GLATFELTER P H CO
Form 10-Q
July 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

or

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

96 South George Street, Suite 520

York, Pennsylvania 17401

(Address of principal executive offices)

(717) 225-4711

(Registrant's telephone number, including area code)

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

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at the past 90 days. Yes No .

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Common Stock outstanding on July 25, 2018 totaled 43,779,112 shares.

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

REPORT ON FORM 10-Q

For the QUARTERLY PERIOD ENDED

June 30, 2018

Table of Contents

			Page
PART I - FINANCIAL INFORMATION			
Item 1	Financial Statements		
	Condensed Consolidated Statements of Income for the three months and six months ended June 30, 2018 and 2017 (unaudited)		2
	Condensed Consolidated Statements of Comprehensive Income for the three months and six months ended June 30, 2018 and 2017 (unaudited)		3
	Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017 (unaudited)		4
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 (unaudited)		5
	Notes to Condensed Consolidated Financial Statements (unaudited)		6
	1.	Organization	6
	2.	Accounting Policies	6
	3.	Proposed Acquisition	7
	4.	Revenue	8
	5.	Gain on Disposition of	8

	Plant, Equipment and Timberlands	
6.	Earnings Per Share	9
7.	Accumulated Other Comprehensive Income	10
8.	Income Taxes	12
9.	Stock-based Compensation	13
10.	Retirement Plans and Other Post-Retirement Benefits	14
11.	Inventories	14
12.	Capitalized Interest	14
13.	Long-term Debt	14
14.	Fair Value of Financial Instruments	16
15.	Financial Derivatives and Hedging Activities	16
16.	Commitments, Contingencies and Legal Proceedings	17
17.	Segment Information	21
18.	Condensed Consolidating Financial Statements	22

Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3	Quantitative and Qualitative Disclosures About Market Risks	37
Item 4	Controls and Procedures	37

PART II – OTHER INFORMATION 38

Item 6	Exhibits	38
	SIGNATURES	38

PART I

Item 1 – Financial Statements

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

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

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

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

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

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

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

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

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

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

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

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

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

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION

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

2. ACCOUNTING POLICIES

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

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

Reclassification As a result of adopting the provisions of Accounting Standards Update ("ASU") No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost we reclassified certain amounts of periodic benefit expense for previously reported periods from Cost of products sold and Selling, general and administrative expense to Non Operating Expense. As a result of applying the ASU, Costs of products sold for the second quarter of 2017 was increased by $0.7 million and Selling, general and administrative expenses were reduced by $0.4 million and the offsetting net reclassification reduced Non-operating expense by $0.3 million. The comparable amounts for the first six months of 2017 were $2.0 million, $0.7 million and $1.3 million, respectively.

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to

make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies as of the balance sheet date and the reported amounts of revenues and expenses during the reporting

period. Management believes the estimates and assumptions used in the preparation of these financial statements are reasonable, based upon currently available facts and known circumstances, but recognizes that actual results may differ from those estimates and assumptions.

Revenue Recognition We adopted ASU No. 2014-09, Revenue from Contracts with Customers in the first quarter of 2018. This ASU clarifies the principles for recognizing revenue and establishes expanded disclosure requirements; however, the adoption of ASU No. 2014-09 had no impact on the timing or amount of revenue recognized for any period presented. Refer to Note 4 for additional information about the disaggregation of our net sales.

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

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

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

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

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU will require organizations such as us that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance will be effective for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. We are in the process of assessing the impact this standard will have on us and expect to follow a modified retrospective method provided for under the standard. The adoption of this standard is not expected to have an impact on our results of operations.

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

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

3. PROPOSED ACQUISITION

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

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

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

4. REVENUE

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

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

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

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

5. GAINS ON DISPOSITION OF PLANT, EQUIPMENT AND TIMBERLANDS

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

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

6. EARNINGS PER SHARE

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

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

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

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

June 30

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

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months and six months ended June 30, 2018 and 2017.

