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5

Operating income

5,755

1,379

18,284

—

25,418

Other non-operating

income (expense)

Interest expense

(4,332

)

(1

)

(751

)

1,189

(3,895

)

Interest income

173

1,063

5

(1,189

)

52

Equity in earnings of subsidiaries

17,228

16,225

—

(33,453

)

—

Other, net

(670

)

(819

)

916

—

(573

)

Total other non-operating

income (expense)

12,399

16,468

170

(33,453

)

(4,416

)

Income before income taxes

18,154

17,847

18,454

(33,453

)

21,002



Income tax provision (benefit)

(1,447

)

619

2,229

—

1,401

Net income

19,601

17,228

16,225

(33,453

)

19,601

Other comprehensive loss

(69

)

(2,307

)

(2,462

)

4,769

(69

)

Comprehensive income

\$

19,532

\$

14,921

\$

13,763

\$

(28,684

)

\$

19,532

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Condensed Consolidating Statement of Income for the nine months ended September 30, 2016

In thousands	Parent		Non		Adjustments/	
	Company	Guarantors	Guarantors	Eliminations	Consolidated	
Net sales	\$638,918	\$ 54,293	\$ 573,355	\$ (52,634 )	\$ 1,213,932	
Energy and related sales, net	4,013	—	—	—	4,013	
Total revenues	642,931	54,293	573,355	(52,634 )	1,217,945	
Costs of products sold	582,751	51,493	474,599	(52,634 )	1,056,209	
Gross profit	60,180	2,800	98,756	—	161,736	
Selling, general and administrative expenses	62,115	(246 )	42,927	—	104,796	
Loss on dispositions of plant equipment and timberlands, net	11	—	20	—	31	
Operating income (loss)	(1,946 )	3,046	55,809	—	56,909	
Other non-operating income (expense)						
Interest expense	(13,036 )	(1 )	(2,352 )	3,425	(11,964 )	
Interest income	523	3,056	50	(3,425 )	204	
Equity in earnings of subsidiaries	46,485	44,050	—	(90,535 )	—	
Other, net	(1,787 )	(2,220 )	3,051	—	(956 )	
Total other non-operating income (expense)	32,185	44,885	749	(90,535 )	(12,716 )	
Income before income taxes	30,239	47,931	56,558	(90,535 )	44,193	
Income tax provision (benefit)	(7,495 )	1,446	12,508	—	6,459	
Net income	37,734	46,485	44,050	(90,535 )	37,734	
Other comprehensive income (loss)	4,134	(2,691 )	(2,835 )	5,526	4,134	
Comprehensive income	\$41,868	\$ 43,794	\$ 41,215	\$ (85,009 )	\$ 41,868	

Condensed Consolidating Balance Sheet as of September 30, 2017

In thousands	Parent		Non		Adjustments/	
	Company	Guarantors	Guarantors	Eliminations	Consolidated	
<b>Assets</b>						
Cash and cash equivalents	\$374	\$ 682	\$ 83,231	\$—	\$ 84,287	
Other current assets	226,678	287,440	289,956	(316,866 )	487,208	
Plant, equipment and timberlands, net	383,014	70,093	402,910	—	856,017	
Investments in subsidiaries	885,734	634,893	—	(1,520,627 )	—	
Other assets	129,617	—	139,665	—	269,282	
Total assets	\$1,625,417	\$ 993,108	\$ 915,762	\$ (1,837,493 )	\$ 1,696,794	
<b>Liabilities and Shareholders' Equity</b>						
Current liabilities	\$436,791	\$ 58,602	\$ 157,486	\$ (316,866 )	\$ 336,013	
Long-term debt	357,441	49,000	52,584	—	459,025	

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Deferred income taxes	14,478	(541 )	51,660	—	65,597
Other long-term liabilities	106,111	313	19,139	—	125,563
Total liabilities	914,821	107,374	280,869	(316,866 )	986,198
Shareholders' equity	710,596	885,734	634,893	(1,520,627 )	710,596
Total liabilities and shareholders' equity	\$ 1,625,417	\$ 993,108	\$ 915,762	\$ (1,837,493 )	\$ 1,696,794

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## Condensed Consolidating Balance Sheet as of December 31, 2016

