3 | 81.7 | 114.3 | 68.2 | 58.9 | 49.5 |

(1) Business unit NEO metric weighting: 48% ONI, 12% Cash Flow, 40% Business Unit Operating Profit
The resulting MIP payments for our NEOs based on the financial results above were as follows:

NEO MIP Payments

| NEO | 2014 MIP Target Bonus | 2014 MIP Payout Percent | 2014 MIP Payment |
|---------------------|--------------------------------------|------------------------------------|-----------------------------|
| Parrini | \$ 872,100 | 43.3% | \$ 377,619 |
| Jacunski | 285,223 | 43.3 | 123,502 |
| Rapp ⁽¹⁾ | 198,687 | 49.5 | 98,350 |
| Astley | 139,825 | 43.3 | 60,544 |
| Janki | 193,125 | 26.0 | 50,213 |

(1) Mr. Rapp's target bonus is calculated in Euros. Amounts presented here have been converted to United States dollars (\$) using the performance period year end rate of 1.2155 \$/Euro.

Long-Term Incentives: The Long-Term Incentive Plan

The Compensation Committee believes long-term compensation provides strong incentives for executives to deliver and sustain long-term financial performance to its shareholders. Generally in February each year the Committee determines the amount of long-term compensation to be granted to executives by targeting the 50th percentile of the market but provides flexibility to deviate from the target. The Company's 2014 Long-Term Incentive Plan (LTIP) is designed to be 100% performance-based. The design is consistent with 2013 and is comprised of performance shares awards (PSAs) and Stock Only Stock Appreciation Rights (SOSARs). Awards granted under the Company's LTIP typically vest over a three year period except in the case of retention awards which typically vest in five years. The Committee has the flexibility to adjust the vesting period for new awards if the need arises to attract and employ newly-hired executives and offset potential loss of compensation from a former employer. The Committee did not make any such adjustments in 2014 for the NEOs.

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| 2014 LTIP | | | |
|--|--|---|---|
| Equity Vehicle (Weight) | Compensation Opportunity | Financial Performance Metrics | Objective |
| PSAs (50%) | Ability to earn shares of Company common stock upon the attainment of pre-established three year performance goals (January 1, 2014 through December 31, 2016) | Weighted 40% on cumulative adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and pension expense and excluding unusual items) | Align Executive and shareholders' interests to drive stock price appreciation |
| | Threshold performance level: 50% of a NEOs target opportunity for 80% achievement. Maximum performance level: 200% of a NEOs target opportunity for 140% achievement. | Weighted 60% on Return on Capital Employed (ROCE) three-year average | Drive long-term earnings growth and effective utilization of capital |
| SOSARs (50%) | Ability to realize value is entirely dependent on appreciation in the Company's common stock price upon vesting. | Company Stock Price | Align Executive and shareholders' interests to drive stock price appreciation |
| The PSAs and SOSARs granted to the NEOs during 2014 were based on NEOs' overall responsibilities and individual performance, and information provided by the Consultant based on a market analysis for each position. The following table provides an overview of the 2014 SOSARs and PSA target awards granted in 2014: | | | |

| 2014 LTI Grants ⁽¹⁾ | | | | |
|---------------------------------------|---------------|---|---|--|
| NEO | SOSARs | Performance Shares | | |
| | | Minimum Shares (0% payout below threshold) | Performance Share Target (100% payout) | Maximum Shares (200% payout at Maximum) |
| Parrini | 82,997 | 0 | 19,747 | 39,494 |
| Jacunski | 30,230 | 0 | 7,190 | 14,380 |
| Rapp | 14,730 | 0 | 3,510 | 7,020 |
| Astley | 16,070 | 0 | 3,820 | 7,640 |
| Janki | 21,990 | 0 | 5,230 | 10,460 |

(1) Additional details regarding the NEOs' 2014 LTI grants can be found in the Grants of Plan-Based Awards table. Senior Leaders' Retention Grants

Messrs. Jacunski, Rapp and Astley were provided a retention grant in February 2014. The grants were comprised of restricted stock units of which Mr. Jacunski received 15,892, Mr. Rapp received 14,988, and Mr. Astley received 10,371. The Board of Directors believes Messrs. Jacunski, Rapp and Astley

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are essential to executing the Company's strategic plan. The amount of the grants was determined to be sufficient to provide a strong retention incentive and sufficient reward for their leadership over an extended period. These NEOs must remain continuously employed for five years to receive the award.

Vesting of 2012 Performance Share Grants

2014 represents the fourth consecutive year the LTIP program was designed to include PSAs with a three-year performance period. The chart below illustrates the overlapping performance cycles for PSA grants:

PSAs granted in 2012 vested on December 31, 2014 following the conclusion of the three-year performance period. The following table illustrates the pre-determined performance goals, as well as the final results and payout level based on actual performance delivered by the NEOs during the performance period:

| Performance Share Performance Goals | | |
|--|--|--------------------------------------|
| | Cumulative Adjusted EBITDA (millions) | ROCE (three year average) |
| | Weighted 40% | Weighted 60% |
| Target | \$596.1 | 10.9% |
| Actual | \$534.8 | 8.7% |
| Percent Achievement | 74.3% | 50.0% |
| Payout Percent | 59.7% | |

The target performance shares and shares awarded to the NEOs are as follows:

| NEO Performance Shares Earned from 2012 Grant | | | |
|--|---|--|----------------------------------|
| NEO | Target Performance Shares ⁽¹⁾ | Payout (as a % of Target) | Actual Shares Awarded |
| Parrini | 30,731 | 59.7% | 18,346 |
| Jacunski | 12,453 | 59.7 | 7,434 |
| Rapp | 6,828 | 59.7 | 4,076 |

| | | | |
|----------------------|--------|------|-------|
| Astley | 8,010 | 59.7 | 4,781 |
| Janki ⁽²⁾ | 14,470 | 59.7 | 8,638 |

(1) Target shares include dividends accrued during the performance period.

(2) Mr. Janki was granted performance shares as part of the 2012 to 2014 performance period upon starting in 2013, to immediately align his interests with the long-term objectives of the Company.

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The Company's 2015 LTIP design continues to be 100% performance-based and consists of PSAs and SOSARs, each weighted 50%. The Committee has again selected cumulative adjusted EBITDA and ROCE as the dual criteria for determining the attainment of PSAs. The weightings for these two performance metrics will remain 40% and 60%, respectively, of each NEO's performance share award. Payment amounts for achievement of the threshold performance levels equal 20% of the target PSAs; achievement of the maximum performance results in payments equal to 200% of the target PSAs.

Perquisites

Perquisites are offered to certain NEOs on a limited basis. The Compensation Committee believes perquisites should be a minimal part of executive compensation. Perquisites include a country club membership for Mr. Parrini, and, as is customary for executives in Europe, a car allowance for Mr. Rapp. All NEOs are eligible to receive a company-paid executive physical and executive long term disability coverage. The U.S. NEOs who elect to receive executive long term disability coverage receive imputed income. Perquisite details can be found in the Summary Compensation Table.

Post-Employment Compensation

The Compensation Committee believes offering post-employment compensation allows the Company to attract, retain, and motivate qualified employees and executives in the current competitive marketplace.

The Company provides qualified and non-qualified pension plans for U.S.-based employees and other arrangements for those outside of the U.S. Regarding the qualified pension, those hired prior to 2007 participate in a traditional pension and those hired beginning in 2007 take part in a cash balance pension.

Non-qualified pension plans consist of a Supplemental Executive Retirement Plan (SERP) and a Supplemental Management Pension Plan (SMPP). The SERP consists of two post-employment benefits for certain NEOs as approved by the Committee, or the Board of Directors in the case of the CEO. The SMPP provides an Early Retirement Supplement.

The NEOs participate in the following pension plans:

| | Qualified Pension Plan | | Non-Qualified Pension Plans | | Non-U.S. | | |
|---------------------|-------------------------------|------------------------|------------------------------------|-------------|---------------------------|---------------------------|--|
| | | | | | Plans | | |
| | Traditional | Cash Balance | SERP Restoration | Change from | Change from | Change from | Change from |
| | | | | | Fiscal 2009 to 2010 | Fiscal 2010 to 2011 | Fiscal 2009 to 2010 |
| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | | | | Fiscal 2010 to 2011 |
| Revenues | \$ 310,076 | \$ 337,968 | \$ 380,668 | | \$ 27,892 | \$ 42,700 | 9.0% |
| Cost of revenues | 236,334 | 252,429 | 284,098 | | 16,095 | 31,669 | 6.8 |
| | | | | | | | 12.5 |

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| | | | | | | | |
|--------------------------------------|-----------|-----------|-----------|----------|------------|--------|--------|
| Gross profit | 73,742 | 85,539 | 96,570 | 11,797 | 11,031 | 16.0 | 12.9 |
| General and administrative | 42,133 | 42,056 | 59,167 | (77) | 17,111 | (0.2) | 40.7 |
| Income before income taxes | 31,609 | 43,483 | 37,403 | 11,874 | (6,080) | 37.6 | (14.0) |
| Income tax provision | 12,332 | 17,387 | 12,740 | 5,055 | (4,647) | 41.0 | (26.7) |
| Net income | \$ 19,277 | \$ 26,096 | \$ 24,663 | \$ 6,819 | \$ (1,433) | 35.4% | (5.5)% |
| Net income per share: | | | | | | | |
| Basic | \$ 1.43 | \$ 2.09 | \$ 2.09 | \$ 0.66 | \$ | 46.2% | 0.0% |
| Diluted | \$ 1.42 | \$ 2.06 | \$ 2.05 | \$ 0.64 | \$ (0.01) | 45.1% | (0.5)% |
| Shares used in net income per share: | | | | | | | |
| Basic | 13,458 | 12,499 | 11,801 | (959) | (698) | (7.1)% | (5.6)% |
| Diluted | 13,620 | 12,672 | 12,029 | (948) | (643) | (7.0)% | (5.1)% |

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As previously identified in the section titled "Risk Factors" in this report, the Company's ability to maintain or grow revenues is subject to several risks including, but not limited to, changes in government regulations, exposure to litigation and the ability to add or retain customers. Any of these, or a combination of all of them, could have a material and adverse effect on the Company's results of operations going forward.

The following table sets forth, for the periods indicated, the percentage of revenues represented by certain items reflected in the Company's consolidated statements of income. The Company's past operating results are not necessarily indicative of future operating results. The percentages for the three fiscal years ended March 31, 2009, 2010 and 2011 are as follows:

| | 2009 | 2010 | 2011 |
|----------------------------|--------|--------|--------|
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 76.2% | 74.7% | 74.6% |
| Gross profit | 23.8% | 25.3% | 25.4% |
| General and administrative | 13.6% | 12.4% | 15.5% |
| Income before income taxes | 10.2% | 12.9% | 9.9% |
| Income tax provision | 4.0% | 5.1% | 3.3% |
| Net Income | 6.2% | 7.8% | 6.6% |

Revenue

The Company derives its revenues from providing patient management and network solutions services to payors of workers' compensation benefits, auto insurance claims and health insurance benefits. Patient management services include claims administration, utilization review, medical case management and vocational rehabilitation. Network solutions revenues include fee schedule auditing, hospital bill auditing, independent medical examinations, diagnostic imaging review services, directed care services and preferred provider referral services.

Change in Revenue***Fiscal 2011 Compared to Fiscal 2010***

Revenues increased by 13%, to \$381 million in fiscal 2011, from \$338 million in fiscal 2010, an increase of \$43 million. The increase was primarily due to an increase in revenues from claims administration customers of our patient management services, due both to an increase in such customers and an increase in the services sold to the existing claims administration customers. Additionally, to a lesser extent, the Company had an increase in network solutions revenues from an increase in bill review volume and pharmacy services. Patient management revenues increased by \$28 million, or 18%, from \$151 million to \$179 million. Network solutions services increased by \$15 million, or 8%, from \$187 million to \$202 million.

Fiscal 2010 Compared to Fiscal 2009

Revenues increased by 9% to \$338 million in fiscal 2010, from \$310 million in fiscal 2009, an increase of \$28 million. The increase was primarily due to an increase in revenue from the Company's claims administration

services, including related case management and bill review services and direct care services. Patient management revenues, which include TPA services, increased by \$18 million, or 13.8%, to \$151 million in fiscal 2010 due to the Company's increased focus in the sale of these services. The Company's network solutions services revenue, which include CareIQ directed care services, increased by \$10 million, or 5.4%, to \$187 million in fiscal 2010.

