

GLATFELTER P H CO
Form 10-Q
May 02, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2014

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 N/A	23-0628360	Pennsylvania

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

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

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

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

Large accelerated filer

Accelerated filer

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

Small reporting company

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

Common Stock outstanding on April 30, 2014 totaled 43,068,901 shares.

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P. H. GLATFELTER COMPANY AND

SUBSIDIARIES

REPORT ON FORM 10-Q

For the QUARTERLY PERIOD ENDED

March 31, 2014

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

(unaudited)

	Three months ended	
	March 31	
<i>In thousands, except per share</i>	2014	2013
Net sales	\$ 455,721	\$ 405,189
Energy and related sales, net	5,262	1,101
Total revenues	460,983	406,290
Costs of products sold	405,943	348,915
Gross profit	55,040	57,375
Selling, general and administrative expenses	33,551	33,487
Gains on dispositions of plant, equipment and timberlands, net	(809)	(73)
Operating income	22,298	23,961
Non-operating income (expense)		
Interest expense	(4,812)	(3,841)
Interest income	61	102
Other, net	211	247
Total non-operating expense	(4,540)	(3,492)
Income before income taxes	17,758	20,469
Income tax provision	3,110	4,840
Net income	\$ 14,648	\$ 15,629
Earnings per share		
Basic	\$ 0.34	\$ 0.36
Diluted	0.33	0.36
Cash dividends declared per common share	\$ 0.11	\$ 0.10
Weighted average shares outstanding		
Basic	43,366	42,966
Diluted	44,360	43,921

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

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

(unaudited)

<i>In thousands</i>	Three months ended	
	2014	March 31 2013
Net income	\$ 14,648	\$ 15,629
Foreign currency translation adjustments	728	(11,957)
Net change in:		
Deferred gains (losses) on cash flow hedges, net of taxes of \$27 and \$(170), respectively	(79)	441
Unrecognized retirement obligations, net of taxes of \$(1,415) and \$(2,313), respectively	2,316	3,827
Other comprehensive income (loss)	2,965	(7,689)
Comprehensive income	\$ 17,613	\$ 7,940

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

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(unaudited)

<i>In thousands</i>	March 31 2014	December 31 2013
Assets		
Cash and cash equivalents	\$ 74,785	\$ 122,882
Accounts receivable, net	179,599	167,830
Inventories	247,769	236,310
Prepaid expenses and other current assets	60,407	59,560
Total current assets	562,560	586,582
Plant, equipment and timberlands, net	717,731	723,340
Goodwill	95,629	95,948
Intangible assets	94,727	96,081
Other assets	178,349	176,459
Total assets	\$ 1,648,996	\$ 1,678,410
Liabilities and Shareholders' Equity		
Accounts payable	\$ 150,880	\$ 161,242
Dividends payable	4,807	4,363
Environmental liabilities	125	125
Other current liabilities	111,400	122,637
Total current liabilities	267,212	288,367
Long-term debt	424,826	442,325
Deferred income taxes	138,502	141,020
Other long-term liabilities	121,606	122,222
Total liabilities	952,146	993,934
Commitments and contingencies		
Shareholders' equity		
Common stock	544	544
Capital in excess of par value	53,830	53,940
Retained earnings	879,203	869,329
Accumulated other comprehensive loss	(72,392)	(75,357)
	861,185	848,456
Less cost of common stock in treasury	(164,335)	(163,980)
Total shareholders' equity	696,850	684,476
Total liabilities and shareholders' equity	\$ 1,648,996	\$ 1,678,410

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(unaudited)

<i>In thousands</i>	Three months ended March 31	
	2014	2013
Operating activities		
Net income	\$ 14,648	\$ 15,629
Adjustments to reconcile to net cash (used) provided by operations:		
Depreciation, depletion and amortization	18,615	15,358
Amortization of debt issue costs and original issue discount	328	327
Pension expense, net of unfunded benefits paid	1,179	3,577
Deferred income tax (provision) benefit	(2,184)	906
Gains on dispositions of plant, equipment and timberlands, net	(809)	(73)
Share-based compensation	1,844	1,878
Change in operating assets and liabilities		
Accounts receivable	(11,227)	(19,475)
Inventories	(11,679)	(2,100)
Prepaid and other current assets	(2,330)	8,885
Accounts payable	(5,990)	2,331
Accruals and other current liabilities	(11,814)	(10,751)
Other	(791)	(697)
Net cash (used) provided by operating activities	(10,210)	15,795
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	(14,435)	(31,391)
Proceeds from disposals of plant, equipment and timberlands, net	839	73
Other		(175)
Net cash used by investing activities	(13,596)	(31,493)
Financing activities		
Net repayments of revolving credit facility	(17,933)	
Payments of borrowing costs		(108)
Repurchases of common stock	(1,251)	
Payments of dividends	(4,363)	(3,905)
Payments related to share-based compensation awards and other	(781)	(586)
Net cash used by financing activities	(24,328)	(4,599)
Effect of exchange rate changes on cash	37	(942)
Net decrease in cash and cash equivalents	(48,097)	(21,239)
Cash and cash equivalents at the beginning of period	122,882	97,679
Cash and cash equivalents at the end of period	\$ 74,785	\$ 76,440
Supplemental cash flow information		
Cash paid (received) for:		
Interest, net of amounts capitalized	\$ 1,249	\$ 145
Income taxes, net	5,628	(3,742)

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter) is a manufacturer of specialty papers and fiber-based engineered materials. Headquartered in York, Pennsylvania, our manufacturing facilities are located in Spring Grove, Pennsylvania; Chillicothe and Freemont, Ohio; Gatineau, Quebec, Canada; Lydney, England; Caerphilly, Wales; Gernsbach, Falkenhagen and Heidenau, Germany; Scaër, France; and the Philippines. Our products are marketed worldwide, either through wholesale paper merchants, brokers and agents, or directly to customers.

2. ACCOUNTING POLICIES

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

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2013 Annual Report on Form 10-K.

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes the estimates and assumptions used in the preparation of these financial statements are reasonable, based upon currently available facts and known circumstances, but recognizes that actual results may differ from those estimates and assumptions.

3. ACQUISITION

On April 30, 2013, we completed the acquisition of all outstanding shares of Dresden Papier GmbH (Dresden) from Fortress Paper Ltd. for \$211 million, net of cash acquired. Dresden, based in Heidenau, Germany, is the leading global supplier of nonwoven wallpaper base materials, and is a major supplier to most of the world's largest wallpaper manufacturers. Dresden's revenue for the full year 2013 was \$158.6 million and it employed approximately 146 people at its state-of-the-art, 72,800 short-ton-capacity manufacturing facility. We financed the acquisition through a combination of cash on hand and borrowings under our Revolving Credit Facility.

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

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

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

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

The adjustments set forth above primarily relate to the recognition of additional indemnification receivable from the seller associated with certain tax matters. Such adjustments were recorded in the third quarter of 2013 and did not impact previously reported results of operations, earnings per share, or cash flows.

The preliminary purchase price allocation set forth above is based on all information available to us at the present time and is subject to change. In the event new information related to an on-going tax audit for periods prior to the acquisition becomes available, the measurement of the amounts of an indemnification receivable reflected above under the caption "Prepaid and other current assets" may be affected.

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

Acquired property, plant and equipment are preliminarily being depreciated on a straight-line basis with estimated remaining lives ranging from 5 years to 30 years. Intangible assets are being amortized on a straight-line basis over an average estimated remaining life of 17 years reflecting the expected future value.