In thousands	Parent		Non		Adjustments/	Consolidated
	Company	Guarantors	Guarantors	Eliminations		
<b>Assets</b>						
Cash and cash equivalents	\$5,082	\$ 1,461	\$ 48,901	\$—		\$ 55,444
Other current assets	206,002	256,289	242,187	(265,663 )		438,815
Plant, equipment and timberlands, net	360,521	31,455	383,922	—		775,898
Investments in subsidiaries	789,565	540,029	—	(1,329,594 )		—
Other assets	123,010	—	128,092	—		251,102
<b>Total assets</b>	<b>\$1,484,180</b>	<b>\$ 829,234</b>	<b>\$ 803,102</b>	<b>\$ (1,595,257 )</b>		<b>\$ 1,521,259</b>
<b>Liabilities and Shareholders' Equity</b>						
<b>Current liabilities</b>	<b>\$426,628</b>	<b>\$ 26,085</b>	<b>\$ 135,961</b>	<b>\$ (265,663 )</b>		<b>\$ 323,011</b>
Long-term debt	283,686	14,000	65,961	—		363,647
Deferred income taxes	10,221	(729 )	45,503	—		54,995
Other long-term liabilities	109,819	313	15,648	—		125,780
<b>Total liabilities</b>	<b>830,354</b>	<b>39,669</b>	<b>263,073</b>	<b>(265,663 )</b>		<b>867,433</b>
Shareholders' equity	653,826	789,565	540,029	(1,329,594 )		653,826
<b>Total liabilities and shareholders' equity</b>	<b>\$1,484,180</b>	<b>\$ 829,234</b>	<b>\$ 803,102</b>	<b>\$ (1,595,257 )</b>		<b>\$ 1,521,259</b>

## Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2017

In thousands	Parent		Non		Adjustments/	Consolidated
	Company	Guarantors	Guarantors	Eliminations		
<b>Net cash provided (used) by</b>						
<b>Operating activities</b>	<b>\$(17,066 )</b>	<b>\$(3,241 )</b>	<b>\$ 73,103</b>	<b>\$ —</b>		<b>\$ 52,796</b>
<b>Investing activities</b>						
Expenditures for purchases of plant, equipment and timberlands	(55,415 )	(32,847 )	(13,910 )	—		(102,172 )
Proceeds from disposals of plant, equipment and timberlands, net	8	209	—	—		217
Repayments from intercompany loans	—	12,000	—	(12,000 )		—
Advances of intercompany loans	—	(13,500 )	—	13,500		—
Intercompany capital contributed	(2,000 )	(400 )	—	2,400		—
Other	(100 )	—	—	—		(100 )
<b>Total investing activities</b>	<b>(57,507 )</b>	<b>(34,538 )</b>	<b>(13,910 )</b>	<b>3,900</b>		<b>(102,055 )</b>
<b>Financing activities</b>						
Net long-term borrowings	73,298	35,000	(18,711 )	—		89,587
Payment of dividends to shareholders	(16,805 )	—	—	—		(16,805 )
Repayments of intercompany loans	—	—	(12,000 )	12,000		—
Borrowings of intercompany loans	13,500	—	—	(13,500 )		—
Intercompany capital received	—	2,000	400	(2,400 )		—

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Payment of intercompany dividend	—	—	—	—	—
Payments related to share-based compensation awards and other	(128 )	—	—	—	(128 )
Total financing activities	69,865	37,000	(30,311 )	(3,900 )	72,654
Effect of exchange rate on cash	—	—	5,448	—	5,448
Net increase (decrease) in cash	(4,708 )	(779 )	34,330	—	28,843
Cash at the beginning of period	5,082	1,461	48,901	—	55,444
Cash at the end of period	\$374	\$ 682	\$ 83,231	\$ —	\$ 84,287

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## Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2016

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$41,753	\$ 3,748	\$ 13,936	\$ —	\$ 59,437
Investing activities					
Expenditures for purchases of plant, equipment and timberlands	(78,187 )	(21,066 )	(17,695 )	—	(116,948 )
Proceeds from disposals of plant, equipment and timberlands, net	41	—	14	—	55
Repayments from intercompany loans	—	11,101	—	(11,101 )	—
Advances of intercompany loans	—	(12,330 )	—	12,330	—
Intercompany capital (contributed) returned	(17,000 )	(500 )	—	17,500	—
Other	(400 )	—	—	—	(400 )
Total investing activities	(95,546 )	(22,795 )	(17,681 )	18,729	(117,293 )
Financing activities					
Net long-term borrowings	—	—	14,983	—	14,983
Payments of borrowing costs	(136 )	—	—	—	(136 )
Payment of dividends to shareholders	(16,134 )	—	—	—	(16,134 )
Repayments of intercompany loans	—	—	(11,101 )	11,101	—
Borrowings of intercompany loans	12,330	—	—	(12,330 )	—
Intercompany capital (returned) received	—	17,000	500	(17,500 )	—
Proceeds from government grants	3,251	2,000	—	—	5,251
Payments related to share-based compensation awards and other	(990 )	—	—	—	(990 )
Total financing activities	(1,679 )	19,000	4,382	(18,729 )	2,974
Effect of exchange rate on cash	—	—	330	—	330
Net increase (decrease) in cash	(55,472 )	(47 )	967	—	(54,552 )
Cash at the beginning of period	59,130	465	45,709	—	105,304
Cash at the end of period	\$3,658	\$ 418	\$ 46,676	\$ —	\$ 50,752

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2016 Annual Report on Form 10-K.

