

GLATFELTER P H CO
Form 10-Q
November 01, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

or

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

96 South George Street, Suite 520

York, Pennsylvania 17401

(Address of principal executive offices)

(717) 225-4711

(Registrant's telephone number, including area code)

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

N/A

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

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

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

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

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

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

Common Stock outstanding on October 25, 2016 totaled 43,549,639 shares.

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

REPORT ON FORM 10-Q

For the QUARTERLY PERIOD ENDED

September 30, 2016

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PART I

Item 1 – Financial Statements

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

In thousands, except per share	Three months ended		Nine months ended	
	September 30		September 30	
	2016	2015	2016	2015
Net sales	\$405,301	\$419,960	\$1,213,932	\$1,248,232
Energy and related sales, net	1,346	1,153	4,013	3,936
Total revenues	406,647	421,113	1,217,945	1,252,168
Costs of products sold	345,477	361,205	1,056,209	1,107,319
Gross profit	61,170	59,908	161,736	144,849
Selling, general and administrative expenses	35,747	39,792	104,796	100,201
Losses (gains) on dispositions of plant, equipment and timberlands, net	5	(123)	31	(2,888)
Operating income	25,418	20,239	56,909	47,536
Non-operating income (expense)				
Interest expense	(3,895)	(4,317)	(11,964)	(13,177)
Interest income	52	90	204	232
Other, net	(573)	(220)	(956)	(192)
Total non-operating expense	(4,416)	(4,447)	(12,716)	(13,137)
Income before income taxes	21,002	15,792	44,193	34,399
Income tax provision	1,401	2,288	6,459	4,122
Net income	\$19,601	\$13,504	\$37,734	\$30,277
Earnings per share				
Basic	\$0.45	\$0.31	\$0.87	\$0.70
Diluted	0.44	0.31	0.86	0.69
Cash dividends declared per common share	\$0.125	\$0.12	\$0.375	\$0.36
Weighted average shares outstanding				
Basic	43,576	43,457	43,552	43,363
Diluted	44,133	43,865	44,059	43,949

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

In thousands	Three months ended		Nine months ended	
			September 30	
	September 30	September 30	2016	2015
Net income	\$19,601	\$13,504	\$37,734	\$30,277
Foreign currency translation adjustments	(1,530)	(3,262)	(2,975)	(27,895)
Net change in:				
Deferred (gains) losses on cash flow hedges, net of taxes of \$289, \$1,045, \$88 and \$938, respectively	(858)	(2,823)	152	(2,558)
Unrecognized retirement obligations, net of taxes of \$(1,405), \$(1,895), \$(4,214) and \$(5,675), respectively	2,319	3,083	6,957	9,253
Other comprehensive income (loss)	(69)	(3,002)	4,134	(21,200)
Comprehensive income	\$19,532	\$10,502	\$41,868	\$9,077

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30 2016	December 31 2015
In thousands		
Assets		
Cash and cash equivalents	\$ 50,752	\$ 105,304
Accounts receivable, net	179,352	167,199
Inventories	262,891	247,214
Prepaid expenses and other current assets	36,573	32,650
Total current assets	529,568	552,367
Plant, equipment and timberlands, net	771,453	698,864
Goodwill	77,268	76,056
Intangible assets	60,721	63,057
Other assets	115,229	110,072
Total assets	\$ 1,554,239	\$ 1,500,416
Liabilities and Shareholders' Equity		
Current portion of long-term debt	\$ 11,432	\$ 7,366
Accounts payable	163,674	172,735
Dividends payable	5,455	5,231
Environmental liabilities	8,408	12,544
Other current liabilities	127,149	106,444
Total current liabilities	316,118	304,320
Long-term debt	367,549	353,296
Deferred income taxes	73,075	76,458
Other long-term liabilities	105,808	103,095
Total liabilities	862,550	837,169
Commitments and contingencies	—	—
Shareholders' equity		
Common stock	544	544
Capital in excess of par value	55,890	54,912
Retained earnings	984,520	963,143
Accumulated other comprehensive loss	(186,352)	(190,486)
	854,602	828,113
Less cost of common stock in treasury	(162,913)	(164,866)
Total shareholders' equity	691,689	663,247
Total liabilities and shareholders' equity	\$ 1,554,239	\$ 1,500,416