In thousands	Currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in pensions	Change in other postretirement defined benefit plans	Total
Balance at April 1, 2018	(29,092)	(5,894)	(118,428)	4,461	(148,953)
Other comprehensive income (loss) before reclassifications (net of tax)	(33,223)	3,368	—	—	(29,855)
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	1,181	3,261	(240)	4,202
Net current period other comprehensive income (loss)	(33,223)	4,549	3,261	(240)	(25,653)
Balance at June 30, 2018	$ (62,315)	$ (1,345)	$(115,167)	$ 4,221	$(174,606)
Balance at April 1, 2017	$ (94,383)	$ 554	$(108,466)	$ 4,882	$(197,413)
Other comprehensive income (loss) before reclassifications (net of tax)	27,504	(3,080)	—	(106)	24,318
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	(571)	2,642	(57)	2,014
Net current period other comprehensive income (loss)	27,504	(3,651)	2,642	(163)	26,332
Balance at June 30, 2017	$ (66,879)	$ (3,097)	$(105,824)	$ 4,719	$(171,081)

In thousands	Currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in pensions	Change in other postretirement defined benefit plans	Total
Balance at January 1, 2018	$ (41,839)	$ (4,092)	$(98,295)	$ 3,551	$(140,675)
Amount reclassified for adoption of ASU No. 2018-02			(23,297)	999	(22,298)
Balance as adjusted at January 1, 2018	(41,839)	(4,092)	(121,592)	4,550	(162,973)
Other comprehensive income (loss) before reclassifications (net of tax)	(20,476)	151	—	—	(20,325)
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	2,596	6,425	(329)	8,692
Net current period other comprehensive income (loss)	(20,476)	2,747	6,425	(329)	(11,633)

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

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

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

8. INCOME TAXES

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

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

Our accounting for certain elements of the TCJA was incomplete as of December 31, 2017 and remains incomplete as of June 30, 2018. The TCJA includes a one-time mandatory repatriation transition tax on the net accumulated earnings and profits of a U.S. taxpayer’s foreign subsidiaries. We performed preliminary earnings and profit analysis which enabled us to make reasonable estimates of the effects and therefore, recorded provisional estimates for these items. A final determination of the TCJA’s impact remains incomplete pending a full analysis of the provisions and their final interpretation.

During early 2018, the Internal Revenue Service issued additional guidance affecting the computation of our 2017 federal income tax liability. The ultimate impact of the TCJA may differ from current estimates, and such differences could be material, due to changes in interpretations or assumptions.

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

For the six months ended June 30, 2018, our effective tax rate increased by approximately 10% as a result of the GILTI provisions due to our utilization of U.S. federal tax loss carryforward, which restricts our ability to recognize the associated foreign tax credits and a deduction of up to 50% of

the GILTI income. Since we are using U.S. federal tax loss carryforwards, there is no impact to cash taxes related to the GILTI provisions.

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

As of June 30, 2018 and December 31, 2017, we had \$28.2 million and \$26.9 million, respectively, of gross unrecognized tax benefits. As of June 30, 2018, if such benefits were to be recognized, approximately \$18.0 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

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

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

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

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

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

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

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

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

9.STOCK-BASED COMPENSATION

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

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

Restricted Stock Units (“RSU”) and Performance Share Awards (“PSAs”) Awards of RSUs and PSAs are made under our LTIP. The RSUs vest on the passage of time, generally on a graded scale over a three, four, and five-year period, or in certain instances the RSUs were issued with five year cliff vesting. PSAs are issued to members of management and vesting is based on achievement of cumulative financial performance targets covering a two year period followed by an additional one-year service period. In addition, beginning in 2018, PSA awards include a modifier based on our three-year total shareholder return (“TSR”) relative to the TSR of the S&P SmallCap 600 Index. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than targeted depending on actual financial performance. In addition, the number of shares earned may be further increased or decreased based on our TSR relative to the S&P SmallCap 600 Index.

For RSUs, the grant date fair value of the awards, which is equal to the closing price per common share on the date of the award, is used to determine the amount of expense to be recognized over the applicable service period. For PSAs, the grant date fair value is estimated using a lattice model. The significant inputs include the stock price, volatility, dividend yield, and risk free rate of return. Settlement of RSUs and

PSAs will be made in shares of our common stock currently held in treasury.

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

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

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

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

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

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

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

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

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

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

10. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

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

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

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

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

11. INVENTORIES

Inventories, net of reserves, were as follows:

In thousands	June 30 2018	December 31 2017
Raw materials	$65,426	$60,806
In-process and finished	127,311	116,678
Supplies	78,258	74,580
Total	$270,995	$252,064

12. CAPITALIZED INTEREST

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

	Three months ended	Six months ended

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

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

13. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	June 30 2018	December 31 2017
Revolving credit facility, due Mar. 2020	$217,860	$171,200
5.375% Notes, due Oct. 2020	250,000	250,000
2.40% Term Loan, due Jun. 2022	6,661	7,710
2.05% Term Loan, due Mar. 2023	29,556	33,607
1.30% Term Loan, due Jun. 2023	8,327	9,423
1.55% Term Loan, due Sep. 2025	10,356	11,390
Total long-term debt	522,760	483,330
Less current portion	(10,982)	(11,298)
Unamortized deferred issuance costs	(1,601)	(1,934)
Long-term debt, net of current portion	$510,177	$470,098

On March 12, 2015, we amended our revolving credit agreement with a consortium of banks (the "Revolving Credit Facility") which increased the amount available for borrowing

to $400 million, extended the maturity of the facility to March 12, 2020, and instituted a revised interest rate pricing grid. On February 1, 2017, the Revolving Credit Facility was further amended to, among other, change the definition of earnings before interest, taxes, depreciation and amortization ("EBITDA") for purposes of calculating covenant compliance.