In connection with the Dresden acquisition we recorded \$74.9 million of goodwill and \$87.6 million of intangible assets. The goodwill arising from the acquisition largely relates to strategic benefits, product and market diversification, assembled workforce, and similar factors. For tax purposes, none of the goodwill is deductible. Intangible assets consist of \$9.8 million of non-amortizing tradename, and the remainder consists of technology and customer relationships.

Our results of operations include the results of Dresden prospectively since the acquisition was completed on April 30, 2013. All such results reported herein are included as part of the Composite Fibers business unit. Revenue and operating income of Dresden included in our

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consolidated results of operations for the first quarter of 2014 totaled \$41.3 million and \$8.5 million, respectively.

The table below summarizes pro forma financial information as if the acquisition and related financing transaction occurred as of January 1, 2013:

<i>In thousands, except per share</i>	Three months ended	
	March 31, 2013	
<i>Pro forma</i>		
Net sales	\$	446,771
Net income		22,793
Diluted earnings per share		0.52

This unaudited pro forma financial information above is not necessarily indicative of what the operating results would have been had the acquisition been completed at the beginning of the respective period nor is it indicative of future results.

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During the first three months of 2014 and 2013, we completed sales of assets as summarized in the following table:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain (loss)
2014			
Timberlands	498	\$ 838	\$ 812
Other	n/a	1	(3)
Total		\$ 839	\$ 809
2013			
Other	n/a	73	73
Total		\$ 73	\$ 73

5. EARNINGS PER SHARE

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

<i>In thousands, except per share</i>	Three months ended	
	2014	2013
Net income	\$ 14,648	\$ 15,629
Weighted average common shares outstanding used in basic EPS	43,366	42,966
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	994	955
Weighted average common shares outstanding and common share equivalents used in diluted EPS	44,360	43,921
Earnings per share		
Basic	\$ 0.34	\$ 0.36
Diluted	0.33	0.36

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

	March 31	
	2014	2013
Potential common shares	276	

6. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months ended March 31, 2014 and 2013.

<i>in thousands</i>	Pension Plans	Total
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	Currency Translation Adjustments	Unrealized gain (loss) on cash flow hedges		Other postretirement benefit plans	
Balance at January 1, 2014	\$ 15,141	\$ (941)	\$ (89,547)	\$ (10)	\$ (75,357)
Other comprehensive income before reclassifications (net of tax)	728	(403)			325
Amounts reclassified from accumulated other comprehensive income (net of tax)		324	2,281	35	2,640
Net current period other comprehensive income (loss)	728	(79)	2,281	35	2,965
Balance at March 31, 2014	\$ 15,869	\$ (1,020)	\$ (87,266)	\$ 25	\$ (72,392)
Balance at January 1, 2013	\$ 315	\$ (424)	\$ (159,560)	\$ (4,297)	\$ (163,966)
Other comprehensive income before reclassifications (net of tax)	(11,957)	390			(11,567)
Amounts reclassified from accumulated other comprehensive income (net of tax)		51	3,779	48	3,878
Net current period other comprehensive income (loss)	(11,957)	441	3,779	48	(7,689)
Balance at March 31, 2013	\$ (11,642)	\$ 17	\$ (155,781)	\$ (4,249)	\$ (171,655)

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Reclassifications out of accumulated other comprehensive income were as follows:

<i>In thousands</i> Description	Three months ended March 31		Line Item in Statements of Income
	2014	2013	
Cash flow hedges (Note 14)			
(Gains) losses on cash flow hedges	\$ 449	\$ 70	Costs of products sold
	(125)	(19)	Income tax provision
Net of tax	324	51	
Retirement plan obligations (Note 9)			
Amortization of deferred benefit pension plan items			
Prior service costs	548	613	Costs of products sold
	186	161	Selling, general and administrative
Actuarial losses	2,196	4,114	Costs of products sold
	744	1,175	Selling, general and administrative
	3,674	6,063	
	(1,393)	(2,284)	Income tax provision
Net of tax	2,281	3,779	
Amortization of deferred benefit other plan items			
Prior service costs	(59)	(100)	Costs of products sold
	(13)	(25)	Selling, general and administrative
Actuarial losses	106	155	Costs of products sold
	23	47	Selling, general and administrative
	57	77	
	(22)	(29)	Income tax provision
Net of tax	35	48	
Total reclassifications, net of tax	\$ 2,640	\$ 3,878	

7. INCOME TAXES

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

As of March 31, 2014 and December 31, 2013, we had \$14.9 million of gross unrecognized tax benefits. If such benefits were to be recognized as of March 31, 2014, approximately \$14.9 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:

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Jurisdiction	Open Tax Years	
	Examinations not yet initiated	Examination in progress
United States		
Federal	2010, 2013	2011 - 2012
State	2009 - 2013	N/A
Canada (1)	2010 - 2013	2009
Germany (1)	2012 - 2013	2007 - 2012
France	2010, 2013	2011 - 2012
United Kingdom	2010 - 2013	N/A
Philippines	2012 - 2013	2010 - 2011

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues

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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 \$5.3 million. Substantially all of this range relates to tax positions taken in the U.S. and Germany.

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:

<i>In millions</i>	Three months ended	
	March 31,	2013
Interest expense (income)	2014	2013
Penalties	\$ 0.1	\$ (0.2)

	March 31	December 31
	2014	2013
Accrued interest payable	\$ 0.7	\$ 0.6

8. STOCK-BASED COMPENSATION

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

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 annually to members of management and each respective grant cliff vests each December 31 of the third year following the grant, assuming the achievement of predetermined, three-year cumulative performance targets. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than targeted depending on actual financial performance. For both RSUs and PSAs, the grant date fair value of the awards, which is equal to the closing price per common share on the date of the award, is used to determine the amount of expense to be recognized over the applicable service period. Settlement of RSUs and PSAs will be made in shares of our common stock currently held in treasury.

The following table summarizes RSU and PSA activity during the first three months of 2014 and 2013:

<i>Units</i>	2014	2013
Balance January 1,	1,001,814	847,679
Granted	133,089	153,265
Forfeited	(11,605)	(9,313)
Shares delivered	(83,051)	(97,681)
Balance March 31,	1,040,247	893,950

The amount granted in 2014 and 2013 includes PSAs of 90,791 and 151,955, respectively, exclusive of reinvested dividends.

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

<i>In thousands</i>	March 31	
	2014	2013
Three months ended	\$ 579	\$ 720

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.

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The following table sets forth information related to outstanding SOSARS.

	2014		2013	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
SOSARS				
Outstanding at January 1,	1,977,133	\$ 13.91	2,121,454	\$ 12.93
Granted	275,529	29.89	361,923	18.36
Exercised	(15,974)	15.48	(40,986)	13.90
Canceled / forfeited			(23,920)	15.61
Outstanding at March 31,	2,236,688	\$ 15.86	2,418,471	\$ 13.70
SOSAR Grants				
Weighted average grant date fair value per share	\$ 9.85		\$ 5.64	
Aggregate grant date fair value (<i>in thousands</i>)	\$ 2,713		\$ 2,042	
Black-Scholes assumptions				
Dividend yield	1.47%		2.18%	
Risk free rate of return	1.73%		0.99%	
Volatility	37.59%		39.62%	
Expected life	6 yrs		6 yrs	

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

<i>In thousands</i>	March 31	
	2014	2013
Three months ended	\$ 449	\$ 385

9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

<i>In thousands</i>	Three months ended March 31	
	2014	2013
Pension Benefits		
Service cost	\$ 2,703	\$ 3,211
Interest cost	6,171	5,520
Expected return on plan assets	(11,007)	(10,903)
Amortization of prior service cost	734	774
Amortization of unrecognized loss	2,940	5,289
Net periodic benefit cost	\$ 1,541	\$ 3,891
Other Benefits		
Service cost	\$ 615	\$ 789
Interest cost	598	545
Amortization of prior service cost	(72)	(125)
Amortization of unrecognized loss	129	202
Net periodic benefit cost	\$ 1,270	\$ 1,411