Cost of Revenue

The Company's cost of revenues consist of direct expenses, costs directly attributable to the generation of revenue, and field indirect costs which are incurred in the field to support the operations in the field offices which generate the revenue. Direct costs are primarily case manager salaries, bill review analysts, related payroll taxes and fringe benefits, and costs for Independent Medical Examinations (IME), prescription drugs, and MRI providers.

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Most of the Company's revenues are generated in offices which provide both patient management services and network solutions services. The largest of the field indirect costs are manager salaries and bonus, account executive base pay and commissions, administrative and clerical support, field systems personnel, PPO network developers, related payroll taxes, fringe benefits, office rent, and telephone expense. During fiscal 2011, approximately 31% of the costs incurred in the field are field indirect costs which support both the patient management services and network solutions operations of the Company's field operations.

Change in Cost of Revenue

Fiscal 2011 Compared to Fiscal 2010

The Company's cost of revenues increased from \$252 million in fiscal 2010 to \$284 million in fiscal 2011, an increase of 12.5% or \$32 million. The increase in cost of revenues is primarily due to the 13% increase in revenues noted above. During the past three fiscal years, the Company's gross margin has been relatively consistent at 24%, 25%, and 25% for fiscal years ended March 31, 2009, 2010 and 2011, respectively.

Fiscal 2010 Compared to Fiscal 2009

The Company's cost of revenues increased from \$236 million in fiscal 2009 to \$252 million in fiscal 2010, an increase of 6.8%, or \$16 million. The increase in cost of revenues was due to the costs associated with the increase in demand for the Company's TPA services, and to a lesser extent, the CareIQ services. These services operate at a lower margin than the Company's other services. Despite this mix shift in revenues, the Company's operating productivity improved. As a result, the cost of revenues as a percentage of revenues decreased from 76% in fiscal 2010 to 75% in fiscal 2011. The potential increase in costs to attract and retain qualified employees may cause a significant increase in cost of revenues in the future.

General and Administrative Expense

During fiscal years 2009, 2010 and 2011, approximately 61%, 61%, and 54%, respectively, of general and administrative costs (exclusive of the \$9.0 million Louisiana legal settlement accrual noted below) consisted of corporate systems costs, which include the corporate systems support, implementation and training, rules engine development, national information technology (IT) strategy and planning, depreciation of the hardware costs in the Company's corporate offices and backup data center, the Company's national wide area network, and other systems related costs. The Company includes all IT related costs managed by the corporate office in general and administrative whereas the field IT related costs are included in the cost of revenues. The remaining general and administrative costs consist of national marketing, national sales support, corporate legal, corporate insurance, human resources, accounting, product management, new business development, and other general corporate expenses.

Change in General and Administrative Expense

Fiscal 2011 Compared to Fiscal 2010

General and administrative costs increased 41% from \$42 million in fiscal 2010 to \$59 million in fiscal 2011. General and administrative expense increased as a percentage of revenue by 3.1% from 12.4% of revenue in fiscal 2010 to 15.5% of revenue in fiscal 2011 primarily due to the accrual of the \$9 million legal settlement of litigation in Louisiana as noted below. Exclusive of this accrual, general and administrative costs would have been 12.4% and 13.2% of revenue in both fiscal 2010 and fiscal 2011, respectively, as the increase in general and administrative costs was commensurate with the growth in revenue. Exclusive of the Louisiana settlement accrual, general and administrative costs increased from \$42 million in fiscal 2010 to \$50 million in fiscal 2011. Part of the increase was

also due to the settlement of the Roche litigation noted below. The Company's systems expenses increased \$0.9 million, from \$24.4 million in fiscal 2010 to \$25.3 million in fiscal 2011. Given the importance the Company places on its proprietary software and IT infrastructure, these costs will always be a significant portion of the Company's general and administrative costs.

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The costs associated with the development and maintenance of software products and the implementation and incorporation of new technologies to remain competitive could have a material adverse effect on the Company's results of operations in the future. Likewise, the Company's exposure to litigation and increasing costs of insurance could have a material adverse effect on the Company's results of operations as well.

Fiscal 2010 Compared to Fiscal 2009

General and administrative expense was \$42 million in both fiscal 2009 and fiscal 2010. General and administrative expense decreased as a percentage of revenue by 1.2% from 13.6% of revenue in fiscal 2009 to 12.4% of revenue in fiscal 2010 as these costs remained unchanged as revenues increased. The Company's systems expenses decreased \$1 million, or 2.2%, from fiscal 2009 to fiscal 2010 offset by an increase in non-systems related general and administrative costs. Given the importance the Company places on its proprietary software and IT infrastructure, these costs may increase in the future.

The costs associated with the development and maintenance of software products and the implementation and incorporation of new technologies to remain competitive could have a significant adverse effect on the Company's results of operations in the future. Likewise, the Company's exposure to litigation and increasing costs of insurance could have a significant adverse effect on the Company's results of operations as well.

Income Tax Provision

Fiscal 2011 Compared to Fiscal 2010

The Company's income tax expense for fiscal years 2010 and 2011 was \$17 million and \$13 million, respectively. The Company's income tax expense in fiscal 2011 decreased primarily due to the decrease in pre-tax income from \$43 million in fiscal 2010 to \$37 million in fiscal 2011. The effective income tax rates for fiscal years 2010 and 2011 were 40% and 35% respectively. The decrease in the effective income tax rate was primarily due to the recognition of a net benefit of \$1,601,000 due to the reduction in the FIN 48 liability originally recorded based upon review of the FIN 48 liability. These rates differed from the statutory federal tax rate of 35% primarily due to state income taxes and certain non-deductible expenses.

Fiscal 2010 Compared to Fiscal 2009

The Company's income tax expense for fiscal years 2009 and 2010, was \$12 million and \$17 million, respectively. The Company's income tax expense in fiscal 2010 increased due to the increase in pre-tax income from \$32 million in fiscal 2009 to \$43 million in fiscal 2010. The effective income tax rates for fiscal years 2009 and 2010 were 39% and 40%, respectively. These rates differed from the statutory federal tax rate of 35% primarily due to state income taxes and certain non-deductible expenses.

Net Income

Fiscal 2011 Compared to Fiscal 2010

The Company's net income for fiscal years 2010 and 2011 was \$26 million and \$25 million, respectively. The Company's net income in fiscal 2011 decreased due to the \$9 million accrued for the expected legal settlement of the Louisiana litigation and Roche litigation noted below offset by the increase in profits due to the increase in revenues. Revenues increased \$43 million while field costs increased only \$35 million. Gross margins were 25% in fiscal 2010 and 25% in fiscal 2011 as cost of revenues approximated the increase in revenues.

Fiscal 2010 Compared to Fiscal 2009

The Company's net income for fiscal years 2009 and 2010 was \$19 million and \$26 million, respectively. The Company's net income in fiscal 2010 increased due to the increase in the Company's revenues and increase in gross margin percentage. Revenues increased \$28 million from fiscal 2009 to fiscal 2010. Gross margins increased from 24% in fiscal 2009 to 25% in fiscal 2010.

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Earnings per Share

Fiscal 2011 Compared to Fiscal 2010

The Company's diluted earnings per share for fiscal years 2010 and 2011 were \$2.06 and \$2.05, respectively. The Company's earnings per share in fiscal 2011 decreased due to the accrued for the expected legal settlement of the Louisiana litigation noted below. The cost was partially offset by an increase in operating income, excluding the legal accrual, and due to a reduction in shares outstanding from the Company's share repurchase program.

Fiscal 2010 Compared to Fiscal 2009

The Company's diluted earnings per share for fiscal years 2009 and 2010 were \$1.42 and \$2.06, respectively. The Company's earnings per share in fiscal 2010 increased due to the increase in net income as noted above, offset by the decrease in diluted shares from 13.6 million to 12.7 million due to repurchases under the Company's share repurchase program.

Liquidity and Capital Resources

The Company has historically funded its operations and capital expenditures primarily from cash flow from operations, and to a lesser extent, stock option exercises. The Company's net accounts receivables have averaged below 46 days of average sales for the past two fiscal years. Property, net of accumulated depreciation, has historically averaged approximately 10% or less of annual revenue. These historical ratios of investments in assets used in the business has allowed the Company to generate sufficient cash flow to repurchase \$249 million of its common stock during the past fifteen fiscal years, without incurring debt, on inception to date net earnings of \$248 million. Working capital remained unchanged from \$27 million to \$27 million from March 31, 2010 to March 31, 2011.

The Company believes that cash from operations and funds from exercises of stock options granted to employees are adequate to fund existing obligations, repurchase shares of the Company's common stock under its current share repurchase program, introduce new services, and continue to develop healthcare related businesses for at least the next twelve months. The Company regularly evaluates cash requirements for current operations and commitments, and for capital acquisitions and other strategic transactions. The Company may elect to raise additional funds for these purposes, through debt or equity financings or otherwise, as appropriate. Additional equity or debt financing may not be available when needed, on terms favorable to us or at all.

As of March 31, 2011, the Company had \$12 million in cash and cash equivalents, invested primarily in short-term, interest-bearing highly liquid investment-grade securities with maturities of 90 days or less.

In June 2010, the Company renewed a credit agreement that was in place throughout fiscal 2011. The line is with a financial institution to provide a revolving credit facility with borrowing capacity of up to \$10 million. Borrowings under this agreement bear interest, at the Company's option, at a fixed LIBOR-based rate plus 1.50% or at a fluctuating rate determined by the financial institution to be 1.50% above the daily one-month LIBOR rate. The loan covenants require the Company to maintain the current assets to liabilities ratio of at least 1.25:1, debt to tangible net worth not greater than 1.25:1 and have positive net income. There were no outstanding revolving loans at any time during fiscal 2011, but letters of credit in the aggregate amount of \$8.0 million have been issued under a letter of credit sub-limit that does not reduce the amount of borrowings available under the revolving credit facility. The credit agreement expires in September 2011.

The Company has historically required substantial capital to fund the growth of its operations, particularly working capital to fund growth in accounts receivable and capital expenditures. The Company believes, however, that the cash

balance at March 31, 2011 along with anticipated internally generated funds, and the credit facility would be sufficient to meet the Company's expected cash requirements for at least the next twelve months.

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Operating Cash Flows

Fiscal 2011 Compared to Fiscal 2010

Net cash provided by operating activities increased from \$38 million in fiscal 2010 to \$45 million in fiscal 2011. The increase in cash provided by operations was primarily due to an increase in accrued liabilities by \$7 million for fiscal year 2010 to \$15 million for fiscal year 2011 primarily due to the accrual for the expected legal settlement of the Louisiana litigation noted above. Excluding the accrual of cost for this item, income in fiscal 2011 would have been greater than fiscal 2010.

Fiscal 2010 Compared to Fiscal 2009

Net cash provided by operating activities increased from \$30 million in fiscal 2009 to \$38 million in fiscal 2010. The increase in cash provided by operations was primarily due to a increase in net income from \$19 million for fiscal year 2009 to \$26 million for fiscal year 2010.

Investing Activities

Fiscal 2011 Compared to Fiscal 2010

Net cash flow used in investing activities increased from \$12 million in fiscal 2010 to \$20 million in fiscal 2011. This increase in investing activity was primarily due to an increase in property additions from \$12 million in fiscal 2010 to \$18 million in fiscal 2011, primarily due to an increase in software development efforts. The Company expects future expenditures for property and equipment to increase if revenues increase.

Fiscal 2010 Compared to Fiscal 2009

Net cash flow used in investing activities decreased from \$14 million in fiscal 2009 to \$12 million in fiscal 2010. This decrease in investing activity was primarily due to a decrease in acquisitions from \$3 million to \$1 million. Furthermore, investing activity in capital additions increased from \$10 million to \$12 million.