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

The Revolving Credit Facility contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios including: i) maximum net debt to EBITDA ratio (the "leverage ratio"); and ii) a consolidated EBITDA to interest expense ratio. The most restrictive of our covenants is a maximum leverage ratio of 3.5x. As of June 30, 2018, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 3.1x. A breach of these requirements would give rise to certain remedies under the Revolving Credit Facility, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

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

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

payment with future senior indebtedness of the Company and the Guarantors and will mature on October 15, 2020.

The 5.375% Notes contain various covenants customary to indebtedness of this nature including limitations on i) the amount of indebtedness that may be incurred; ii) certain restricted payments including common stock dividends; iii) distributions from certain subsidiaries; iv) sales of assets; v) transactions amongst subsidiaries; and vi) incurrence of liens on assets. In addition, the 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the Revolving Credit Facility at maturity or a default under the Revolving Credit Facility that accelerates the debt outstanding thereunder. As of June 30, 2018, we met all of the requirements of our debt covenants.

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

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

Each of the borrowings require quarterly repayments of principal and interest and provide for representations, warranties and covenants customary for financings of these types. The financial covenants contained in each of the IKB loans, which relate to the minimum ratio of consolidated EBITDA to consolidated interest expense and the maximum ratio of consolidated total net debt to consolidated adjusted EBITDA, are calculated by reference to our Revolving Credit Facility.

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

Letters of credit issued to us by certain financial institutions totaled $5.2 million as of June 30, 2018 and December 31, 2017. The letters of credit, which reduce amounts available under our revolving credit facility, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As of June 30, 2018, and December 31, 2017, we had $250.0 million of 5.375% fixed rate bonds. These bonds are publicly registered, but thinly traded. The fair value of financial derivatives is set forth below in Note 15.

15. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

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

Derivatives Designated as Hedging Instruments - Cash Flow Hedges We use currency forward contracts as cash flow hedges to manage our exposure to fluctuations in the currency exchange rates on certain forecasted production costs or capital expenditures expected to be incurred. Currency forward contracts involve fixing the exchange for delivery of a specified amount of foreign currency on a specified date. As of June 30, 2018, the maturity of currency forward contracts ranged from one month to 18 months.

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

expenditures, deferred gains or losses are reclassified and included in the historical cost of the capital asset and subsequently affect earnings as depreciation is recognized. The ineffective portion of the change in fair value of the

derivative is recognized directly to earnings and reflected in the accompanying condensed consolidated statements of income as non-operating income (expense) under the caption “Other, net.”

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

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

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

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

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

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

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

In thousands	June 30 2018	December 31 2017	June 30 2018	December 31 2017
Balance sheet caption	Prepaid Expenses and Other Current Assets		Other Current Liabilities	
Designated as hedging:				
Forward foreign currency exchange contracts	$1,085	$ 1,066	$1,419	$ 4,787
Not designated as hedging:				
Forward foreign currency exchange contracts	$351	$ 151	$422	$ 43

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

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

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

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

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

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

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

In thousands	2018	2017
Balance at January 1,	$(5,640)	$1,882
Deferred (losses) gains on cash flow hedges	288	(4,801)
Reclassified to earnings	3,595	(1,716)
Balance at June 30,	$(1,757)	$(4,635)

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

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

16. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River - Neenah, Wisconsin

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

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

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

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

We and WTM I Company ("WTM I"), one of the PRPs, implemented the remedial action in OU1 under a consent decree with the Governments; Menasha Corporation made a financial contribution to that work. That project began in 2004 and the work is complete, other than on-going monitoring and maintenance.

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

Litigation and Settlement. In 2008, in an allocation action, NCR and Appvion sued us and many other defendants in an effort to allocate among the liable parties the costs of cleaning up this Site and compensating the Governments for their costs and the natural resource trustees for NRDs. This case has been called the "Whiting litigation." After several summary judgment rulings and a trial, the trial court entered judgment in the Whiting Litigation allocating to NCR 100% of the costs of (a) the OU2-5 cleanup, (b) NRDs, (c) past and future costs incurred by the Governments in OU2-5, and (d) past and future costs incurred by any of the other parties net of an appropriate equitable adjustment for insurance recoveries.