10. INVENTORIES

Inventories, net of reserves, were as follows:

<i>In thousands</i>	March 31 2014	December 31 2013
Raw materials	\$ 62,307	\$ 59,440
In-process and finished	117,653	109,578
Supplies	67,809	67,292
 Total	 \$ 247,769	 \$ 236,310

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Long-term debt is summarized as follows:

<i>In thousands</i>	March 31 2014	December 31 2013
Revolving credit facility, due Nov. 2016	\$ 115,907	\$ 133,540
5.375% Notes, due Oct. 2020	250,000	250,000
2.05% Term Loan, due Mar. 2023	58,919	58,785
Total long-term debt	424,826	442,325
Less current portion		
Long-term debt, net of current portion	\$ 424,826	\$ 442,325

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

For all U.S. dollar denominated borrowings under the Revolving Credit Facility, the borrowing rate is, at our option, (a) the bank's base rate which is equal to the greater of i) the prime rate; ii) the federal funds rate plus 50 basis points plus an applicable spread ranging from 25 basis points to 125 basis points based on our corporate credit ratings determined by Standard & Poor's Rating Services and Moody's Investor Service, Inc. (the Corporate Credit Rating); or iii) the daily Euro-rate plus 100 basis points; or (b) the daily Euro-rate plus an applicable margin ranging from 125 basis points to 225 basis points based on the Corporate Credit Rating. For non-US dollar denominated borrowings, interest is based on (b) above.

The Revolving Credit Facility contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, 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 earnings before interest, taxes, depreciation and amortization (EBITDA) ratio (the leverage ratio); ii) a consolidated EBITDA to interest expense ratio; and iii) beginning December 31, 2015, a minimum liquidity ratio. The most restrictive of our covenants is a maximum leverage ratio of 3.5x. As of March 31, 2014, the leverage ratio, as calculated in accordance with the definition in our credit agreement, was 2.36x, within the limits set forth in our credit agreement. 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 are fully and unconditionally guaranteed, jointly and severally, by PHG Tea Leaves, Inc., Mollanvick, Inc., and Glatfelter Holdings, LLC (the Guarantors). The net proceeds from this were used to refinance our previous \$200.0 million, to repay amounts outstanding under our revolving credit facility and for general corporate purposes.

Interest on the 5.375% Notes is payable semiannually in arrears on April 15 and October 15, commencing on April 15, 2013.

The 5.375% Notes are redeemable, in whole or in part, at anytime on or after October 15, 2016 at the redemption prices specified in the applicable Indenture. Prior to October 15, 2016, we may redeem some or all of the Notes at a make-whole premium as specified in the Indenture. These Notes and the guarantees of the notes are senior obligations of the Company and the Guarantors, respectively, rank equally in right of payment with future senior indebtedness of the Company and the Guarantors and will mature on October 15, 2020.

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 Agreement at maturity or a default under the Revolving Credit Agreement that accelerates the debt outstanding thereunder. As of March 31, 2014, we met all of the requirements of our debt covenants.

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

The IKB Loan, guaranteed in full by us, is repayable in 32 quarterly installments beginning on June 30, 2015 and ending on March 31, 2023 and will bear interest at a

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rate of 2.05% per annum. Interest on the IKB Loan or portion thereof is payable quarterly in each year of the term of the loan with interest accruing from the date the loan or portion thereof is drawn.

The IKB Loan provides for representations, warranties and covenants customary for financings of this type. The financial covenants contained in the IBK Loan, which relate to the minimum ratio of consolidated EBITDA to consolidated interest expense and the maximum ratio of consolidated total net debt to consolidated adjusted EBITDA, will be calculated by reference to our Amended and Restated Credit Agreement, dated November 21, 2011.

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

As of March 31, 2014 and December 31, 2013, we had \$5.2 million of letters of credit issued to us by certain financial institutions. The letters of credit, which reduce amounts available under our revolving credit facility, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

12. ASSET RETIREMENT OBLIGATION

During 2008, we recorded \$11.5 million, net present value, of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, lagoons were used to dispose of residual waste material. Closure of the lagoons is expected to be completed in 2016 and will be accomplished by filling the lagoons, installing a non-permeable liner which will be covered with soil to construct the required cap over the lagoons. The retirement obligation was accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the consolidated balance sheet. The amount capitalized is being amortized as a charge to operations on the straight-line basis in relation to the expected closure period. Following is a summary of activity recorded during the first three months of 2014 and 2013:

<i>In thousands</i>	2014	2013
Balance at January 1,	\$ 5,032	\$ 8,882
Accretion	38	82
Payments	(176)	(662)
Gain	(43)	
Balance at March 31,	\$ 4,851	\$ 8,302

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

<i>In thousands</i>	March 31 2014	December 31 2013
Other current liabilities	\$ 1,915	\$ 915
Other long-term liabilities	2,936	4,117
Total	\$ 4,851	\$ 5,032

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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<i>In thousands</i>	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate bonds	\$ 250,000	\$ 265,416	\$ 250,000	\$ 254,533
2.05% Term loan	58,919	58,536	58,785	57,952
Variable rate debt	115,907	115,907	133,540	133,540
Total	\$ 424,826	\$ 439,859	\$ 442,325	\$ 446,025

As of March 31, 2014, and December 31, 2013, we had \$250.0 million of 5.375% fixed rate bonds. These bonds are publicly registered, but thinly traded. Accordingly, the values set forth above for the bonds, as well as our other debt instruments, are based on observable inputs and other relevant market data (Level 2). The fair value of financial derivatives is set forth below in Note 14.

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

Derivatives Designated as Hedging Instruments - Cash Flow Hedges We use currency forward contracts as cash flow hedges to manage our exposure to fluctuations in the currency exchange rates on certain forecasted production costs expected to be incurred over a maximum of twelve months. Currency forward contracts involve fixing the exchange for delivery of a specified amount of foreign currency on a specified date.

We designate certain currency forward contracts as cash flow hedges of forecasted raw material purchases or certain production costs with exposure to changes in foreign currency exchange rates. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges of foreign exchange risk is deferred as a component of accumulated other comprehensive income in the accompanying condensed consolidated balance sheets and is subsequently reclassified into costs of products sold in the period that inventory produced using the hedged transaction affects earnings. The ineffective portion of the change in fair value of the derivative is recognized directly to earnings and reflected in the accompanying condensed consolidated statements of income as non-operating income (expense) under the caption Other-net.

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

<i>In thousands</i>	March 31	December 31
Derivative	2014	2013
Sell / Buy		Buy Notional
Euro / U.S. dollar	27,976	27,105
U.S. dollar / Canadian dollar	11,628	13,077
Euro / Philippine peso	448,711	
British Pound / Philippine peso	4,399	
Euro / British Pound	59	

These contracts have maturities of twelve months or less.

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

<i>In thousands</i>	March 31	December 31
Derivative	2014	2013
Sell / Buy		Sell (Buy) Notional
Euro / U.S. dollar	8,000	9,000
Euro / British Pound	(9,000)	(8,000)
Euro / British Pound	5,000	5,000
Canadian dollar / U.S. dollar	2,000	2,000
U.S. dollar / Euro	2,000	2,000
U.S. dollar / British Pound	7,000	6,000

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

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

<i>In thousands</i>	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Balance				
sheet				
caption		Prepaid Expenses and Other Current Assets		Other Current Liabilities
Designated as hedging:				
Forward foreign currency exchange contracts	\$	\$	\$ 1,137	\$ 1,163
Not designated as hedging:				
Forward foreign currency exchange contracts	\$ 3	\$ 36	\$ 52	\$ 46

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.