Financing Activities

Fiscal 2011 Compared to Fiscal 2010

Net cash flow used in financing activities decreased from \$29 million in fiscal 2010 to \$23 million in fiscal 2011. The decrease in cash flow used in financing activities was due to a decrease in the purchase of common stock under the Company's share repurchase program. During fiscal 2010, the Company spent \$33 million to repurchase 1,092,445 shares of its common stock (at an average price of \$29.80 per share). During fiscal 2011, the Company spent \$31 million to repurchase 715,975 shares of its common stock (at an average price of \$42.75 per share). Additionally, in fiscal year 2010, the Company realized \$3 million in cash from the exercise of stock options and the related income tax benefits. In fiscal 2011, the Company realized \$7 million from the exercised of stock options and the related income tax benefits.

If the Company continues to generate cash flow from operating activities, the Company may continue to repurchase shares of its common stock on the open market, if authorized by the Company's Board of Directors, or seek to identify other businesses to acquire. In May 2010, the Board of Directors increased the number of shares authorized to be repurchased over the life of the stock repurchase program by an additional 1,000,000 shares to 15,000,000 shares. The Company has historically used cash provided by operating activities and from the exercise of stock options to

repurchase stock. The Company expects that it may use some of the cash on the balance sheet at March 31, 2011 to repurchase additional shares of its common stock in the future.

Fiscal 2010 Compared to Fiscal 2009

Net cash flow used in financing activities increased from \$21 million in fiscal 2009 to \$29 million in fiscal 2010. The increase in cash flow used in financing activities was due to an increase in the purchase of common stock under the Company's stock repurchase program. During fiscal 2009, the Company spent \$23 million to repurchase

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995,129 shares of its common stock (at an average price of \$23.57 per share). During fiscal 2010, the Company spent \$33 million to repurchase 1,092,445 shares of its common stock (at an average price of \$29.80 per share).

Contractual Obligations

The following table set forth our contractual obligations at March 31, 2011, which are primarily future minimum lease payments due under non-cancelable operating leases:

| | | For the Fiscal Years Ended March 31: | | | |
|-------------------------|----------------------|---|----------------------|----------------------|---------------------|
| | Total | 2012 | 2013 - 2014 | 2015 - 2016 | After 2016 |
| Operating leases | \$ 47,408,000 | \$ 13,512,000 | \$ 18,705,000 | \$ 11,673,000 | \$ 3,518,000 |
| Uncertain tax positions | 1,608,000 | 1,608,000 | | | |
| Software license | 1,700,000 | 850,000 | 850,000 | | |
| Total | \$ 50,716,000 | \$ 15,970,000 | \$ 19,555,000 | \$ 11,673,000 | \$ 3,518,000 |

Litigation. On March 25, 2011, George Raymond Williams, MD. (Williams), as plaintiff, individually and on behalf of those similarly situated, filed a First Amended and Restated Petition for Damages and Class Certification in the 27th Judicial District Court, Parish of St. Landry, Louisiana, against CorVel Corporation (CorVel) and its insurance carriers, Homeland Insurance Company of New York and Executive Risk Specialty Insurance Company and several other unrelated parties. Williams alleges that CorVel violated Louisiana's Any Willing Provider Act (the AWP), which requires a payor accessing a preferred provider contract to give 30 days' advance written notice or point of service notice in the form of a benefit card before the payor accesses the discounted rates in the contract to pay the provider for services rendered to an insured under that payor's health benefit plan.

On March 31, 2011, CorVel entered into a Memorandum of Understanding with attorneys representing the plaintiffs and the class setting forth the terms of settlement of this class action lawsuit. The Memorandum of Understanding provides that subject to the execution of a mutually acceptable settlement agreement and final non-appealable approval of such settlement by the Louisiana state court, CorVel will pay \$9 million to resolve claims for which CorVel recorded a \$9 million pre-tax charge to earnings during the March 2011 quarter. In addition, CorVel will assign to the class certain rights it has to the proceeds of CorVel's insurance policies relating to the claims asserted by the class. The class action arbitration filed with the American Arbitration Association against CorVel in December 2006 by Southwest Louisiana Hospital Association dba Lake Charles Memorial Hospital as previously disclosed by CorVel is encompassed within the settlement terms of the Memorandum of Understanding. Pursuant to the Memorandum of Understanding, the parties have also agreed to request that the appropriate courts stay all related proceedings in State and Federal Court, as well as the Louisiana Office of Workers Compensation and the arbitration proceeding before the American Arbitration Association in which the parties are named, until the settlement agreement is prepared, executed and receives final court approval. The settlement does not constitute an admission of liability.

In exchange for the settlement payment by CorVel, class members will release CorVel and all of its affiliates and clients for any claims relating in any way to re-pricing, payment for, or reimbursement of a workers' compensation bill, including but not limited to claims under the AWP. Plaintiffs have also agreed to a notice procedure that CorVel may follow in the future to comply with the AWP. As noted, the Memorandum of Understanding is contingent upon the execution of a mutually acceptable definitive settlement agreement. Under Louisiana law, once the parties have executed such a settlement agreement, they must apply to the court for approval of the settlement following a

court-supervised process of notice to the class and an opportunity for the class to be heard about the fairness of the settlement or to be excluded from the settlement. CorVel expects to be able to arrive at such a definitive settlement agreement in the next 30 days[elsewhere you say by the end of June 2011] [How certain are you?], but there can be no assurance that the parties will be able to reach a definitive settlement agreement within that timeframe or at all, that the court will approve the settlement or that a large number of class members will not opt out of the settlement. If a definitive settlement agreement is not reached or is not approved by the court, all related proceedings in State and Federal Court, as well as the Louisiana Office of Workers

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Compensation and the arbitration proceeding before the American Arbitration Association that have been stayed pending settlement will resume.

In February 2005, Kathleen Roche, D.C., as plaintiff, filed a putative class action in Circuit Court for the 20th Judicial District, St. Clair County, Illinois, against the Company. The case sought unspecified damages based on the Company's alleged failure to direct patients to medical providers who were members of the CorVel CorCare PPO network and also alleged that the Company used biased and arbitrary computer software to review medical providers bills. On October 29, 2010, the Company entered into a settlement agreement providing for the payment of \$2.1 million to class members and up to an additional \$700,000 for attorneys' fees and expenses, and as a result the Company accrued \$2.8 million of estimated liability for this settlement agreement during the quarter ended September 30, 2010. None of these amounts have been paid to the claimants through March 31, 2011. The Company denies that its conduct was improper in any way and has denied all liability. In exchange for the settlement payment by the Company, class members consisting of Illinois medical providers (excluding hospitals) have released the Company and all of its affiliates for claims relating to any PPO or usual and customary reductions recommended by the Company on class members' medical bills. On January 21, 2011, the Circuit Court gave final approval to the settlement and awarded class counsel \$700,000 in attorneys' fees and expenses and a \$5,000 incentive award to Kathleen Roche, the class representative.

The Company is involved in other litigation arising in the normal course of business. Management believes that resolution of these other matters will not result in any payment that, in the aggregate, would be material to the financial position or results of the operations of the Company.

Inflation. The Company experiences pricing pressures in the form of competitive prices. The Company is also impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits, and facility leases. However, the Company generally does not believe these impacts are material to its revenues or net income.

Off-Balance Sheet Arrangements

The Company is not a party to off-balance sheet arrangements as defined by the Securities and Exchange Commission. However, from time to time the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. The contracts primarily relate to: (i) certain contracts to perform services, under which the Company may provide customary indemnification to the purchasers of such services; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their relationship with the Company.

The terms of such obligations vary by contract and in most instances a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations on the Company's balance sheets for any of the periods presented.

Critical Accounting Policies

The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following is not intended to be a comprehensive list of our accounting policies. Our significant accounting policies are more fully described in Note A to the Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

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We have identified the following accounting policies as critical to us: 1) revenue recognition, 2) cost of revenues, 3) allowance for uncollectible accounts, 4) goodwill and long-lived assets, 5) accrual for self-insured costs, 6) accounting for income taxes, and 7) share-based compensation.

Revenue Recognition: The Company recognizes revenue when there is persuasive evidence of an arrangement, the services have been provided to the customer, the sales price is fixed or determinable, and collectability is reasonably assured. For the Company's services, as the Company's professional staff performs work, they are contractually permitted to bill for fees earned in fraction of an hour increments worked or by units of production. The Company recognizes revenue as the time is worked or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred. The Company derives the majority of its revenue from the sale of Network Solutions and Patient Management services. Network Solutions and Patient Management services may be sold individually or combined with any of the services the Company provides. When a sale combines multiple elements, the Company accounts for multiple element arrangements in accordance with the guidance included in Accounting Standard Codification (ASC) 605-25.

In accordance with ASC 605-25, the Company allocates revenue for transactions or collaborations that include multiple elements to each unit of accounting based on its relative fair value, and recognizes revenue for each unit of accounting when the revenue recognition criteria have been met. The price charged when the element is sold separately generally determines fair value. When our customers purchase several products from CorVel, the pricing of the products sold is generally the same as if the product were sold on an individual basis. As a result, the fair value of each product sold in a multiple element arrangement is almost always determinable. In the absence of fair value of a delivered element, the Company would allocate revenue first to the fair value of the undelivered elements and the residual revenue to the delivered elements. The Company recognizes revenue for delivered elements when the delivered elements have standalone value and the Company has objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. Based upon the nature of our products, bundled products are generally delivered in the same accounting period.

Cost of revenues: Cost of services consists primarily of the compensation and fringe benefits of field personnel, including managers, medical bill analysts, field case managers, telephonic case managers, systems support, administrative support and account managers and account executives and related facility costs including rent, telephone and office supplies. Historically, the costs associated with these additional personnel and facilities have been the most significant factor driving increases in the Company's cost of services. Locally managed and incurred IT costs are charged to cost of revenues whereas the costs incurred and managed at the corporate offices are charged to general and administrative expense.

Allowance for Uncollectible Accounts: The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customers current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible.

The Company must make significant management judgments and estimates in determining contractual and bad debt allowances in any accounting period. One significant uncertainty inherent in the Company's analysis is whether its past experience will be indicative of future periods. Although the Company considers future projections when estimating contractual and bad debt allowances, the Company ultimately makes its decisions based on the best information available to it at that time. Adverse changes in general economic conditions or trends in reimbursement amounts for the Company's services could affect the Company's contractual and bad debt allowance estimates, collection of accounts receivable, cash flows, and results of operations. No one customer accounted for 10% or more of accounts

receivable at March 31, 2010, and 2011.

Goodwill and Long-Lived Assets: Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the acquired business. Pursuant to ASC 350-10 through ASC 350-30, Goodwill and Other Intangible Assets, goodwill is tested annually for impairment or more frequently if circumstances indicate the potential for impairment. Also, management tests for impairment of its amortizable intangible assets and long-lived assets annually and whenever events or changes in circumstances

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indicate that the carrying amount of an asset may not be recoverable. The Company's impairment is conducted at a company-wide level. The measurement of fair value is based on an evaluation of market capitalization and is further tested using a multiple of earnings approach. In projecting the Company's cash flows, management considers industry growth rates and trends and cost structure changes. Based on the Company's tests and reviews, no impairment of its goodwill, intangible assets or other long-lived assets existed at March 31, 2011. However, future events or changes in current circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets. Should an asset be deemed impaired, an impairment loss would be recognized to the extent the carrying value of the asset exceeded its estimated fair market value.

Accrual for Self-insurance Costs: The Company self-insures for the group medical costs and workers' compensation costs of its employees. The Company purchases stop loss insurance for large claims. Management believes that the self-insurance reserves are appropriate; however, actual claims costs may differ from the original estimates requiring adjustments to the reserves. The Company determines its estimated self-insurance reserves based upon historical trends along with outstanding claims information provided by its claims paying agents.

Accounting for Income Taxes: The Company provides for income taxes in accordance with provisions specified in ASC 740, "Accounting for Income Taxes". Accordingly, deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities. These differences will result in taxable or deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the Company's current and past performance, the market environment in which the Company operates, tax-planning strategies and the length of carry-forward periods for loss carry-forwards, if any. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, the Company provides for income tax issues not yet resolved with federal, state and local tax authorities.

Share-Based Compensation: The Company accounts for share based compensation in accordance with the provisions of ASC Topic 718 "Compensation - Stock Compensation". Under ASC 718, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). For the fiscal year ended March 31, 2011, the Company recorded share-based compensation expense of \$2,544,000. Share-based compensation expense recognized in fiscal 2011 is based on awards ultimately expected to vest; therefore, it has been reduced for estimated forfeitures. ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's term, and the Company's expected annual dividend yield. The Company's management believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company's stock options granted in fiscal 2011. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

The key input assumptions that were utilized in the valuation of the stock options granted during the fiscal year ended March 31, 2011 are summarized in the table below.