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

In thousands	Nine months ended	
	September 30 2016	2015
Operating activities		
Net income	\$37,734	\$30,277
Adjustments to reconcile to net cash provided by operations:		
Depreciation, depletion and amortization	49,725	47,423
Amortization of debt issue costs	864	893
Pension expense, net of unfunded benefits paid	2,908	5,541
Charge for impairment of intangible asset	—	1,200
Deferred income tax benefit	(4,266)	(2,043)
Losses (gains) on dispositions of plant, equipment and timberlands, net	31	(2,888)
Share-based compensation	4,218	5,502
Change in operating assets and liabilities		
Accounts receivable	(12,927)	(21,572)
Inventories	(17,897)	(5,714)
Prepaid and other current assets	(4,205)	420
Accounts payable	(9,662)	5,561
Accruals and other current liabilities	10,257	5,180
Other	2,657	743
Net cash provided by operating activities	59,437	70,523
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	(116,948)	(74,280)
Proceeds from disposals of plant, equipment and timberlands, net	55	3,181
Acquisition, net of cash acquired	—	(224)
Other	(400)	(1,600)
Net cash used by investing activities	(117,293)	(72,923)
Financing activities		
Net repayments of revolving credit facility	(642)	—
Payments of borrowing costs	(136)	(1,329)
Proceeds from term loans	19,428	—
Repayment of term loans	(3,803)	(3,387)
Payments of dividends	(16,134)	(15,215)
Proceeds from government grants	5,251	—
Payments related to share-based compensation awards and other	(990)	(2,015)
Net cash provided (used) by financing activities	2,974	(21,946)
Effect of exchange rate changes on cash	330	(1,826)
Net decrease in cash and cash equivalents	(54,552)	(26,172)
Cash and cash equivalents at the beginning of period	105,304	99,837
Cash and cash equivalents at the end of period	\$50,752	\$73,665

Supplemental cash flow information

Cash paid for:

Interest, net of amounts capitalized	\$7,376	\$8,943
Income taxes, net	11,609	14,566

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, PA, U.S. operations include facilities in Spring Grove, PA and Chillicothe and Fremont, OH. International operations include facilities in Canada, Germany, France, the United Kingdom and the Philippines, and sales and distribution offices in Russia and China. The terms “we,” “us,” “our,” “the Company,” or “Glatfelter,” refer to P. H. Glatfelter Company and subsidiaries unless the context indicates otherwise. Our products are marketed worldwide, either through wholesale paper merchants, brokers and agents, or directly to customers.

2. ACCOUNTING POLICIES

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

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission pertaining to interim financial statements. In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2015 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.

Recently Issued Accounting Pronouncements In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation – Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting designed to simplify certain aspects of accounting for share-

based awards. The new ASU requires entities to recognize as a component of income tax expense all excess tax benefits or deficiencies arising from the difference between compensation costs recognized and the intrinsic value at the time an option is exercised or, in the case of restricted stock and similar awards, the fair value upon vesting of an award. Previously such differences were recognized in additional paid in capital as part of an “APIC pool.” In addition, the ASU also requires entities to exclude excess tax benefits and tax deficiencies from the calculation of common share equivalents for purposes of calculating earnings per share. The new standard is required to be adopted, either prospectively or retrospectively, in the first quarter of 2017 and early adoption is permitted. We do not believe the adoption of this standard will have a material impact on our reported results of operations or financial position.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU will require organizations such as us that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance will be effective for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. We are in the process of assessing the impact this standard will have on us and expect to follow a modified retrospective method provided for under the standard.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers which clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards. The new standard is required to be adopted retrospectively for fiscal years beginning after December 15, 2017 and early adoption is permitted only for reporting periods beginning after December 31, 2016. We are in the process of evaluating the impact this standard may have, if any, on our reported results of operations or financial position.