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

<i>In thousands</i>	Three months ended March 31	
	2014	2013
Designated as hedging:		
Forward foreign currency exchange contracts:		
Effective portion cost of products sold	\$ (449)	\$ (70)
Ineffective portion other net	(18)	79
Not designated as hedging:		
Forward foreign currency exchange contracts:		
Other net	\$ 336	\$ 304

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

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

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

Prepaid expenses and other current assets and the value of contracts in a loss position is recorded under the caption Other current liabilities.

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

<i>In thousands</i>	2014	2013
Balance at January 1,	\$ (1,296)	(\$ 599)
Deferred (losses) gains on cash flow hedges	(555)	541
Reclassified to earnings	449	70
Balance at March 31,	\$ (1,402)	\$ 12

We expect substantially all of the amounts recorded as a component of accumulated other comprehensive income will be realized in results of operations within the

next twelve months and the amount ultimately recognized will vary depending on actual market rates.

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.

15. SHARE REPURCHASES

In May 2012, our Board of Directors authorized a two-year share repurchase program for up to \$25.0 million of our outstanding common stock, exclusive of commissions. The following table summarizes share repurchases through March 31, 2014, made under this program:

	shares	(thousands)
Authorized amount	n/a	\$ 25,000

Repurchases	346,823	(6,036)
Remaining authorization		\$ 18,964

The total repurchases set forth above includes 55,703 shares at a cost of \$1.6 million completed in 2014. No shares were repurchased in the first quarter of 2013.

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

The PRPs consist of us, Appvion, Inc. (formerly known as Appleton Papers Inc.), CBC Coating, Inc.

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(formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation (NCR), U.S. Paper Mills Corp., and WTM I Company.

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

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

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

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

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

Governments, resolving their liability. On June 27, 2013, the district court entered a final judgment that (a) neither NCR nor Appvion may pursue any other party for contribution, (b) NCR owes us and the other non-settling parties full contribution for any amounts we may have to pay on account of response actions or response costs downstream of Little Lake Butte des Morts or on account of NRDs, (c) NCR is not liable for response costs, response actions, or NRDs in Little Lake Butte des Morts, and (d) NCR owes us reimbursement of \$4.28 million in costs we incurred in the past. NCR and Appvion have appealed that judgment. We have filed a cross-appeal of that judgment (as have several other defendants), challenging those portions of the judgment with which we disagree, including the ruling that NCR is not liable for response costs, response actions, or NRDs in Little Lake Butte des Morts. Until the Whiting Litigation judgment is affirmed on appeal, all past and future costs or damages incurred by any person remain the subject of litigation against us.

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

On March 26, 2014, the United States lodged three proposed consent decrees under which all parties, other than NCR, GP, and us, would resolve their liability for this Site. Under the terms of those consent decrees, the Settling Defendants would pay a cash amount aggregating \$56.6 million primarily for NRDs and past

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response costs, and would have no further obligations under the UAO or to satisfy any judgment in the Government Action.

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

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

Reserves for the Site. As of March 31, 2014, our reserve for the Site, including our remediation and ongoing monitoring obligations in Little Lake Butte des Morts, our share of remediation of the rest of the Site, NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled \$16.3 million. Of our total reserve for the Fox River, \$0.1 million is recorded in the accompanying condensed consolidated balance sheets under the caption "Environmental liabilities" and the remainder is recorded under the caption "Other long term liabilities."

Although we believe that amounts already funded by us and WTM I to implement the Little Lake Butte des Morts remedy are adequate and no payments have been required since January 2009, there can be no assurance

that these amounts will in fact suffice. WTM I has filed a bankruptcy petition in the Bankruptcy Court in Richmond; accordingly, there can be no assurance that WTM I will be able to fulfill its obligation to pay half of any additional costs, if required.

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

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

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

Other Information. The Governments have published studies estimating the amount of PCBs discharged by each identified potentially responsible party (PRPs) to the lower Fox River and Green Bay. These reports estimate our Neenah mill's share of the mass of PCBs discharged to be as high as 27%. The district court in its May 2013 Order found the discharge mass estimates used in these studies not to be accurate. We believe that the

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Neenah mill's absolute and relative contribution of PCB mass is significantly lower than the estimates set forth in these studies. The trial court in the Government Action has found that the Neenah mill discharged an unknown amount of PCBs.

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

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

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

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

Summary. Our current assessment is that we will be able to manage this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our debt covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or damages will not exceed our available resources, or that those obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations. Should a court grant the United States or the State of Wisconsin relief that requires us individually either to perform directly or to contribute significant amounts towards remedial action downstream of Little Lake Butte des Morts or to NRDs, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.

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

Three months ended March 31

<i>Dollars in millions</i>	Composite Fibers		Advanced Airlaid Materials		Specialty Papers		Other and Unallocated		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	\$ 158.6	\$ 111.8	\$ 71.3	\$ 66.2	\$ 225.8	\$ 227.1	\$	\$	\$ 455.7	\$ 405.2
Energy and related sales, net					5.3	1.1			5.3	1.1
Total revenue	158.6	111.8	71.3	66.2	231.1	228.2			461.0	406.3
Cost of products sold	126.0	90.4	63.1	59.5	215.0	195.5	1.8	3.5	405.9	348.9
Gross profit (loss)	32.6	21.5	8.2	6.7	16.1	32.7	(1.8)	(3.5)	55.0	57.4
SG&A	13.3	9.8	2.3	2.2	13.7	14.5	4.3	7.0	33.6	33.5
Gains on dispositions of plant, equipment and timberlands, net							(0.8)	(0.1)	(0.8)	(0.1)
Total operating income (loss)	19.3	11.6	5.9	4.5	2.4	18.3	(5.2)	(10.5)	22.3	24.0
Non-operating expense							(4.5)	(3.5)	(4.5)	(3.5)
Income (loss) before income taxes	\$ 19.3	\$ 11.6	\$ 5.9	\$ 4.5	\$ 2.4	\$ 18.3	\$ (9.8)	\$ (13.9)	\$ 17.8	\$ 20.5

Supplementary Data

Net tons sold (<i>thousands</i>)	40.0	22.5	25.1	23.9	202.2	202.3			267.3	248.8
Depreciation, depletion and amortization	\$ 7.6	\$ 4.6	\$ 2.3	\$ 2.2	\$ 8.3	\$ 8.3	\$ 0.5	\$ 0.2	\$ 18.6	\$ 15.4
Capital expenditures	6.0	17.5	1.5	2.1	6.2	8.6	0.8	3.2	14.4	31.4

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

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

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. The costs incurred by support areas not directly aligned with the business unit are allocated primarily based on an estimated utilization of support area services or are included in Other and Unallocated in the Business Unit Performance table.

Management evaluates results of operations of the business units before pension expense, certain corporate level costs, and the effects of certain gains or losses not considered to be related to the core business operations. Management believes this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is aligned with the management and operating structure of our company and is the basis on which the Company's performance is evaluated internally and by the Company's Board of Directors.