Weighted average option life (1)

4.7 to 4.8 years

| | |
|-----------------------------|--------------|
| Expected volatility (2) | 46% |
| Risk free interest rate (3) | 1.5% to 2.2% |
| Dividend yield | 0% |

(1) The expected option term is based on historical exercise and post-vesting termination patterns.

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- (2) Expected volatility represents a combination of historical stock price volatility and estimated future volatility.
- (3) The risk-free interest rate is based on the implied yield on five year United States Treasury Bill on the date of grant.

Recently Issued Accounting Standards

There have been no new accounting pronouncements which had a material impact on our consolidated financial statements and management does not believe there are any pending pronouncements that will materially impact our financial position or results of operations. Management is continuously monitoring all proposed accounting standards updates to determine the impact, if any, they will have on the Company's future financial statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
CorVel Corporation

We have audited the accompanying consolidated balance sheets of CorVel Corporation (the Company) as of March 31, 2010 and 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years ended March 31, 2009, 2010 and 2011. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule for each of the years ended March 31, 2009, 2010, and 2011. We also have audited CorVel Corporation's internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2010 and 2011, and the consolidated results of its operations and its cash flows for each of the years ended March 31, 2009, 2010, and 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule for each of the years ended March 31, 2009, 2010, and 2011, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ HASKELL & WHITE LLP

Irvine, California
June 10, 2011

Table of Contents**CORVEL CORPORATION****CONSOLIDATED STATEMENTS OF INCOME**

| | Fiscal Years Ended March 31, | | |
|--------------------------------------|-------------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| Revenues | \$ 310,076,000 | \$ 337,968,000 | \$ 380,668,000 |
| Cost of revenues | 236,334,000 | 252,429,000 | 284,098,000 |
| Gross profit | 73,742,000 | 85,539,000 | 96,570,000 |
| General and administrative | 42,133,000 | 42,056,000 | 59,167,000 |
| Income before income taxes | 31,609,000 | 43,483,000 | 37,403,000 |
| Income tax provision | 12,332,000 | 17,387,000 | 12,740,000 |
| Net income | \$ 19,277,000 | \$ 26,096,000 | \$ 24,663,000 |
| Net income per share: | | | |
| Basic | \$ 1.43 | \$ 2.09 | \$ 2.09 |
| Diluted | \$ 1.42 | \$ 2.06 | \$ 2.05 |
| Weighted average shares outstanding: | | | |
| Basic | 13,458,000 | 12,499,000 | 11,801,000 |
| Diluted | 13,620,000 | 12,672,000 | 12,029,000 |

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION
CONSOLIDATED BALANCE SHEETS

| | 2010 | March 31, 2011 |
|--|----------------|---------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 10,242,000 | \$ 12,269,000 |
| Customer deposits | 1,691,000 | 5,279,000 |
| Accounts receivable (less allowance for doubtful accounts of \$2,754,000 at March 31, 2010 and \$2,588,000 at March 31, 2011) | 43,930,000 | 48,964,000 |
| Prepaid expenses and taxes | 6,419,000 | 6,417,000 |
| Deferred income taxes | 4,864,000 | 9,298,000 |
| Total current assets | 67,146,000 | 82,227,000 |
| Property and equipment, net | 30,026,000 | 38,500,000 |
| Goodwill | 35,988,000 | 36,769,000 |
| Other intangible assets, net | 6,909,000 | 6,729,000 |
| Non-current deferred income taxes and other assets | 299,000 | |
| | \$ 140,368,000 | \$ 164,225,000 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities | | |
| Accounts and taxes payable | \$ 14,495,000 | \$ 14,590,000 |
| Accrued liabilities | 25,455,000 | 40,248,000 |
| Total current liabilities | 39,950,000 | 54,838,000 |
| Deferred income taxes | 4,690,000 | 9,748,000 |
| Total liabilities | 44,640,000 | 64,586,000 |
| Commitments and contingencies (Notes F, H, I, J and K) | | |
| Stockholders' Equity | | |
| Common stock, \$.0001 par value: 60,000,000 shares authorized at March 31, 2010 and 2011; 25,801,690 shares issued (12,026,502 shares outstanding, net of Treasury shares) and 11,630,921 shares issued (26,122,084 shares outstanding, net of Treasury shares) at March 31, 2010 and March 31, 2011, respectively | 3,000 | 3,000 |
| Paid-in-capital | 90,217,000 | 100,073,000 |
| Treasury Stock, at cost (13,775,188 shares at March 31, 2010 and 14,491,163 shares at March 31, 2011) | (218,323,000) | (248,931,000) |
| Retained earnings | 223,831,000 | 248,494,000 |
| Total stockholders' equity | 95,728,000 | 99,639,000 |

\$ 140,368,000 \$ 164,225,000

See accompanying notes to consolidated financial statements.

Table of Contents**CORVEL CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****Fiscal Years Ended March 31, 2009, 2010, and 2011**

| | Common Shares | Stock Amount | Paid-in- Capital | Treasury Shares | Treasury Stock | Retained Earnings | Total Shareholders Equity |
|---|--------------------------|-------------------------|-----------------------------|----------------------------|---------------------------|------------------------------|--|
| Balance March 31, 2008 | 25,480,315 | \$ 3,000 | \$ 80,219,000 | (11,687,614) | \$ (162,302,000) | \$ 178,458,000 | \$ 96,378,000 |
| Stock issued under employee stock purchase plan | 16,390 | | 374,000 | | | | 374,000 |
| Stock issued under stock option plan, net of shares repurchased | 103,317 | | 1,766,000 | | | | 1,766,000 |
| Stock-based compensation expense | | | 1,332,000 | | | | 1,332,000 |
| Income tax benefits from stock option exercises | | | 630,000 | | | | 630,000 |
| Purchase of treasury stock | | | | (995,129) | (23,460,000) | | (23,460,000) |
| Net income | | | | | | 19,277,000 | 19,277,000 |
| Balance March 31, 2009 | 25,600,022 | 3,000 | 84,321,000 | (12,682,743) | (185,762,000) | 197,735,000 | 96,297,000 |
| Stock issued under employee stock purchase plan | 11,064 | | 333,000 | | | | 333,000 |
| Stock issued under stock option plan, net of shares repurchased | 190,604 | | 2,732,000 2,102,000 | | | | 2,732,000 2,102,000 |

| | | | | | | | |
|---|------------|----------|----------------|--------------|------------------|----------------|---------------|
| Stock-based compensation expense | | | | | | | |
| Income tax benefits from stock option exercises | | | 729,000 | | | | 729,000 |
| Purchase of treasury stock | | | | (1,092,445) | (32,561,000) | | (32,561,000) |
| Net income | | | | | | 26,096,000 | 26,096,000 |
| Balance March 31, 2010 | 25,801,690 | 3,000 | 90,217,000 | (13,775,188) | (218,323,000) | 223,831,000 | 95,728,000 |
| Stock issued under employee stock purchase plan | 7,073 | | 317,000 | | | | 317,000 |
| Stock issued under stock option plan, net of shares repurchased | 313,321 | | 4,728,000 | | | | 4,728,000 |
| Stock-based compensation expense | | | 2,544,000 | | | | 2,544,000 |
| Income tax benefits from stock option exercises | | | 2,267,000 | | | | 2,267,000 |
| Purchase of treasury stock | | | | (715,975) | (30,608,000) | | (30,608,000) |
| Net income | | | | | | 24,663,000 | 24,663,000 |
| Balance March 31, 2011 | 26,122,084 | \$ 3,000 | \$ 100,073,000 | (14,491,163) | \$ (248,931,000) | \$ 248,494,000 | \$ 99,639,000 |

See accompanying notes to consolidated financial statements.

Table of Contents**CORVEL CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Fiscal Years Ended March 31, | | |
|---|-------------------------------------|----------------------|----------------------|
| | 2009 | 2010 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 19,277,000 | \$ 26,096,000 | \$ 24,663,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 11,778,000 | 11,988,000 | 12,249,000 |
| Loss on write down or disposal of property or capitalized software | 107,000 | 53,000 | 153,000 |
| Stock-based compensation expense | 1,332,000 | 2,102,000 | 2,544,000 |
| Provision for doubtful accounts | 2,434,000 | 2,868,000 | 2,437,000 |
| Provision for deferred income taxes | 2,000 | 308,000 | 624,000 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (4,388,000) | (5,549,000) | (7,419,000) |
| Customer deposits | (1,464,000) | (227,000) | (3,588,000) |
| Prepaid expenses and taxes | 401,000 | (1,578,000) | 4,000 |
| Other assets | 236,000 | (245,000) | 298,000 |
| Accounts and taxes payable | (1,939,000) | (4,058,000) | 85,000 |
| Accrued liabilities | 2,067,000 | 6,302,000 | 13,012,000 |
| Net cash provided by operating activities | 29,843,000 | 38,060,000 | 45,062,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of business, net of cash acquired | (3,365,000) | (600,000) | (1,235,000) |
| Purchases of property and equipment | (10,482,000) | (11,668,000) | (18,504,000) |
| Net cash used in investing activities | (13,847,000) | (12,268,000) | (19,739,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Exercise of employee stock purchase options | 374,000 | 333,000 | 317,000 |
| Exercise of common stock options | 1,766,000 | 2,732,000 | 4,728,000 |
| Tax benefits from stock options | 630,000 | 729,000 | 2,267,000 |
| Purchase of treasury stock | (23,460,000) | (32,561,000) | (30,608,000) |
| Net cash used in financing activities | (20,690,000) | (28,767,000) | (23,296,000) |
| Net increase (decrease) in cash and cash equivalents | (4,694,000) | (2,975,000) | 2,027,000 |
| Cash and cash equivalents at beginning of year | 17,911,000 | 13,217,000 | 10,242,000 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 13,217,000 | \$ 10,242,000 | \$ 12,269,000 |

Supplemental cash flow information

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| | | | |
|--------------------------------------|---------------|---------------|---------------|
| Income taxes paid | \$ 11,456,000 | \$ 17,275,000 | \$ 13,740,000 |
| Accrual of software license purchase | \$ | \$ | \$ 1,700,000 |
| Acquisition earnout | \$ | \$ 500,000 | \$ |
| Accrual of legal settlements | \$ | \$ | \$ 11,100,000 |

See accompanying notes to consolidated financial statements.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009, 2010 and 2011

Note A Summary of Significant Accounting Policies

Organization: CorVel Corporation (CorVel or the Company), incorporated in Delaware in 1987, provides services and programs nationwide that are designed to enable insurance carriers, third party administrators and employers with self-insured programs to administer, manage and control the cost of workers' compensation and other healthcare benefits. The Company provides case management, claims administration, and medical bill review services to these payors.

The Company evaluated all subsequent events or transactions. During the period subsequent to March 31, 2011, the Company repurchased 43,097 shares for \$2.1 million or an average of \$48.67 per share. These shares were repurchased under the Company's ongoing share repurchase program described in Note G.

Basis of Presentation: The consolidated financial statements include the accounts of CorVel and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in compliance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Actual results could differ from those estimates. Significant estimates include the values assigned to intangible assets, capitalized software development, the allowance for doubtful accounts, accrual for income taxes, purchase price allocation for acquisitions, and accrual for self-insurance reserves.

Cash and Cash Equivalents: Cash and cash equivalents consist of short-term, interest-bearing highly-liquid investment-grade securities with maturities of 90 days or less when purchased.

Fair Value of Financial Instruments: The Company applies ASC 820, Fair Value Measurements and Disclosures, with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company's Consolidated Financial Statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. The Company adopted the aspects of ASC 820 relative to nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis, prospectively effective April 1, 2009. ASC 820 prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1 Quoted market prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than those included in Level 1 (for example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets); and

Level 3 Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

The carrying amount of the Company's financial instruments (i.e. cash, accounts receivable, accounts payable, etc.) are all Level 1 and approximate their fair values at March 31, 2010 and 2011. The Company has no Level 2 or Level 3 assets.