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

- i. variations in demand for our products including the impact of unplanned market-related downtime, variations in product pricing, or product substitution;
- ii. the impact of competition, both domestic and international, changes in industry production capacity, including the construction of new mills or new machines, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- iii. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- iv. geopolitical events, including the impact of conflicts such as Russia and Ukraine;
- v. our ability to develop new, high value-added products;
- vi. changes in the cost or availability of raw materials we use, in particular pulpwood, pulp, pulp substitutes, caustic soda, and abaca fiber;
- vii. changes in energy-related costs and commodity raw materials with an energy component;
- viii. the impact of unplanned production interruption;
- ix. disruptions in production and/or increased costs due to labor disputes including an inability to renew our collective bargaining arrangement for the Spring Grove, PA facility which expired in February 2017;
- x. the impact of exposure to volatile market-based pricing for sales of excess electricity;
- xi. the gain or loss of significant customers and/or on-going viability of such customers;
- xii. cost and other effects of environmental compliance, cleanup, damages, remediation or restoration, or personal injury or property damages related thereto, such as the costs of natural resource restoration or damages related to the presence of polychlorinated biphenyls ("PCBs") in the lower Fox River on which our former Neenah mill was located;
- xiii. our ability to successfully complete the implementation of new manufacturing and business systems to support Advanced Airlaid Materials;
- xiv.

adverse results in litigation in the Fox River matter;

xv. the impact of war and terrorism;

xvi. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities or changes in pre-tax income and its impact on the valuation of deferred taxes;

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

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

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

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

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

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

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## RESULTS OF OPERATIONS

Nine months ended September 30, 2017 versus the nine months ended September 30, 2016

Overview For the first nine months of 2017 net income totaled \$18.0 million, or \$0.41 per diluted share compared with \$37.7 million and \$0.86 per diluted share in the year earlier period.

The following table sets forth summarized consolidated results of operations:

In thousands, except per share	Nine months ended	
	September 30 2017	2016
Net sales	\$1,191,380	\$1,213,932
Gross profit	142,100	161,736
Operating income	41,666	56,909
Net income	17,994	37,734
Earnings per diluted share	0.41	0.86

Reported results in the first nine months of 2017 and 2016 include on a pre-tax basis \$19.5 million and \$8.0 million, respectively, of net costs considered to be unusual or non-core business in nature. The decline in our results summarized in the table above reflects the \$11.5 million increase in such costs. Our Composite Fibers and Advanced Airlaid Materials businesses, which combined represented approximately 50% of consolidated net sales, reported higher operating income and operating margin expansion in the comparison driven by higher shipping volumes and improved productivity. Specialty Papers' results declined significantly in the comparison reflecting challenging market conditions.

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

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

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

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

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

Adjusted earnings and adjusted earnings per diluted share are considered measures not calculated in accordance with GAAP, and therefore are non-GAAP measures. The non-GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with GAAP. The following table sets forth the reconciliation of net income to adjusted earnings for the nine months ended September 30, 2017 and 2016:

In thousands, except per share	Nine months ended September 30			
	2017		2016	
	Amount	Diluted EPS	Amount	Diluted EPS
Net income	\$ 17,994	\$ 0.41	\$ 37,734	\$ 0.86
Adjustments (pre-tax)				
Cost optimization actions	9,627		88	
Specialty Papers' environmental compliance	3,076		6,645	
Airlaid capacity expansion costs	7,034		1,308	
Timberland sales and related costs	(188 )		-	
Total adjustments (pre-tax)	19,549		8,041	
Income taxes (1)	(1,122 )		(2,736 )	
Total after-tax adjustments	18,427	0.41	5,305	0.12
Adjusted earnings	\$ 36,421	\$ 0.82	\$ 43,039	\$ 0.98

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

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

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## Business Unit Performance

Nine months ended September 30	Composite Fibers		Advanced Airlaid		Specialty Papers		Other and Unallocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dollars in millions										
Net sales	\$400.6	\$391.6	\$190.4	\$183.4	\$600.3	\$638.9	\$—	\$—	\$1,191.4	\$1,213.9
Energy and related sales, net	—	—	—	—	3.3	4.0	—	—	3.3	4.0
Total revenue	400.6	391.6	190.4	183.4	603.6	642.9	—	—	1,194.7	1,217.9
Cost of products sold	322.2	316.0	160.7	157.5	555.7	574.1	14.0	8.6	1,052.6	1,056.2
Gross profit (loss)	78.4	75.6	29.7	25.9	47.9	68.8	(14.0)	(8.6)	142.1	161.7
SG&A	32.9	35.1	6.9	6.2	36.0	40.9	24.7	22.6	100.5	104.8
(Gains) losses on dispositions of plant, equipment and timberlands, net	—	—	—	—	—	—	—	—	—	—
Total operating income (loss)	45.5	40.5	22.8	19.7	11.9	27.9	(38.7)	(31.2)	41.7	56.9
Non-operating expense										