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Our 5.375% Notes are fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries, PHG Tea Leaves, Inc., Mollanvick, Inc., and Glatfelter Holdings, LLC. The guarantees are subject to certain customary release provisions including i) the designation of such subsidiary as an unrestricted or excluded subsidiary; (ii) in connection with any sale or disposition of the capital stock of the subsidiary guarantor; and (iii) upon our exercise of our legal defeasance option or our covenant defeasance option, all of which are more fully described in the Indenture dated as of October 3, 2012 among us, the Guarantors and US Bank National Association, as Trustee, relating to the 5.375% Notes. The following presents our condensed consolidating statements of income, including comprehensive income for the three months ended March 31, 2014 and 2013, our condensed consolidating balance sheets as of March 31, 2014 and December 31, 2013 and condensed consolidating cash flows for the three months ended March 31, 2014 and 2013. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis. Effective December 31, 2013, Glatfelter Pulpwood Company, previously a guarantor, was merged with and into the parent. Accordingly, all condensed consolidating financial statements have been restated to give effect to this merger as of the earliest period presented. In addition, the amounts of intercompany investing and financing activities and the related interest expense and interest income previously presented net for the three months ended March 31, 2013 have been presented on a gross basis to conform to the current year's presentation.

Condensed Consolidating Statements of Income and Comprehensive Income for the**three months ended March 31, 2014**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 225,831	\$ 18	\$ 229,890	\$ (18)	\$ 455,721
Energy and related sales, net	5,262				5,262
Total revenues	231,093	18	229,890	(18)	460,983
Costs of products sold	216,716	17	189,228	(18)	405,943
Gross profit	14,377	1	40,662		55,040
Selling, general and administrative expenses	17,793	13	15,745		33,551
(Gains) losses on dispositions of plant, equipment and timberlands, net	(812)		3		(809)
Operating income (loss)	(2,604)	(12)	24,914		22,298
Other non-operating income (expense)					
Interest expense	(4,739)		(2,731)	2,658	(4,812)
Interest income	153	2,559	7	(2,658)	61
Other, net	21,618	10	1,082	(22,499)	211
Total other non-operating income (expense)	17,032	2,569	(1,642)	(22,499)	(4,540)
Income before income taxes	14,428	2,557	23,272	(22,499)	17,758
Income tax provision (benefit)	(220)	913	2,417		3,110
Net income	14,648	1,644	20,855	(22,499)	14,648
Other comprehensive income	2,965	1	885	(886)	2,965
Comprehensive income (loss)	\$ 17,613	\$ 1,645	\$ 21,740	\$ (23,385)	\$ 17,613

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**Condensed Consolidating Statements of Income and Comprehensive Income for the
three months ended March 31, 2013**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 227,116	\$ 6	\$ 178,072	\$ (5)	\$ 405,189
Energy and related sales, net	1,101				1,101
Total revenues	228,217	6	178,072	(5)	406,290
Costs of products sold	198,947	5	149,968	(5)	348,915
Gross profit	29,270	1	28,104		57,375
Selling, general and administrative expenses	21,128	14	12,345		33,487
Gains on dispositions of plant, equipment and timberlands, net	(73)				(73)
Operating income (loss)	8,215	(13)	15,759		23,961
Other non-operating income (expense)					
Interest expense	(4,716)		(814)	1,689	(3,841)
Interest income	84	1,689	18	(1,689)	102
Other, net	11,956	(4)	740	(12,445)	247
Total other non-operating income (expense)	7,324	1,685	(56)	(12,445)	(3,492)
Income before income taxes	15,539	1,672	15,703	(12,445)	20,469
Income tax provision (benefit)	(90)	675	4,255		4,840
Net income	15,629	997	11,448	(12,445)	15,629
Other comprehensive income (loss)	(7,689)	(4,608)	(7,978)	12,586	(7,689)
Comprehensive income (loss)	\$ 7,940	\$ (3,611)	\$ 3,470	\$ 141	\$ 7,940

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<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 41,133	\$ 232	\$ 33,420	\$	\$ 74,785
Other current assets	212,640	331,139	288,578	(344,582)	487,775
Plant, equipment and timberlands, net	244,809	1,036	471,886		717,731
Other assets	1,000,015	235,893	213,125	(1,080,328)	368,705
Total assets	\$ 1,498,597	\$ 568,300	\$ 1,007,009	\$ (1,424,910)	\$ 1,648,996
Liabilities and Shareholders Equity					
Current liabilities	\$ 374,451	\$ 3,030	\$ 240,477	\$ (350,746)	\$ 267,212
Long-term debt	250,000		496,352	(321,526)	424,826
Deferred income taxes	72,281	(169)	78,671	(12,281)	138,502
Other long-term liabilities	105,015		13,881	2,710	121,606
Total liabilities	801,747	2,861	829,381	(681,843)	952,146
Shareholders equity	696,850	565,439	177,628	(743,067)	696,850
Total liabilities and shareholders equity	\$ 1,498,597	\$ 568,300	\$ 1,007,009	\$ (1,424,910)	\$ 1,648,996

Condensed Consolidating Balance Sheet as of**December 31, 2013**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 56,216	\$ 501	\$ 66,165	\$	\$ 122,882
Other current assets	208,814	327,152	253,779	(326,045)	463,700
Plant, equipment and timberlands, net	247,243	1,054	475,043		723,340
Other assets	973,748	236,411	214,301	(1,055,972)	368,488
Total assets	\$ 1,486,021	\$ 565,118	\$ 1,009,288	\$ (1,382,017)	\$ 1,678,410
Liabilities and Shareholders Equity					
Current liabilities	\$ 375,535	\$ 2,855	\$ 247,855	\$ (337,878)	\$ 288,367
Long-term debt	250,000		513,120	(320,795)	442,325
Deferred income taxes	70,989	(283)	78,633	(8,319)	141,020
Other long-term liabilities	105,021		13,792	3,409	122,222
Total liabilities	801,545	2,572	853,400	(663,583)	993,934
Shareholders equity	684,476	562,546	155,888	(718,434)	684,476
Total liabilities and shareholders equity	\$ 1,486,021	\$ 565,118	\$ 1,009,288	\$ (1,382,017)	\$ 1,678,410

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**Condensed Consolidating Statement of Cash Flows for the three
months ended March 31, 2014**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$ (3,797)	\$ 981	\$ (7,394)	\$	\$ (10,210)
Investing activities					
Expenditures for purchases of plant, equipment and timberlands	(6,979)		(7,456)		(14,435)
Proceeds from disposal plant, equipment and timberlands, net	838		1		839
Advances of intercompany loans		(1,250)		1,250	
Total investing activities	(6,141)	(1,250)	(7,455)	1,250	(13,596)
Financing activities					
Net repayments of indebtedness			(17,933)		(17,933)
Payment of dividends to shareholders	(4,363)				(4,363)
Repurchases of common stock	(1,251)				(1,251)
Borrowings of intercompany loans	1,250			(1,250)	
Payments related to share-based compensation awards and other	(781)				(781)
Total financing activities	(5,145)		(17,933)	(1,250)	(24,328)
Effect of exchange rate on cash			37		37
Net decrease in cash	(15,083)	(269)	(32,745)		(48,097)
Cash at the beginning of period	56,216	501	66,165		122,882
Cash at the end of period	\$ 41,133	\$ 232	\$ 33,420	\$	\$ 74,785

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**Condensed Consolidating Statement of Cash Flows for the three
months ended March 31, 2013**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$ 7,674	\$ 1,727	\$ 6,394	\$	\$ 15,795
Investing activities					
Expenditures for purchases of plant, equipment and timberlands	(11,820)		(19,571)		(31,391)
Proceeds from disposal plant, equipment and timberlands, net	73				73
Repayments from intercompany loans		6,193		(6,193)	
Advances of intercompany loans		(6,350)		6,350	
Intercompany capital contributed		(90)		90	
Other	(175)				(175)
Total investing activities	(11,922)	(247)	(19,571)	247	(31,493)
Financing activities					
Payments of note offering costs	(108)				(108)
Payment of dividends to shareholders	(3,905)				(3,905)
Repayments of intercompany loans	(1,107)		(5,086)	6,193	
Borrowings of intercompany loans	6,350			(6,350)	
Intercompany capital received			90	(90)	
Payments related to share-based compensation awards and other	(586)				(586)
Total financing activities	644		(4,996)	(247)	(4,599)
Effect of exchange rate on cash			(942)		(942)
Net increase (decrease) in cash	(3,604)	1,480	(19,115)		(21,239)
Cash at the beginning of period	43,781	4,278	49,620		97,679
Cash at the end of period	\$ 40,177	\$ 5,758	\$ 30,505	\$	\$ 76,440

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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 2013 Annual Report on Form 10-K.