Revenue Recognition: The Company recognizes revenue when there is persuasive evidence of an arrangement, the services have been provided to the customer, the sales price is fixed or determinable, and collectability is reasonably assured. For the Company's services, as the Company's professional staff performs work, they are contractually permitted to bill for fees earned in fraction of an hour increments worked or by units of production. The Company recognizes revenue as the time is worked or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred. The Company derives the majority of its revenue from the sale of Network Solutions and Patient Management services. Network Solutions and Patient Management services may be sold individually or combined with any of the services the Company

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

provides. When a sale combines multiple elements, the Company accounts for multiple element arrangements in accordance with the guidance included in ASC 605-25.

In accordance with ASC 605-25, the Company allocates revenue for transactions or collaborations that include multiple elements to each unit of accounting based on its relative fair value, and recognizes revenue for each unit of accounting when the revenue recognition criteria have been met. The price charged when the element is sold separately generally determines fair value. When our customers purchase several products from CorVel, the pricing of the products sold is generally the same as if the product were sold on an individual basis. As a result, the fair value of each product sold in a multiple element arrangement is almost always determinable. In the absence of fair value of a delivered element, the Company would allocate revenue first to the fair value of the undelivered elements and the residual revenue to the delivered elements. The Company recognizes revenue for delivered elements when the delivered elements have standalone value and the Company has objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. Based upon the nature of the Company's products, bundled products are generally delivered in the same accounting period. The Company recognizes revenue for claims administration services over the life of the contract with our customers. The Company estimates, based upon prior experience in managing claims, the deferral amount from when the claim is received to when the customer contract expires.

Accounts Receivable: The majority of the Company's accounts receivable are due from companies in the property and casualty insurance industries, self-insured employers and governmental entities. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable, along with sales adjustments, to cost of revenues when they become uncollectible. Accounts receivable includes \$3,171,000 and \$4,676,000 of unbilled receivables at March 31, 2010 and 2011, respectively. Unbilled receivables represent the revenue for the work performed which has not yet been invoiced to the customer. Unbilled receivables are generally invoiced within the following month.

Concentrations of Credit Risk: Substantially all of the Company's customers are payors of workers' compensation expense and property and casualty insurance, which include insurance companies, third party administrators, self-insured employers and government entities. Receivables are generally due within 30 days. Credit losses relating to customers in the workers' compensation insurance industry consistently have been within management's expectations. Virtually all of the Company's cash is invested at financial institutions in amounts which exceed the FDIC insurance levels. No customer accounted for 10% or more of revenue for either fiscal 2009, 2010, or 2011. No customer accounted for 10% or more of accounts receivable at either March 31, 2010 or 2011.

Property and Equipment: Additions to property and equipment are recorded at cost. The Company provides for depreciation on property and equipment using the straight-line method by charges to operations in amounts that allocate the cost of depreciable assets over their estimated lives as follows:

Asset Classification

Estimated Useful Life

| | |
|-------------------------|--|
| Leasehold Improvements | The shorter of five years or the life of lease |
| Furniture and Equipment | Five to seven years |
| Computer Hardware | Three to five years |
| Computer Software | Three to five years |

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company capitalizes software development costs intended for internal use. The Company accounts for internally developed software costs in accordance with ASC 350-40, *Internal Use Software*. Capitalized software development costs, intended for internal use, totaled \$7,984,000 (net of \$34,415,000 in accumulated amortization) and \$10,890,000 (net of \$37,345,000 in accumulated amortization), as of March 31, 2010 and 2011, respectively. These costs are included in computer software in property and equipment and are amortized over a period of five years.

Long-Lived Assets: The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets and the projected, undiscounted cash flows of the operations in which the long-lived assets are deployed.

Goodwill and Long-Lived Assets: Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the acquired business. Pursuant to ASC 350-10 through ASC 350-30, *Goodwill and Other Intangible Assets*, goodwill is tested annually for impairment or more frequently if circumstances indicate the potential for impairment. Also, management tests for impairment of its amortizable intangible assets and long-lived assets and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's impairment is conducted at a regional level. The measurement of fair value is based on an evaluation using a multiple of earnings approach. In projecting the Company's cash flows, management considers industry growth rates and trends and cost structure changes. Based on the Company's tests and reviews, no impairment of its goodwill, intangible assets or other long-lived assets existed at March 31, 2011. However, future events or changes in current circumstances could affect the recoverability of the carrying value of goodwill and long-lived assets. Should an asset be deemed impaired, an impairment loss would be recognized to the extent the carrying value of the asset exceeded its estimated fair value. Goodwill amounted to \$35,988,000 (net of accumulated amortization of \$2,069,000) at March 31, 2010 and \$36,769,000 (net of accumulated amortization of \$2,069,000) at March 31, 2011.

Cost of revenues: Cost of services consists primarily of the compensation and fringe benefits of field personnel, including managers, medical bill analysts, field case managers, telephonic case managers, systems support, administrative support and account managers and account executives and related facility costs including rent, telephone and office supplies. Historically, the costs associated with these additional personnel and facilities have been the most significant factor driving increases in the Company's cost of services.

Income Taxes: Accounting for Income Taxes: The Company provides for income taxes in accordance with provisions specified in ASC 740, *Accounting for Income Taxes*. Accordingly, deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities. These differences will result in taxable or deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the Company's current and past performance, the market environment in which the Company operates, tax-planning strategies and the length of carry-forward periods for loss carry-forwards, if any. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, the Company provides for income tax issues not yet resolved with federal, state and local tax authorities.

Share-Based Compensation: The Company accounts for share based compensation in accordance with the provisions of ASC Topic 718 Compensation Stock Compensation . Under ASC 718, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity grant). For the fiscal year ended March 31, 2009, 2010, and 2011, the Company recorded share-based compensation expense of \$1,332,000, \$2,102,000, and \$2,544,000, respectively. Share-based compensation expense is based on awards

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ultimately expected to vest; therefore, it has been reduced for estimated forfeitures. ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Accrual for Self-insurance Costs: The Company self-insures for the group medical costs and workers' compensation costs of its employees. The Company purchases stop loss insurance for large claims. Management believes that the self-insurance reserves are appropriate; however, actual claims costs may differ from the original estimates requiring adjustments to the reserves. The Company determines its estimated self-insurance reserves based upon historical trends along with outstanding claims information provided by its claims paying agents.

Earnings Per Share: Earnings per common share-basic is based on the weighted average number of common shares outstanding during the period. Earnings per common shares-diluted is based on the weighted average number of common shares and common share equivalents outstanding during the period. In calculating earnings per share, earnings are the same for the basic and diluted calculations. Weighted average shares outstanding is greater for diluted earnings per share due to the effect of stock options.

The difference between the basic shares and the diluted shares for each of the three fiscal years ended March 31, 2009, 2010, and 2011 is as follows:

| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
|--|--------------------|--------------------|--------------------|
| Basic weighted shares | 13,458,000 | 12,499,000 | 11,801,000 |
| Treasury stock impact of stock options | 162,000 | 173,000 | 228,000 |
| Diluted weighted shares | 13,620,000 | 12,672,000 | 12,029,000 |

Prior Year Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. The Company now shows the Customer Deposits as a separate line on the balance sheet for all periods shown in this report. In the prior year, the Company included customer deposits in cash and cash equivalents on the balance sheet and disclosed the customer deposit amount in the footnotes to the financial statements.

Recently Issued Accounting Standards

There have been no new accounting pronouncements which had a material impact on our consolidated financial statements and management does not believe there are any pending pronouncements that will materially impact our financial position or results of operations. Management is continuously monitoring all proposed accounting standards updates to determine the impact, if any, they will have on the Company's future financial statements.

Note B Stock Options and Stock-Based Compensation

Under the Company's Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) (the Plan) as in effect at March 31, 2011, options for up to 9,682,500 shares of the Company's common stock may be granted over the life of the Plan to key employees, non-employee directors and consultants at exercise prices not less

than the fair market value of the stock at the date of grant. Options granted under the Plan are non-statutory stock options and generally vest 25% one year from date of grant and the remaining 75% vesting ratably each month for the next 36 months. The options granted to employees and the board of directors expires at the end of five years and ten years from date of grant, respectively.

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2006, the Company's Board of Directors granted performance-based stock options for 149,175 shares of common stock at fair market value at the date of grant, which would only vest if the Company attained certain earnings per share targets, as established by the Company's Board of Directors, for calendar years 2008, 2009, and 2010. These options were granted with an exercise price of \$15.76 per share, which was the fair market value at the date of grant, and have a valuation of \$6.75 per share. The Company did not attain the targets for calendar years 2008 and 2009. The Company attained the earnings per share target for calendar year 2010 which allowed for options for 68,025 shares to vest. The Company recognized \$413,000 in stock compensation expense in fiscal 2011, and \$459,000, cumulatively, for these options. No further stock options will vest under this grant and there will be no further recognition of stock compensation expense.

In February 2008, the Company's Board of Directors granted performance-based stock options for 42,000 shares of common stock at fair market value at the date of grant, which will only vest if the Company attains certain revenue targets for all services sold to claims administration clients and out-of-network bill review revenues, as established by the Company's Board of Directors, for calendar years 2009, 2010, and 2011. The targets for the various options varied by the regions managed by these optionees with each region having a different target. These options were granted with an exercise price of \$25.10 per share, which was the fair market value at the date of grant, and have a valuation of \$9.81 per share. Currently, management has determined that optionees with 12,000 shares attained the revenue targets for calendar year 2009 and 2010, and, accordingly, the Company has recognized \$33,000 during fiscal 2011 and \$82,000, cumulatively, since the date of the option grant. Currently, management has determined that it is not probable that the revenue targets for the remaining optionees will be attained and, accordingly, the Company has recognized no stock compensation expense for those options.

In February 2009, the Company's Board of Directors granted performance-based stock options for 100,000 shares of common stock at fair market value at the date of grant, which will only vest if the Company attains certain earnings per share targets, as established by the Company's Board of Directors, for calendar years 2009, 2010, and 2011. Net of cancellations due to employee terminations, options for 95,000 shares remain outstanding under these performance-based stock options as of March 31, 2011. These options were granted with an exercise price of \$19.79 per share, which was the fair market value at the date of grant, and have a valuation of \$8.21 per share. The Company attained these targets for calendar 2009 and 2010, and, accordingly, the Company has recognized stock compensation expense of \$221,000 during fiscal year 2011 and \$546,000, cumulatively, since the date of the option grants.

In February 2009, the Company's Board of Directors granted performance-based stock options for 10,000 shares of common stock at fair market value at the date of grant, which will only vest if the Company attains certain revenue targets for all services sold to claims administration clients and out-of-network bill review revenues, as established by the Company's Board of Directors, for calendar years 2009, 2010, and 2011. These options were granted with an exercise price of \$20.37 per share, which was the fair market value at the date of grant, and have a valuation of \$8.45 per share. The Company did not achieve the revenue target for calendar year 2009 or 2010. Currently, management has determined that it is not probable that the Company will attain the revenue targets for 2011, and, accordingly, the Company has recognized no stock compensation expense for this stock option grant during fiscal 2011.

In November 2009, the Company's Board of Directors granted performance-based stock options for 110,000 shares of common stock at fair market value at the date of grant, which will only vest if the Company attains certain earnings per share targets, as established by the Company's Board of Directors, for calendar years 2010, 2011, and 2012. These options were granted with an exercise price of \$28.92 per share, which was the fair market value at the date of grant, and have a valuation of \$12.57 per share. The Company attained the earnings per share target in calendar year 2010,

and currently, management has determined that it is probable that the Company will attain the earnings per share targets for calendar year 2011. Accordingly, the Company has recognized \$337,000 of stock compensation expense for this stock option grant during fiscal 2011, and \$519,000, cumulatively.

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In December 2010, the Company's Board of Directors granted performance-based stock options for 100,000 shares of common stock at fair market value at the date of grant, which will only vest if the Company attains certain earnings per share targets, as established by the Company's Board of Directors, for calendar years 2011, 2012, and 2013. These options were granted with an exercise price of \$46.14 per share, which was the fair market value at the date of grant, and have a valuation of \$18.72 per share. Management has determined that it is probable that the Company will attain the earnings per share targets for calendar year 2011. Accordingly, the Company has recognized \$140,000 of stock compensation expense for this stock option grant during fiscal 2011, and cumulatively.