On appeal, the United States Court of Appeals for the Seventh Circuit affirmed the district court's ruling, holding

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

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

On January 17, 2017, the United States filed a consent decree with the federal district court among the United States, Wisconsin, NCR, and Appvion (the “NCR/Appvion consent decree”) under which NCR would agree to complete the remaining cleanup and both NCR and Appvion would agree not to seek to recover from us or anyone else any amounts they have spent or will spend, and we and others would be barred from seeking claims against NCR or Appvion. On March 29, 2017, the United States moved for entry of a somewhat revised version of the NCR/Appvion consent decree, which the federal district court entered on August 23, 2017. Under the consent decree, if it were to withstand appeal, we would only face exposure to: (i) government past oversight costs, (ii) government future oversight costs, (iii) long term monitoring and maintenance, and (iv) depending on the reason, a further remedy if necessary in the event the currently ordered remedy fails, over 30 or more years, to achieve its objectives. As the result of earlier settlements, Georgia Pacific is only jointly liable with us to the Governments for monitoring and maintenance costs incurred in the most downstream three miles of the river (“OU4b”) and the bay of Green Bay (“OU5”).

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

The NCR/Appvion consent decree and our settlement with Georgia Pacific resulted in all claims among the

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

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

Cost estimates. The proposed NCR/Appvion consent decree, as revised, states that all parties combined have spent more than $1 billion through March 2017 towards remedial actions and NRDs, of which we have contributed approximately $75 million. In addition, work to complete the remaining site remedy under the UAO was anticipated to cost approximately $200 million at the beginning of the 2017 remediation season. We believe NCR to have completed a full season of work in 2017 and to working during the 2018 season. So long as the NCR/Appvion consent decree remains in effect, we are not exposed to reallocation of any of those amounts, and no other party will be exposed to reallocation of any of the amounts that we have incurred or may incur in the future.

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

in settlement payments, of which more than $60 million remained unspent. On February 5, 2018, the district court decided that the Governments' recovery of costs would be reduced by the funds held by the State at the end of 2015 and by any amount by which the Governments had applied settlement payments to natural resource damages in excess of the actual amount of natural resource damages. The Governments moved for reconsideration. On July 13, 2018, the district court denied that motion, holding that the United States' right to recover should be reduced by (a) the amount by which the $105 million of settlement payments accounted as a recovery of NRDs exceeded the actual NRDs and (b) the amounts held as a balance by the State that the State has not subsequently spent. Both of those would be the subject of a trial. The Governments have requested permission to appeal that determination. We contend that the natural resource restoration projects already constructed fully compensate the public for any natural resource damages, and therefore that the entire unspent balance in the NRDAR Fund remains as an offset, an amount likely to exceed all of the Governments' past and future costs of response. No date has yet been set for trial of the issue. If at trial the actual amount of NRDs were determined to be more than the Governments have collected in settlements, we might be exposed to that shortfall.

So long as the NCR/Appvion consent decree remains in effect, we would also remain subject to our remaining obligations under the OU1 consent decree, which now consist of long term monitoring and maintenance that we expect earlier contributions to the OU1 escrow account to fund these costs. Furthermore, we, along with Georgia

Pacific, but not NCR, would be responsible for long term monitoring and maintenance required pursuant to the Lower Fox River 100% Remedial Design Report dated December 2009 – Long Term Monitoring Plan (the “Plan”). The Plan requires long term monitoring of each of OU2 through OU5 over a period of at least 30 years. The monitoring activities consist of, among others, testing fish tissue, sampling water quality and sediment, and inspections of the engineered caps. Each operable unit is required to be monitored; however, because of our settlement with Georgia Pacific, our obligations are in OU1-OU4a. In the first quarter of 2018, we entered into a fixed-price, 30 year agreement with a third party for the performance of all of our monitoring and maintenance obligations in OU1 through the upper four miles of OU4 (“OU4a”) with limited exceptions, such as, for extraordinary amounts of cap maintenance or replacement. Our obligation under this agreement is included in our total reserve for the Site. The portion of this agreement that pertains to OU1 will be paid out of the previously funded OU1 escrow account.

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

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

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

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

The payments set forth above primarily represent cash paid under the recently-entered long-term monitoring and maintenance agreement. Of our total reserve for the Fox River, $26.0 million is recorded in the accompanying March 31, 2018 condensed consolidated balance sheet under the caption “Environmental liabilities” and the remaining $19.2 million is recorded under the caption “Other long term liabilities.”

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

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

17. SEGMENT INFORMATION

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

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

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