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

- i. variations in demand for our products including the impact of any unplanned market-related downtime, or variations in product pricing;
- ii. changes in the cost or availability of raw materials we use, in particular pulpwood, pulp, pulp substitutes, caustic soda, and abaca fiber;
- iii. changes in energy-related costs and commodity raw materials with an energy component;
- iv. our ability to develop new, high value-added products;
- v. the impact of exposure to volatile market-based pricing for sales of excess electricity;
- vi. the impact of competition, 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;
- vii. the gain or loss of significant customers and/or on-going viability of such customers;
- viii. cost and other effects of environmental compliance, cleanup, damages, remediation or restoration, or personal injury or property damages related thereto, such as the costs of natural resource restoration or damages related to the presence of polychlorinated biphenyls (PCBs) in the lower Fox River on which our former Neenah mill was located;
- ix. adverse results in litigation in the Fox River matter;
- x. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- xi. geopolitical events, including war and terrorism;

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- xii. disruptions in production and/or increased costs due to labor disputes;
- xiii. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities;
- xiv. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation; and
- xv. our ability to finance, consummate and integrate acquisitions.

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

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

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

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

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Overview For the first three months of 2014, net income was \$14.6 million, or \$0.33 per diluted share, compared with \$15.6 million, or \$0.36 per diluted share, in the same period of 2013. Our first-quarter results reflect the continuing strength of our two growth businesses as they delivered a combined 6% increase in net sales on an organic basis. Both Composite Fibers, driven by the previously acquired Dresden business, and Advanced Airlaid Materials reported improved operating profit of 65% and 30%, respectively, over the prior year. In Specialty Papers, the first quarter was significantly affected by poor pulp mill performance issues in Ohio and severe weather conditions which led to adverse results in the comparison to the prior year. In addition, our results benefited from a lower effective tax rate due to a greater proportion of earnings generated in lower tax foreign jurisdictions relative to the U.S. and a \$2.2 million tax benefit related to the revaluation of deferred taxes.

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	Three months ended March 31	
	2014	2013
Net sales	\$ 455,721	\$ 405,189
Gross profit	55,040	57,375
Operating income	22,298	23,961
Net income	14,648	15,629
Earnings per diluted share	0.33	0.36

Effective April 30, 2013, we completed the acquisition of Dresden Papier GmbH (Dresden) for approximately \$211 million, net of cash acquired. Our reported results for the first quarter of 2014 include Dresden prospectively from the acquisition date, including \$41.3 million of net sales and \$8.5 million of operating profit.

In addition to the results reported in accordance with GAAP, we evaluate our performance using adjusted net income 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 that it is helpful in understanding underlying operating trends and cash flow generation. Adjusted net income consists of net income determined in accordance with GAAP adjusted to exclude the impact of the following:

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 the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.

Acquisition and integration related costs. These adjustments include costs directly related to the consummation of the acquisition process and those related to integrating recently acquired businesses. These costs are irregular in timing and as such may not be indicative of our past and future performance.

International legal entity restructuring costs. These adjustments include costs that are directly related to actions undertaken to improve the flexibility of the organizational structure to support our growth initiatives. As such, these items are considered to be unusual in nature and not indicative of our past and future and are therefore excluded for the purpose of understanding underlying operating trends.

Adjusted earnings per diluted share is calculated by dividing adjusted net income by diluted weighted-average shares outstanding. Adjusted earnings and adjusted earnings per diluted share are considered measures not calculated in accordance with GAAP, and therefore are non-GAAP measures. These non-GAAP measures may differ from other companies. 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.

<i>In thousands, except per share</i>	After-tax Gain (loss)	Diluted EPS
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2014		
Net income	\$ 14,648	\$ 0.33
Timberland sales and related costs	(507)	(0.01)
Adjusted earnings (non-GAAP)	\$ 14,141	\$ 0.32
2013		
Net income	\$ 15,629	\$ 0.36
Acquisition and integration related costs	1,761	0.04
International legal entity restructuring costs	260	0.01
Timberland sales and related costs	(282)	(0.01)
Adjusted earnings (non-GAAP)	\$ 17,368	\$ 0.40

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Our growth-oriented fiber-based materials businesses reported improved results evidenced by a \$9.1 million increase in operating profit. However, total operating income from all of our business units declined \$6.8 million reflecting the impact of lower contribution from Specialty Papers. Overall, shipping volumes increased 7.4% in the year-over-year comparison.

Composite Fibers operating income increased to \$19.3 million from \$11.6 million in the first three months of 2013 primarily due to the inclusion of Dresden. Excluding Dresden, shipping volumes were essentially unchanged although the mix improved.

Advanced Airlaid Materials operating income increased to \$5.9 million compared with \$4.5 million for the first quarter of 2013. The improved performance was largely driven by a 5% increase in shipping volumes.

Specialty Papers operating income declined \$15.9 million to \$2.4 million. The results were significantly affected by disruptions in pulp production and severe weather conditions through the first two months of 2014. Volumes shipped were essentially unchanged in the comparison.

Business Unit Performance

Three months ended March 31

<i>Dollars in millions</i>	Composite Fibers		Advanced Airlaid Materials		Specialty Papers		Other and Unallocated		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	\$ 158.6	\$ 111.8	\$ 71.3	\$ 66.2	\$ 225.8	\$ 227.1	\$	\$	\$ 455.7	\$ 405.2
Energy and related sales, net					5.3	1.1			5.3	1.1
Total revenue	158.6	111.8	71.3	66.2	231.1	228.2			461.0	406.3
Cost of products sold	126.0	90.4	63.1	59.5	215.0	195.5	1.8	3.5	405.9	348.9
Gross profit (loss)	32.6	21.5	8.2	6.7	16.1	32.7	(1.8)	(3.5)	55.0	57.4
SG&A	13.3	9.8	2.3	2.2	13.7	14.5	4.3	7.0	33.6	33.5
Gains on dispositions of plant, equipment and timberlands, net							(0.8)	(0.1)	(0.8)	(0.1)
Total operating income (loss)	19.3	11.6	5.9	4.5	2.4	18.3	(5.2)	(10.5)	22.3	24.0
Non-operating expense							(4.5)	(3.5)	(4.5)	(3.5)
Income (loss) before income taxes	\$ 19.3	\$ 11.6	\$ 5.9	\$ 4.5	\$ 2.4	\$ 18.3	\$ (9.8)	\$ (13.9)	\$ 17.8	\$ 20.5

Supplementary Data

Net tons sold (<i>thousands</i>)	40.0	22.5	25.1	23.9	202.2	202.3			267.3	248.8
Depreciation, depletion and amortization	\$ 7.6	\$ 4.6	\$ 2.3	\$ 2.2	\$ 8.3	\$ 8.3	\$ 0.5	\$ 0.2	\$ 18.6	\$ 15.4
Capital expenditures	6.0	17.5	1.5	2.1	6.2	8.6	0.8	3.2	14.4	31.4

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

Business Units Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. The costs incurred by

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support areas not directly aligned with the business unit are allocated primarily based on an estimated utilization of support area services or are included in Other and Unallocated in the Business Unit Performance table.