All options granted in the three fiscal years ended March 31, 2009, 2010, and 2011 were granted at fair value and are non-statutory stock options. Summarized information for all stock options for the past three fiscal year follows:

| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
|--|--------------------|--------------------|--------------------|
| Options outstanding beginning of the year | 1,030,858 | 1,115,171 | 1,065,403 |
| Options granted | 230,775 | 181,550 | 207,325 |
| Options exercised | (107,640) | (200,517) | (371,057) |
| Options cancelled/forfeited | (38,822) | (30,801) | (88,009) |
| Options outstanding end of year | 1,115,171 | 1,065,403 | 813,662 |
| During the year, weighted average exercise price of: | | | |
| Options granted | \$ 24.19 | \$ 27.98 | \$ 42.40 |
| Options exercised | \$ 17.23 | \$ 15.04 | \$ 20.16 |
| Options forfeited | \$ 23.54 | \$ 21.79 | \$ 17.53 |
| At the end of the year | | | |
| Price range of outstanding options | \$ 9.89-\$47.70 | \$ 11.00-\$47.70 | \$ 11.00-\$47.70 |
| Weighted average exercise price per share | \$ 20.31 | \$ 22.57 | \$ 29.26 |
| Options available for future grants | 996,475 | 845,726 | 726,410 |
| Exercisable options | 477,561 | 448,257 | 374,141 |

For the fiscal years ended March 31, 2009, 2010 and 2011, the Company recorded share-based compensation expense of \$1,332,000, \$2,102,000, and \$2,544,000, respectively. The table below shows the amounts recognized in the financial statements for the fiscal years ended March 31, 2009, 2010 and 2011.

| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
|---|--------------------|--------------------|--------------------|
| Cost of revenue | \$ 539,000 | \$ 545,000 | \$ 608,000 |
| General and administrative | 793,000 | 1,557,000 | 1,936,000 |
| Total cost of stock-based compensation included in income before income tax | 1,332,000 | 2,102,000 | 2,544,000 |
| Amount of income tax benefit recognized | 519,000 | 841,000 | 986,000 |

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| | | | |
|--------------------------------------|------------|--------------|--------------|
| Amount charged to net income | \$ 813,000 | \$ 1,261,000 | \$ 1,558,000 |
| Effect on basic earnings per share | \$ 0.06 | \$ 0.10 | \$ 0.13 |
| Effect on diluted earnings per share | \$ 0.06 | \$ 0.10 | \$ 0.13 |

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model with the assumptions included in the

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

table below. The Company uses historical data among other factors to estimate the expected volatility, the expected option life, and the expected forfeiture rate. The risk-free rate is based on the interest rate paid on a U.S. Treasury issue with a term similar to the estimated life of the option. During fiscal 2011, based upon the historical experience of option cancellations, the Company used estimated forfeiture rates ranging from 8.9% to 9.3%. Forfeiture rates will be adjusted over the requisite service period when actual forfeitures differ, or are expected to differ, from the estimate.

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for fiscal years ended March 31, 2009, 2010 and 2011:

| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
|------------------------------|--------------------|--------------------|--------------------|
| Expected volatility | 40% to 45% | 46% to 47% | 46% |
| Risk free interest rate | 1.9% to 3.2% | 2.0% to 2.7% | 1.5% to 2.2% |
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Weighted average option life | 4.7 to 5.0 years | 4.8 to 5.0 years | 4.7 to 4.8 years |

The following table summarizes the status of stock options outstanding and exercisable at March 31, 2011:

| Range of Exercise Prices | Number of Outstanding Options | Weighted Average Remaining Contractual Life | Outstanding Options Weighted Average Exercise Price | Exercisable Options Number of Exercisable Options | Exercisable Options Weighted Average Exercise Price |
|---------------------------------|--|--|--|--|--|
| \$14.76 to \$20.83 | 204,537 | 2.86 | \$ 18.70 | 157,382 | \$ 18.33 |
| \$21.76 to \$27.03 | 175,405 | 3.08 | 25.27 | 102,605 | 25.33 |
| \$27.04 to \$33.79 | 225,470 | 3.09 | 29.77 | 112,979 | 29.98 |
| \$33.80 to \$47.70 | 208,250 | 4.82 | 42.44 | 1,175 | 47.70 |
| Total | 813,662 | 3.47 | \$ 29.26 | 374,141 | \$ 23.86 |

A summary of the status for all outstanding options at March 31, 2011, and changes during the fiscal year then ended is presented in the table below:

| Number of Options | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual | Aggregate Intrinsic Value as of March 31, 2011 |
|------------------------------|--|---|---|
|------------------------------|--|---|---|

| | | | | Life (Years) | |
|-------------------------------------|-----------|----|-------|-------------------------|---------------|
| Options outstanding, March 31, 2010 | 1,065,403 | \$ | 22.57 | | |
| Granted | 207,325 | | 42.40 | | |
| Exercised | (371,057) | | 20.16 | | |
| Cancelled forfeited | (16,484) | | 23.59 | | |
| Cancelled expired | (71,525) | | 17.53 | | |
| Options outstanding, March 31, 2011 | 813,662 | \$ | 29.26 | 3.47 | \$ 19,462,000 |
| Options vested and expected to vest | 745,044 | \$ | 28.51 | 3.39 | \$ 18,384,000 |
| Ending exercisable | 374,141 | \$ | 23.86 | 2.71 | \$ 10,971,000 |

The weighted average fair value of options granted during fiscal 2009, 2010, and 2011 was \$9.70, \$12.07, and \$17.41, respectively. The total intrinsic value of options exercised during fiscal years 2009, 2010, and 2011 were \$1,560,000, \$2,855,000, and \$9,173,000 respectively.

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company received \$1,766,000, \$2,732,000, and \$4,728,000 of cash receipts from the exercise of stock options during fiscal 2009, 2010, and 2011, respectively. Vested options at March 31, 2011 were 374,141. Unvested options at March 31, 2011 were 439,521. As of March 31, 2011, \$2,528,000 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted average period of 3.0 years.

Note C Property and Equipment

Property and equipment, net consisted of the following at March 31, 2010 and 2011:

| | 2010 | 2011 |
|---|---------------|---------------|
| Computer software | \$ 51,248,000 | \$ 59,553,000 |
| Office equipment and computers | 52,256,000 | 57,214,000 |
| Leasehold improvements | 4,110,000 | 4,544,000 |
| | 107,614,000 | 121,311,000 |
| Less: accumulated depreciation and amortization | (77,588,000) | (82,811,000) |
| | \$ 30,026,000 | \$ 38,500,000 |

Note D Accounts and Taxes Payable and Accrued Liabilities

Accounts and income taxes payable consisted of the following at March 31, 2010 and 2011:

| | 2010 | 2011 |
|----------------------|---------------|---------------|
| Accounts payable | \$ 9,297,000 | \$ 12,410,000 |
| Income taxes payable | 5,198,000 | 2,180,000 |
| | \$ 14,495,000 | \$ 14,590,000 |

Accrued liabilities consisted of the following at March 31, 2010 and 2011:

| | 2010 | 2011 |
|--|---------------|---------------|
| Payroll, payroll taxes and employee benefits | \$ 13,483,000 | \$ 12,608,000 |
| Accrued legal settlements | 0 | 11,100,000 |
| Accrued professional service fees | 3,232,000 | 9,039,000 |
| Self-insurance accruals | 3,256,000 | 2,988,000 |
| Deferred revenue | 3,144,000 | 2,591,000 |

| | | |
|--------------|---------------|---------------|
| Accrued rent | 1,171,000 | 1,450,000 |
| Other | 1,169,000 | 472,000 |
| | \$ 25,455,000 | \$ 40,248,000 |

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note E Income Taxes**

The income tax provision consisted of the following for the three fiscal years ended March 31, 2009, 2010 and 2011:

| | 2009 | 2010 | 2011 |
|------------------|---------------|---------------|---------------|
| Current Federal | \$ 10,057,000 | \$ 14,333,000 | \$ 8,888,000 |
| Current State | 2,273,000 | 2,746,000 | 3,228,000 |
| Subtotal | 12,330,000 | 17,079,000 | 12,116,000 |
| Deferred Federal | 212,000 | 750,000 | 1,136,000 |
| Deferred State | (210,000) | (442,000) | (512,000) |
| Subtotal | 2,000 | 308,000 | 624,000 |
| | \$ 12,332,000 | \$ 17,387,000 | \$ 12,740,000 |

The following is a reconciliation of the income tax provision from the statutory federal income tax rate to the effective rate for the three fiscal years ended March 31, 2009, 2010 and 2011:

| | 2009 | 2010 | 2011 |
|--|---------------|---------------|---------------|
| Income taxes at federal statutory rate (35)% | \$ 11,063,000 | \$ 15,219,000 | \$ 13,091,000 |
| State income taxes, net of federal benefit | 1,439,000 | 1,826,000 | 1,772,000 |
| FIN 48 benefit | | | (1,649,000) |
| Other | (170,000) | 342,000 | (474,000) |
| | \$ 12,332,000 | \$ 17,387,000 | \$ 12,740,000 |

Income taxes paid totaled \$11,456,000, \$17,275,000, and \$13,740,000 for the fiscal years ended March 31, 2009, 2010, and 2011, respectively.

Deferred tax assets and liabilities at March 31, 2010 and 2011 are:

| | 2010 | 2011 |
|--|--------------|--------------|
| Deferred income tax assets: | | |
| Accrued liabilities not currently deductible | \$ 3,758,000 | \$ 8,825,000 |
| Allowance for doubtful accounts | 1,083,000 | 1,029,000 |

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| | | |
|---|-------------|--------------|
| FIN 48 income tax benefits | 1,651,000 | 653,000 |
| Stock-based compensation | 1,665,000 | 1,344,000 |
| Other | 805,000 | 903,000 |
| Deferred assets | 8,962,000 | 12,754,000 |
| Deferred income tax liabilities: | | |
| Excess of book over tax basis of fixed assets | (5,314,000) | (8,828,000) |
| Intangible assets | (3,443,000) | (3,800,000) |
| Other | (31,000) | (576,000) |
| Deferred liabilities | (8,788,000) | (13,204,000) |
| Net deferred tax asset/(liability) | \$ 174,000 | \$ (450,000) |

Prepaid expenses and taxes include \$2,887,000 and \$2,847,000 at March 31, 2010 and 2011, respectively, for income taxes due in the first quarter of the succeeding fiscal year.

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In July 2006, the FASB issued guidance which prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted this guidance effective April 1, 2007, and recognized a \$2,700,461 increase in the liability for unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | |
|--|--------------|
| Balance as of March 31, 2010 | \$ 3,170,000 |
| Additions based on tax positions related to the current year | 70,000 |
| Additions for tax positions of prior years | 292,000 |
| Reductions for tax positions of prior years | (1,924,000) |
| Balance as of March 31, 2011 | \$ 1,608,000 |

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the fiscal years ended March 31, 2009, 2010 and 2011, the Company recognized approximately \$87,000, \$96,000, and (\$1,270,000) in interest and penalties, respectively. As of March 31, 2009, 2010, and 2011, accrued interest and penalties related to uncertain tax positions were \$1,747,000, \$1,843,000, and \$572,000, respectively.

The Company believes there will be a reduction in its unrecognized tax benefits within the next 12 months due to settlements with various tax jurisdictions.