Management evaluates results of operations of the business units before pension expense, certain corporate level costs, and the effects of certain gains or losses not considered to be related to the core business operations. Management believes that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is aligned with the management and operating structure of our company. It is also on this basis that the Company's performance is evaluated internally and by the Company's Board of Directors.

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<i>In thousands</i>	Three months ended			Change
	March 31			
	2014	2013		
Net sales	\$ 455,721	\$ 405,189		\$ 50,532
Energy and related sales net	5,262	1,101		4,161
Total revenues	460,983	406,290		54,693
Costs of products sold	405,944	348,915		57,029
Gross profit	\$ 55,039	\$ 57,375		\$ (2,336)
Gross profit as a percent of Net sales	12.1%	14.2%		

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

<i>Percent of Total</i>	Three months ended	
	March 31	
	2014	2013
Business Unit		
Composite Fibers	34.8%	27.6%
Advanced Airlaid Material	15.6	16.3
Specialty Papers	49.6	56.1
Total	100.0%	100.0%

Net sales for the first quarter of 2014 totaled \$455.7 million, a 12.5% increase compared with \$405.2 million for the same period of 2013. Organic growth totaled 2.3% and the remainder related to the Dresden acquisition.

Composite Fibers net sales totaled \$158.6 million in the first quarter of 2014, an increase of \$46.8 million compared to the first quarter of 2013, of which the Dresden acquisition accounted for \$41.3 million. On an organic basis, shipping volumes declined 2.2% although the mix was favorable. The translation of foreign currencies benefited the comparison by \$3.7 million.

Operating income for the first three months of 2014 increased \$7.7 million due to the Dresden acquisition partially offset by raw material and other cost inflation.

In Advanced Airlaid Materials, net sales increased \$5.1 million, or 7.7%, primarily due to a 4.9% increase in shipping volumes. Foreign currency translation favorably impacted the year-over-year net sales comparison by \$1.5 million.

Advanced Airlaid Material's operating income for the first three months of 2014 increased \$1.4 million, or 30.0%, compared with the year-ago quarter, primarily due to higher shipments and \$1.0 million from currency translation. These favorable factors were partially offset by \$0.6 million in costs, net of insurance recoveries, related to fires at this business unit's facilities in 2013.

In the Specialty Papers business unit, net sales in the first three months of 2014 decreased by \$1.3 million, or 0.6% primarily due to mix changes. Higher average selling prices favorably affected the comparison by \$1.7 million.

Specialty Papers operating income for the first quarter of 2014 declined \$15.9 million in the year-over-year comparison primarily due to \$9.4 million of costs related to pulp mill performance issues at its Ohio facility which caused a 16% reduction in pulp production in the year-over-year comparison resulting in higher per ton pulp production costs as well as increased use of higher cost purchased pulp. In addition,

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the first quarter results were adversely impacted by \$6.6 million of costs related to severe weather conditions. Energy and related sales increased \$4.2 million in the year-over-year comparison as severe weather conditions in 2014 resulted in higher selling prices for excess power.

We sell excess power generated by the Spring Grove, PA facility. The following table summarizes this activity for the first three months of 2014 and 2013:

<i>In thousands</i>	Three months ended		
	2014	March 31 2013	Change
Energy sales	\$ 7,322	\$ 1,575	\$ 5,747
Costs to produce	(2,593)	(1,394)	(1,199)
Net	4,729	181	4,548
Renewable energy credits	533	920	(387)
Total	\$ 5,262	\$ 1,101	\$ 4,161

Renewable energy credits (RECs) represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste. We sell RECs into an emerging and illiquid market. The extent and value of future revenues from REC sales is dependent on many factors outside of management s control. Therefore, we may not be able to generate consistent additional sales of RECs in future periods.

Other and Unallocated The amount of net operating expenses not allocated to a business unit and reported as Other and Unallocated in our table of *Business Unit Performance*, totaled \$5.2 million in the first three months of 2014 compared with \$10.5 million in the first three

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months of 2013. Excluding the impact of sales of timberlands in the comparison, unallocated net operating expenses decreased \$4.6 million primarily due to lower acquisition related costs and pension expense.

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

<i>In thousands</i>	Three months ended			Change
	March 31		2013	
	2014	2013		
<i>Recorded as:</i>				
Costs of products sold	\$ 1,618	\$ 3,250		\$ (1,632)
SG&A expense	(77)	641		(718)
Total	\$ 1,541	\$ 3,891		\$ (2,350)

The amount of pension expense recognized each year is dependent on various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets. Pension expense in 2014 is expected to be approximately \$6.2 million compared with \$14.2 million in 2013. The decrease is primarily due to higher discount rates and the impact of amortizing deferred actuarial gains from higher returns on assets in 2013.

Income taxes For the first quarter of 2014, we recorded a provision for income taxes of \$3.1 million on pretax income of \$17.8 million. The comparable amounts in the first quarter of 2013 were income tax expense of \$4.8 million on \$20.5 million of pretax income. The effective tax rate in the first quarter of 2014 reflects a greater proportion of earnings generated in lower tax foreign jurisdictions relative to the U.S. and a \$2.2 million tax benefit related to the revaluation of deferred taxes. In addition, due to the expiration of the U.S. research and development tax credit at the end of 2013, no credits were recorded in the first quarter of 2014. The first quarter of 2013 effective tax rate benefited from such credits by \$1.5 million.

Foreign Currency We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK, it is the British Pound Sterling, and in the Philippines the functional currency is the Peso. During the first three months of 2014, Euro functional currency operations generated approximately 33.8% of our sales and 30.2% of operating expenses and British Pound Sterling operations represented 5.8% of net sales and 5.4% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

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The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operations results for the first three months of 2014 compared to the first three months 2013:

<i>In thousands</i>	Three months ended March 31 Favorable (unfavorable)
Net sales	\$ 5,157
Costs of products sold	(3,446)
SG&A expenses	(335)
Income taxes and other	(58)
Net income	\$ 1,318

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2014 were the same as 2013. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

LIQUIDITY AND CAPITAL RESOURCES

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

<i>In thousands</i>	Three months ended	
	2014	March 31 2013
Cash and cash equivalents at beginning of period	\$ 122,882	\$ 97,679
Cash provided (used) by		
Operating activities	(10,210)	15,795
Investing activities	(13,596)	(31,493)
Financing activities	(24,328)	(4,599)
Effect of exchange rate changes on cash	37	(942)
Net cash used	(48,097)	(21,239)
Cash and cash equivalents at end of period	\$ 74,785	\$ 76,440

At March 31, 2014, we had \$74.8 million in cash and cash equivalents held by both domestic and foreign subsidiaries. Although unremitted earnings of our foreign subsidiaries are deemed to be permanently reinvested, substantially all of the cash and cash equivalents is available for use domestically. In addition to our cash and cash equivalents, \$199.2 million is available under our revolving credit agreement, which matures in November 2016.

Cash flow used by operating activities totaled \$10.2 million compared with \$15.8 million provided from operations in the same quarter a year ago. The year-over-year comparison primarily reflects an increased working capital usage, higher cash tax payments and payment of customer incentives earned at Dresden.

Net cash used by investing activities declined by \$17.9 million in the comparison of the first quarter of 2014 to the first quarter of 2013 due to lower capital expenditures. Capital expenditures in the current quarter totaled \$14.4 million compared with \$31.4 million in the first quarter of

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2013. Capital expenditures for all of 2014 are expected to be approximately \$80 million to \$90 million.

Net cash used by financing activities totaled \$24.3 million in the first quarter of 2014, an increase of \$19.7 million compared with the same quarter of 2013 largely driven by the \$17.9 million reduction in our revolving credit facility.

In 2013 our Board of Directors authorized an 11% increase in our quarterly cash dividend. In the first quarter of 2014, we used \$4.4 million of cash for dividends on our common stock compared with \$3.9 million in the first quarter of 2013. In February 2014, we announced an additional 10% increase in our dividend. The Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

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

<i>In thousands</i>	March 31 2014	December 31 2013
Revolving credit facility, due Nov. 2016	\$ 115,907	\$ 133,540
5.375% Notes, due Oct. 2020	250,000	250,000
2.05% Term Loan, due Mar. 2023	58,919	58,785
Total long-term debt	424,826	442,325
Less current portion		
Long-term debt, net of current portion	\$ 424,826	\$ 442,325

Our revolving credit facility contains a number of customary compliance covenants, the most restrictive of which is a maximum leverage ratio of 3.5x. As of March 31, 2014, the leverage ratio, as calculated in accordance with the definition in our credit agreement, was 2.36x, within the limits set forth in our credit agreement. Based on our expectations of future results of operations and capital needs, we do not believe the debt covenants will impact our operations or limit our ability to undertake financings that may be necessary to meet our capital needs.

The 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity, or a default under the credit agreement that accelerates the debt outstanding thereunder. As of March 31, 2014, we met all of the requirements of our debt covenants. The significant terms of the debt instruments are more fully discussed in Item 1 Financial Statements Note 11.

Cash used for common share repurchases totaled \$1.3 million in the first quarter of 2014. In May 2012, our Board of Directors authorized a two-year share repurchase program for up to \$25.0 million, exclusive of commissions, of our outstanding common stock. The following table summarizes share repurchases made under this program through March 31, 2014:

	shares	(thousands)
Authorized amount	n/a	\$ 25,000
Repurchases	346,823	(6,036)
Remaining authorization		\$ 18,964

The total repurchases set forth above includes 55,703 shares at a cost of \$1.6 million completed in the first quarter of 2014. No shares were repurchased in the first quarter of 2013.

We are subject to various federal, state and local laws and regulations intended to protect the environment as well as human health and safety. At various times, we have incurred significant costs to comply with these regulations and we could incur additional costs as new regulations are developed or regulatory priorities change. As a result of new air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT), we anticipate that we could incur material capital and operating costs. Recently issued rules will require process modifications and/or installation of air pollution controls on power boilers at two of our facilities. We are currently reviewing options available to comply with these rules to understand the effect they may have on our operations, such as reducing or curtailing boiler usage or modifying the types of boilers operated or fuel consumed. The cost of compliance is likely to be significant. Our current estimate to implement viable options could result in capital spending of between \$70 million to \$95 million depending on the solutions available to comply with the regulations. However, the amount of capital spending ultimately incurred may differ, and the difference could be material, depending on the option chosen. In addition, the timing of such capital spending is uncertain, although we currently expect to incur the majority of expenditures generally between 2014 and 2016. Enactment of new environmental laws or regulations or changes in existing laws or regulations could significantly change our estimates.

In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 1 Financial Statements Note 16 for a summary of significant environmental matters.

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We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, our credit facility or other bank lines of credit and other long-term debt. However, as discussed in Item 1 Financial Statements Note 16, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

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Off-Balance-Sheet Arrangements As of March 31, 2014 and December 31, 2013, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 – Financial Statements.

Outlook Composite Fibers’ shipping volumes are anticipated to be approximately 5% higher in the second quarter of 2014 compared to the first quarter of 2014. The benefit of higher shipping volumes is expected to be offset by lower capacity utilization during the quarter. In addition, selling prices are expected to be generally in line with the first quarter of 2014 and input costs are expected to be slightly higher.

Shipping volumes for the Advanced Airlaid Materials business unit in the second quarter of 2014 are expected to be in line with the first quarter of 2014. Average raw material prices are expected to be slightly higher than the first quarter of 2014 resulting in slightly higher selling prices consistent with our pass through arrangements.

For Specialty Papers, we expect shipping volumes in the second quarter of 2014 are expected to be in line with the first quarter of 2014. Overall higher selling prices are expected to add \$2 million to \$3 million to operating profit compared to the first quarter of 2014 due to the realization of announced price increases. Input costs are expected to be in line with the first quarter of 2014. We also plan to complete the annually scheduled maintenance outages at our Specialty Papers’ facilities in the second quarter of 2014. The outages are expected to adversely impact operating profit by approximately \$28 million, pre-tax, compared with \$22 million in the second quarter of 2013 due to an expanded scope of work.

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<i>Dollars in thousands</i>	Year Ended December 31					At March 31, 2014	
	2014	2015	2016	2017	2018	Carrying Value	Fair Value
Long-term debt							
Average principal outstanding							
At fixed interest rates Bond	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 265,416
At fixed interest rates Term Loan	58,919	57,814	51,554	44,189	36,825	58,919	58,536
At variable interest rates	115,907	115,907	101,419			115,907	115,907
						\$ 424,826	\$ 439,859
Weighted-average interest rate							
On fixed rate debt Bond	5.375%	5.375%	5.375%	5.375%	5.375%		
On fixed rate debt Term Loan	2.05%	2.05%	2.05%	2.05%	2.05%		
On variable rate debt	1.97%	1.97%	1.97%	1.97%	1.97%		

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of March 31, 2014. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities.

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At March 31, 2014, we had long-term debt outstanding of \$424.8 million, of which 27.2% is at variable interest rates. Variable-rate debt outstanding represents borrowings under our revolving credit agreement that accrues interest based on one month LIBOR plus a margin. At March 31, 2014, the interest rate paid was approximately 1.97%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$1.2 million.

As part of our overall risk management practices, we enter into financial derivatives primarily designed to either i) hedge foreign currency risks associated with forecasted transactions – cash flow hedges ; or ii) mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and foreign currency denominated receivables and payables – foreign currency hedges. For a more complete discussion of this activity, refer to Item 1 Financial Statements Note 14.

We are subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. Dollar. During the first three months of 2014, Euro functional currency operations generated approximately 33.8% of our sales and 30.2% of operating expenses and British Pound Sterling operations represented 5.8% of net sales and 5.4% of operating expenses.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Our chief executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2014, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Changes in Internal Controls On April 30, 2013, we completed the acquisition of Dresden. We are in the process of incorporating Dresden's internal controls into our control structure. We consider the ongoing integration of Dresden a material change in our internal control over financial reporting. There were no other changes in our internal control over financial reporting during the three months ended March 31, 2014, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

ITEM 6. EXHIBITS

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

10.1	P.H. Glatfelter Company Supplemental Long Term Disability Plan dated February 25, 2014, between the registrant and certain employees, filed herewith. **
10.2	Form of Performance Share Award Certificate (form effective February 26, 2014). **
10.3	Form of Stock-Only Stock Appreciation Right Award Certificate (form effective February 26, 2014). **
31.1	Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of John P. Jacunski, Executive Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of John P. Jacunski, Executive Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document, filed herewith
101.SCH	XBRL Taxonomy Extension Schema, filed herewith
101.CAL	XBRL Extension Calculation Linkbase, filed herewith
101.DEF	XBRL Extension Definition Linkbase, filed herewith
101.LAB	XBRL Extension Label Linkbase, filed herewith
101.PRE	XBRL Extension Presentation Linkbase, filed herewith

** Management contract or compensatory plan.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

P. H. GLATFELTER COMPANY
(Registrant)

May 2, 2014

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

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