The tax fiscal years 2007-2010 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Note F Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (ESPP) which allows employees of the Company and its subsidiaries to purchase shares of common stock on the last day of two six-month purchase periods (i.e. March 31 and September 30) at a purchase price which is 95% of the closing sale price of shares as quoted on NASDAQ on the last day of such purchase period. Employees are allowed to contribute up to 20% of their gross pay. A maximum of 1,425,000 shares has been authorized for issuance under the ESPP, as amended. As of March 31, 2011, 1,194,024 had been issued pursuant to the ESPP. Summarized ESPP information is as follows:

| | 2009 | 2010 | 2011 |
|------------------------|------------|------------|------------|
| Employee contributions | \$ 374,000 | \$ 333,000 | \$ 317,000 |
| Shares acquired | 16,390 | 11,064 | 7,073 |
| Average purchase price | \$ 22.82 | \$ 30.12 | \$ 44.83 |

Note G Treasury Stock

During each of the three fiscal years in the period ended March 31, 2011, the Company continued to repurchase shares of its common stock under a plan originally approved by the Company's Board of Directors in 1996. Including an expansion authorized in May 2010, the total number of shares authorized to be repurchased over the life of the plan is 15,000,000 shares. Purchases may be made from time to time depending on market conditions and other relevant factors. The share repurchases for fiscal years ended March 31, 2009, 2010 and 2011 and cumulatively since inception of the authorization are as follows:

| | 2009 | 2010 | 2011 | Cumulative |
|--------------------|---------------|---------------|---------------|-------------------|
| Shares repurchased | 995,129 | 1,092,445 | 715,975 | 14,491,163 |
| Cost | \$ 23,460,000 | \$ 32,561,000 | \$ 30,608,000 | \$ 248,931,000 |
| Average price | \$ 23.57 | \$ 29.80 | \$ 42.75 | \$ 17.18 |

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the period subsequent to March 31, 2011, the Company repurchased 43,097 shares for \$2.1 million or an average of \$48.67 per share. The repurchased shares were recorded as treasury stock, at cost, and are available for general corporate purposes. The repurchases were primarily financed from cash generated from operations and from the cash proceeds from the exercise of stock options.

Note H Commitments

The Company leases office facilities under non-cancelable operating leases. Some of these leases contain escalation clauses. Future minimum rental commitments under operating leases at March 31, 2011 are \$13,512,000 in fiscal 2012, \$10,520,000 in fiscal 2013, \$8,185,000 in fiscal 2014, \$6,819,000 in fiscal 2015, \$4,855,000 in fiscal 2016, \$3,518,000 thereafter, and \$47,409,000 in the aggregate. Total rental expense of \$15,094,000, \$15,114,000, and \$14,620,000 was charged to operations for the years ended March 31, 2009, 2010, and 2011, respectively.

Note I Contingencies and Legal Proceedings

On March 25, 2011, George Raymond Williams, MD. (Williams), as plaintiff, individually and on behalf of those similarly situated, filed a First Amended and Restated Petition for Damages and Class Certification in the 27th Judicial District Court, Parish of St. Landry, Louisiana, against CorVel Corporation (CorVel) and its insurance carriers, Homeland Insurance Company of New York and Executive Risk Specialty Insurance Company and several other unrelated parties. Williams alleges that CorVel violated Louisiana's Any Willing Provider Act (the AWPAA), which requires a payor accessing a preferred provider contract to give 30 days advance written notice or point of service notice in the form of a benefit card before the payor accesses the discounted rates in the contract to pay the provider for services rendered to an insured under that payor's health benefit plan.

On March 31, 2011, CorVel entered into a Memorandum of Understanding with attorneys representing the plaintiffs and the class setting forth the terms of settlement of this class action lawsuit. The Memorandum of Understanding provides that subject to the execution of a mutually acceptable settlement agreement and final non-appealable approval of such settlement by the Louisiana state court, CorVel will pay \$9 million to resolve claims for which CorVel recorded a \$9 million pre-tax charge to earnings (included in general and administrative costs) during the March 2011 quarter. In addition, CorVel will assign to the class certain rights it has to the proceeds of CorVel's insurance policies relating to the claims asserted by the class. The class action arbitration filed with the American Arbitration Association against CorVel in December 2006 by Southwest Louisiana Hospital Association dba Lake Charles Memorial Hospital as previously disclosed by CorVel is encompassed within the settlement terms of the Memorandum of Understanding. Pursuant to the Memorandum of Understanding, the parties have also agreed to request that the appropriate courts stay all related proceedings in State and Federal Court, as well as the Louisiana Office of Workers Compensation and the arbitration proceeding before the American Arbitration Association in which the parties are named, until the settlement agreement is prepared, executed and receives final court approval. The settlement does not constitute an admission of liability.

In exchange for the settlement payment by CorVel, class members will release CorVel and all of its affiliates and clients for any claims relating in any way to re-pricing, payment for, or reimbursement of a workers' compensation bill, including but not limited to claims under the AWPAA. Plaintiffs have also agreed to a notice procedure that CorVel may follow in the future to comply with the AWPAA. As noted, the Memorandum of Understanding is contingent upon the execution of a mutually acceptable definitive settlement agreement. Under Louisiana law, once the parties have executed such a settlement agreement, they must apply to the court for approval of the settlement following a

court-supervised process of notice to the class and an opportunity for the class to be heard about the fairness of the settlement or to be excluded from the settlement. CorVel expects to be able to arrive at such a definitive settlement agreement by the end of June 2011, but there can be no assurance that the parties will be able to reach a definitive settlement agreement within that timeframe or at all, that the court will approve the settlement or that a large number of class members will not opt out of the settlement. If a definitive settlement agreement is not reached or is not approved by the court, all related proceedings in State and Federal Court, as well

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CORVEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as the Louisiana Office of Workers Compensation and the arbitration proceeding before the American Arbitration Association that have been stayed pending settlement will resume.

In February 2005, Kathleen Roche, D.C., as plaintiff, filed a putative class action in Circuit Court for the 20th Judicial District, St. Clair County, Illinois, against the Company. The case sought unspecified damages based on the Company's alleged failure to direct patients to medical providers who were members of the CorVel CorCare PPO network and also alleged that the Company used biased and arbitrary computer software to review medical providers bills. On October 29, 2010, the Company entered into a settlement agreement providing for the payment of \$2.1 million to class members and up to an additional \$700,000 for attorneys' fees and expenses, and as a result the Company accrued \$2.8 million of estimated liability for this settlement agreement during the quarter ended September 30, 2010. None of these amounts have been paid to the claimants through March 31, 2011, pending the administrative process. The amounts due to the attorneys was paid prior to March 31, 2011. The Company denies that its conduct was improper in any way and has denied all liability. In exchange for the settlement payment by the Company, class members consisting of Illinois medical providers (excluding hospitals) have released the Company and all of its affiliates for claims relating to any PPO or usual and customary reductions recommended by the Company on class members' medical bills. On January 21, 2011, the Circuit Court gave final approval to the settlement and awarded class counsel \$700,000 in attorneys' fees and expenses and a \$5,000 incentive award to Kathleen Roche, the class representative.

The Company is involved in other litigation arising in the normal course of business. Management believes that resolution of these matters will not result in any payment that, in the aggregate, would be material to the financial position or results of the operations of the Company.

Note J Retirement Savings Plan

The Company maintains a retirement savings plan for its employees, which is a qualified plan under Section 401(k) of the Internal Revenue Code. Full-time employees that meet certain requirements are eligible to participate in the plan. Employer contributions are made annually, primarily at the discretion of the Company's Board of Directors. Contributions of \$256,000, \$221,000 and \$273,000, were charged to operations for the fiscal years ended March 31, 2009, 2010, and 2011, respectively.

Note K Shareholder Rights Plan

During fiscal 1997, the Company's Board of Directors approved the adoption of a Shareholder Rights Plan. The Shareholder Rights Plan provides for a dividend distribution to CorVel stockholders of one preferred stock purchase right for each outstanding share of CorVel's common stock under certain circumstances. In April 2002, the Board of Directors of CorVel approved an amendment to the Shareholder Rights Plan to extend the expiration date of the rights to February 10, 2012, set the exercise price of each right at \$118, and enable Fidelity Management & Research Company and its affiliates to purchase up to 18% of the shares of common stock of the Company without triggering the stockholder rights, with the limitations under the Shareholder Rights Plan remaining in effect for all other stockholders of the Company. In November 2008, the Company's Board of Directors approved an amendment to the Shareholder Rights Plan to extend the expiration date of the rights to February 10, 2022, remove the ability of Fidelity Management & Research Company and its affiliates to purchase up to 18% of the shares of common stock of the Company without triggering the stockholder rights, substitute Computershare Trust Company, N.A. as the rights agent and effect certain technical changes to the Shareholder Rights Plan.

Generally, the Shareholder Rights Plan provides that if a person or group acquires 15% or more of the Company's common stock without the approval of the Board, subject to certain exceptions, the holders of the rights, other than the acquiring person or group, would, under certain circumstances, have the right to purchase additional shares of the Company's common stock having a market value equal to two times the then-current exercise price of the right. In addition, if the Company is thereafter merged into another entity, or if 50% or more of the Company's consolidated assets or earning power are sold, then the right will entitle its holder to buy common shares of the

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

acquiring entity having a market value equal to two times the then-current exercise price of the right. The Company's Board of Directors may exchange or redeem the rights under certain conditions.

Note L Acquisition

In November 2010, the Company's wholly owned subsidiary, CorVel Enterprise Comp, Inc., acquired 100% of the stock of Safety Risk Services, LLC (SRS) for \$1.3 million in cash. There are no contingent purchase obligations. SRS is a third-party administrator headquartered in the state of Mississippi. The acquisition is expected to allow the Company to expand its service capabilities as a third-party administrator and provide claims processing services along with patient management services and network solutions services to an increased customer base. The results of SRS have been included in the Company's results from the date of the acquisition through March 31, 2011. For the fiscal year ended March 31, 2011, the results of the acquired business increased the Company's revenues by an immaterial amount, approximately 1/10 of 1%. The acquisition was also immaterial relative to the Company's net income, total assets, and shareholders' equity.

Note M Line of Credit

In June 2010, the Company renewed a credit agreement that had been in place throughout fiscal 2011. The line is with a financial institution to provide a revolving credit facility with borrowing capacity of up to \$10 million. Borrowings under this agreement bear interest, at the Company's option, at a fixed LIBOR-based rate plus 1.50% or at a fluctuating rate determined by the financial institution to be 1.50% above the daily one-month LIBOR rate. The loan covenants require the Company to maintain the current assets to liabilities ratio of at least 1.25:1, debt to tangible net worth not greater than 1.25:1 and have positive net income. There were no outstanding revolving loans at any time during fiscal 2011 or as of the date hereof, but letters of credit in the aggregate amount of \$8.0 million have been issued separate from the line of credit and therefore do not reduce the amount of borrowings available under the revolving credit facility. The renewed credit agreement expires in September 2011.

Note N Quarterly Results (Unaudited)

The following is a summary of unaudited quarterly results of operations for each of the quarters in the two fiscal years ended March 31, 2010 and 2011:

| | | | | Net Income per Basic Common Share | Net Income per Diluted Common Share |
|--------------------------|-----------------|---------------------|-------------------|---|--|
| Fiscal Year Ended | Revenues | Gross Profit | Net Income | | |
| March 31, 2010: | | | | | |
| First Quarter | \$ 81,312,000 | \$ 21,142,000 | \$ 6,404,000 | \$ 0.50 | \$ 0.49 |
| Second Quarter | 82,416,000 | 20,807,000 | 6,400,000 | 0.50 | 0.50 |
| Third Quarter | 86,629,000 | 21,806,000 | 6,675,000 | 0.55 | 0.54 |

| | | | | | |
|--------------------------|---------------|---------------|--------------|---------|---------|
| Fourth Quarter | 87,611,000 | 21,784,000 | 6,617,000 | 0.55 | 0.54 |
| Fiscal Year Ended | | | | | |
| March 31, 2011: | | | | | |
| First Quarter | \$ 91,503,000 | \$ 23,803,000 | \$ 7,760,000 | \$ 0.65 | \$ 0.64 |
| Second Quarter | 93,392,000 | 23,239,000 | 7,533,000 | 0.64 | 0.62 |
| Third Quarter | 95,282,000 | 23,821,000 | 6,724,000 | 0.57 | 0.56 |
| Fourth Quarter | 100,491,000 | 25,707,000 | 2,646,000 | 0.23 | 0.22 |

Note O Segment Reporting

The Company derives the majority of its revenues from providing patient management and network solutions services to payors of workers' compensation benefits, automobile insurance claims and health insurance benefits.

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Patient management services include claims administration, utilization review, medical case management, and vocational rehabilitation. Network solutions revenues include fee schedule auditing, hospital bill auditing, coordination of independent medical examinations, diagnostic imaging review services and preferred provider referral services. The percentages of revenues attributable to patient management and network solutions services for the fiscal years ended March 31, 2009, 2010, and 2011 are listed below.

| | 2009 | 2010 | 2011 |
|----------------------------|-------------|-------------|-------------|
| Patient mangement services | 43.2% | 44.7% | 47.0% |
| Network solutions services | 56.8% | 55.3% | 53.0% |
| | 100.0% | 100.0% | 100.0% |

The Company's management is structured geographically with regional vice-presidents who report to the President of the Company. Each of these regional vice-presidents is responsible for all services provided by the Company in his or her particular region and responsible for the operating results of the Company in multiple states. These regional vice presidents have area and district managers who are also responsible for all services provided by the Company in their given area and district.

Under ASC 280, Segment Reporting, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles of ASC 280, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas: 1) the nature of products and services; 2) the nature of the production processes; 3) the type or class of customer for their products and services; and 4) the methods used to distribute their products or provide their services. The Company believes each of the Company's regions meet these criteria as they provide similar managed care services to similar customers using similar methods of productions and similar methods to distribute their services. All of the Company's regions perform both patient management and network solutions services.

Because the Company believes it meets each of the criteria set forth above and each of the Company's regions has similar economic characteristics, the Company aggregates its results of operations in one reportable operating segment.

Note P Other Intangible Assets

Other intangible assets consist of the following at March 31, 2010:

| Item | Life | Cost | Fiscal 2010 Amortization Expense | Accumulated Amortization at March 31, 2010 | Cost, Net of Accumulated Amortization at March 31, 2010 |
|-------------|-------------|-------------|---|---|--|
|-------------|-------------|-------------|---|---|--|

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| | | | | | |
|-------------------------|-------------|--------------|------------|--------------|--------------|
| Covenant Not to Compete | 5 years | \$ 825,000 | \$ 166,000 | \$ 458,000 | \$ 367,000 |
| Customer relationships | 18-20 years | 7,571,000 | 406,000 | 1,197,000 | 6,374,000 |
| TPA Licenses | 15 years | 204,000 | 14,000 | 36,000 | 168,000 |
| Total | | \$ 8,600,000 | \$ 586,000 | \$ 1,691,000 | \$ 6,909,000 |

Table of Contents**CORVEL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other intangible assets consist of the following at March 31, 2011:

| Item | Life | Cost | Fiscal 2011 Amortization Expense | Accumulated Amortization at March 31, 2011 | Cost, Net of Accumulated Amortization at March 31, 2011 |
|-------------------------|-------------|--------------|---|---|--|
| Covenant Not to Compete | 5 years | \$ 775,000 | \$ 147,000 | \$ 515,000 | \$ 260,000 |
| Customer Relationships | 18-20 years | 7,922,000 | 410,000 | 1,607,000 | 6,315,000 |
| TPA Licenses | 15 years | 204,000 | 14,000 | 50,000 | 154,000 |
| Total | | \$ 8,901,000 | \$ 571,000 | \$ 2,172,000 | \$ 6,729,000 |

Amortization expense for the next five fiscal years is expected to be \$583,000 in fiscal 2012, \$541,000 in fiscal 2013, \$450,000 in fiscal 2014, \$436,000 in fiscal 2015, \$436,000 in fiscal 2016, and \$4,263,000 thereafter.

Table of Contents**EXHIBIT INDEX**

| Exhibit No. | Title Method of Filing | Page |
|------------------------|---|-------------|
| 2.1 | Asset Purchase Agreement dated December 15, 2006 by and among the Company's subsidiary, CorVel Enterprise Comp, Inc., and Hazelrigg Risk Management Services, Inc., Comp Care, Inc., Medical Auditing Services, Inc., and Arlene Hazelrigg Incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed on February 6, 2007. | |
| 2.2 | Stock Purchase Agreement dated May 31, 2007 by and among the Company's subsidiary, CorVel Enterprise Comp, Inc., The Schaffer Companies, Ltd., and Dawn Colwell, Christopher Schaffer, John Colwell and Kelly Ribeiro de Sa. Incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed on June 6, 2007. | |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company Incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 filed on August 9, 2007. | |
| 3.2 | Amended and Restated Bylaws of the Company Incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 filed on August 14, 2006. | |
| 10.1* | Nonqualified Stock Option Agreement between V. Gordon Clemons, the Company and North Star together with all amendments and addendums thereto - Incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 Registration No. 33-40629 initially filed on May 16, 1991. | |
| 10.2* | Supplementary Agreement between V. Gordon Clemons, the Company and North Star Incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 Registration No. 33-40629 initially filed on May 16, 1991. | |
| 10.3* | Amendment to Supplementary Agreement between Mr. Clemons, the Company and North Star Incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1992 filed on June 29, 1992. | |
| 10.4* | Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option Plan) Incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2010 filed on June 11, 2010. | |
| 10.5* | Forms of Notice of Grant of Stock Option, Stock Option Agreement and Notice of Exercise Under the Restated Omnibus Incentive Plan (Formerly The Restated 1988 Executive Stock Option) Incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 filed on November 9, 2006, Exhibits 10.7, 10.8 and 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1994 filed on June 29, 1994, Exhibits 99.2, 99.3, 99.4, 99.5, 99.6, 99.7 and 99.8 to the Company's Registration Statement on Form S-8 (File No. 333-94440) filed on July 10, 1995, and Exhibits 99.3 and 99.5 to the Company's Registration Statement on Form S-8 (File No. 333-58455) filed on July 2, 1998. | |
| 10.6* | Employment Agreement of V. Gordon Clemons Incorporated herein by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 Registration No. 33-40629 initially filed on May 16, 1991. | |
| 10.7* | Restated 1991 Employee Stock Purchase Plan, as amended Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on August 12, 2010. | |
| 10.8 | Fidelity Master Plan for Savings and Investment, and amendments Incorporated herein by reference to Exhibits 10.16 and 10.16A to the Company's Registration Statement on Form S-1 | |

Registration No. 33-40629 initially filed on May 16, 1991.

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| Exhibit No. | Title | Method of Filing | Page |
|------------------------|--|-------------------------|-------------|
| 10.9 | Second Amended and Restated Preferred Shares Rights Agreement, dated as of November 17, 2008, by and between CorVel Corporation and and Computershare Trust Company, N.A., including the original Certificate of Designation, the Certificate of Designation Increasing the Number of Shares, the form of Right Certificate (as amended) and the Summary of Rights (as amended) attached thereto as Exhibits A-1, A-2, A-3, B and C, respectively. Incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K filed on November 24, 2008. | | |
| 10.10* | Employment Agreement effective May 26, 2006 by and between CorVel Corporation and Dan Starck. Incorporated herein by reference to Exhibit 10.1 in the Company's Form 8-K filed on May 30, 2006. | | |
| 10.11* | Stock Option Agreement and Acceleration Addendum dated May 26, 2006 by and between CorVel Corporation and Dan Starck, providing for time vesting. -Incorporated herein by reference to Exhibit 10.2 in the Company's Form 8-K filed on May 30, 2006. | | |
| 10.12 | Stock Option Agreement and Acceleration Addendum dated May 26, 2006 by and between CorVel Corporation and Dan Starck, providing for performance vesting. Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 30, 2006. | | |
| 10.13 | Stock Option Agreement dated May 26, 2006 by and between CorVel Corporation and Scott McCloud, providing for performance vesting. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 2, 2006. | | |
| 10.14* | Stock Option Agreement dated May 26, 2006 by and between CorVel Corporation and Don McFarlane, providing for performance vesting. Incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K/A filed on July 6, 2007. | | |
| 10.15 | Credit Agreement dated May 28, 2009 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.16 to the Company's Current Report on Form 8-K filed on June 4, 2009. | | |
| 10.16 | Revolving Line of Credit Note dated May 28, 2009 by CorVel Corporation in favor of Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.17 to the Company's Current Report on Form 8-K filed on June 4, 2009. | | |
| 10.17 | Form of Partial Waiver of Automatic Option Grant executed by Directors. -Incorporated herein by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 filed on November 8, 2007. | | |
| 10.18* | Stock Option Agreement and Acceleration Addendum dated February 4, 2008 by and between CorVel Corporation and Dan Starck, providing for performance vesting. Incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2008 filed on June 16, 2008. | | |
| 10.19* | Stock Option Agreement dated February 4, 2008 by and between CorVel Corporation and Scott McCloud, providing for performance vesting. Incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2008 filed on June 16, 2008. | | |
| 10.20* | Stock Option Agreement dated February 4, 2008 by and between CorVel Corporation and Don McFarlane, providing for performance vesting. Incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2008 filed on June 16, 2008. | | |
| 10.21 | | | |

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Partial Waiver of Automatic Option Grant by Jean Macino dated February 8, 2008
Incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on
Form 10-K for the fiscal year ended March 31, 2008 filed on June 16, 2008.

- 10.22* Stock Option Agreement dated February 24, 2009 by and between CorVel Corporation and
Daniel J. Starck, providing for performance vesting. Incorporated herein by reference to
Exhibit 10.1 to the Company's Form 8-K filed on March 2, 2009.

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| Exhibit No. | Title | Method of Filing | Page |
|------------------------|---|-------------------------|-------------|
| 10.23* | Stock Option Agreement dated February 24, 2009 by and between CorVel Corporation and Scott R. McCloud, providing for performance vesting. Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed on March 2, 2009. | | |
| 10.24* | Stock Option Agreement dated February 24, 2009 by and between CorVel Corporation and Donald C. McFarlane, providing for performance vesting. Incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed on March 2, 2009. | | |
| 10.25* | Stock Option Agreement dated February 5, 2009 by and between CorVel Corporation and Diane J. Blaha, providing for performance vesting. Incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 filed on June 12, 2009. | | |
| 10.26* | Stock Option Agreement dated February 24, 2009 by and between CorVel Corporation and Diane J. Blaha, providing for performance vesting. Refiled herewith. | | |
| 10.27* | Summary of Terms of Oral Agreement to Repurchase Shares of Common Stock held by V. Gordon Clemons. Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2009 filed on February 8, 2010 | | |
| 10.28* | Stock Option Agreement granted November 2, 2009 by and between CorVel Corporation and Daniel J. Starck, providing for performance vesting. Refiled herewith. | | |
| 10.29* | Stock Option Agreement granted November 2, 2009 by and between CorVel Corporation and Scott R. McCloud, providing for performance vesting. Refiled herewith. | | |
| 10.30* | Stock Option Agreement granted November 2, 2009 by and between CorVel Corporation and Donald C. McFarlane, providing for performance vesting. Refiled herewith. | | |
| 10.31* | Stock Option Agreement granted November 2, 2009 by and between CorVel Corporation and Diane J. Blaha, providing for performance vesting. Refiled herewith. | | |
| 10.32 | First Amendment to Credit Agreement dated June 2, 2010 by and between CorVel Corporation and Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 7, 2010. | | |
| 10.33 | Revolving Line of Credit Note dated June 2, 2010 by CorVel Corporation in favor of Wells Fargo Bank, National Association. Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 7, 2010. | | |
| 10.34 | Settlement Agreement and General Release between CorVel Corporation and Kathleen Roche, D.C., individually and on behalf of others similarly situated, dated October 29, 2010. Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 filed on November 8, 2010. | | |
| 10.35 | Summary of Terms of Oral Agreement to Repurchase Shares of Common Stock held by Corstar Holdings, Inc. Incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2010 filed on February 4, 2011. | | |
| 10.36* | Stock Option Agreement dated December 6, 2010 between the company and Daniel J. Starck, providing performance vesting. Incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2010 filed on February 4, 2011. | | |
| 10.37* | Stock Option Agreement dated December 6, 2010 between the company and Scott R. McCloud, providing performance vesting. Incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, | | |

2010 filed on February 4, 2011.

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| Exhibit No. | Title | Method of Filing | Page |
|------------------------|---|-------------------------|-------------|
| 10.38* | Stock Option Agreement dated December 6, 2010 between the company and Donald C. McFarlane, providing performance vesting. Incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2010 filed on February 4, 2011. | | |
| 10.39* | Stock Option Agreement dated December 6, 2010 between the company and Diane Blaha, providing performance vesting. Incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2010 filed on February 4, 2011. | | |
| 21.1 | Subsidiaries of the Company | Filed herewith. | |
| 23.1 | Consent of Independent Registered Public Accounting Firm, Haskell & White LLP | Filed herewith. | |
| 31.1 | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. | |
| 31.2 | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. | |
| 32.1 | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. | |
| 32.2 | Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. | |

* Denotes management contract or compensatory plan or arrangement.

Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.