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

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3. EARNINGS PER SHARE

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

	Three months ended	
	September 30	
In thousands, except per share	2016	2015
Net income	\$19,601	\$13,504
Weighted average common shares outstanding used in basic EPS	43,576	43,457
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	557	408
Weighted average common shares outstanding and common share equivalents used in diluted EPS	44,133	43,865
Earnings per share		
Basic	\$0.45	\$0.31
Diluted	0.44	0.31

	Nine months ended	
	September 30	
In thousands, except per share	2016	2015
Net income	\$37,734	\$30,277
Weighted average common shares outstanding used in basic EPS	43,552	43,363
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	507	586
Weighted average common shares outstanding and common share equivalents used in diluted EPS	44,059	43,949
Earnings per share		
Basic	\$0.87	\$0.70
Diluted	0.86	0.69

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

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	September 30	
In thousands	2016	2015
Three months ended	681	696
Nine months ended	683	696

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4. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months and nine months ended September 30, 2016 and 2015.

In thousands	Currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in pensions	Change in other postretirement defined benefit plans	Total
Balance at July 1, 2016	\$ (74,486)	\$ 785	\$(115,786)	\$ 3,204	\$(186,283)
Other comprehensive income					
before reclassifications (net of tax)	(1,530)	(1,195)	---	---	(2,725)
Amounts reclassified from accumulated					
other comprehensive income (net of tax)	—	337	2,464	(145)	2,656
Net current period other comprehensive					
income (loss)	(1,530)	(858)	2,464	(145)	(69)
Balance at September 30, 2016	\$ (76,016)	\$ (73)	\$(113,322)	\$ 3,059	\$(186,352)
Balance at July 1, 2015	\$ (58,857)	\$ 2,621	\$(114,076)	\$ (2,756)	\$(173,068)
Other comprehensive income					
before reclassifications (net of tax)	(3,262)	(1,381)	---	---	(4,643)
Amounts reclassified from accumulated					
other comprehensive income (net of tax)	—	(1,442)	3,090	(7)	1,641
Net current period other comprehensive					
income (loss)	(3,262)	(2,823)	3,090	(7)	(3,002)
Balance at September 30, 2015	\$ (62,119)	\$ (202)	\$(110,986)	\$ (2,763)	\$(176,070)

In thousands	Currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in pensions	Change in other postretirement defined benefit plans	Total
Balance at January 1, 2016	\$ (73,041)	\$ (225)	\$(120,714)	\$ 3,494	\$(190,486)
Other comprehensive income					
before reclassifications (net of tax)	(2,975)	(106)	---	---	(3,081)
Amounts reclassified from accumulated					
other comprehensive income (net of tax)	—	258	7,392	(435)	7,215
Net current period other comprehensive					
income (loss)	(2,975)	152	7,392	(435)	4,134

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income (loss)					
Balance at September 30, 2016	\$ (76,016)	\$ (73)	\$ (113,322)	\$ 3,059	\$(186,352)
Balance at January 1, 2015	\$ (34,224)	\$ 2,356	\$(120,260)	\$ (2,742)	\$(154,870)
Other comprehensive income					
before reclassifications (net of tax)	(27,895)	793	---	---	(27,102)
Amounts reclassified from accumulated					
other comprehensive income (net of tax)	—	(3,351)	9,274	(21)	5,902
Net current period other comprehensive					
income (loss)	(27,895)	(2,558)	9,274	(21)	(21,200)
Balance at September 30, 2015	\$ (62,119)	\$ (202)	\$(110,986)	\$ (2,763)	\$(176,070)

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Reclassifications out of accumulated other comprehensive income were as follows:

In thousands Description	Three months ended September 30		Nine months ended September 30		Line Item in Statements of Income
	2016	2015	2016	2015	
Cash flow hedges (Note 11)					
(Gains) losses on cash flow hedges	\$347	\$(1,972)	\$264	\$(4,595)	Costs of products sold
Tax expense (benefit)	(10)	530	(6)	1,244	Income tax provision
Net of tax	337	(1,442)	258	(3,351)	
Retirement plan obligations (Note 7)					
Amortization of deferred benefit pension plan items					
Prior service costs	506	571	1,519	1,713	Costs of products sold Selling, general and administrative
Actuarial losses	168	189	504	568	
	2,450	3,144	7,350	9,432	Costs of products sold Selling, general and administrative
	843	1,082	2,530	3,247	
	3,967	4,986	11,903	14,960	
Tax benefit	(1,503)	(1,896)	(4,511)	(5,686)	Income tax provision
Net of tax	2,464	3,090	7,392	9,274	
Amortization of deferred benefit other plan items					
Prior service costs	(37)	(58)	(112)	(173)	Costs of products sold Selling, general and administrative
Actuarial losses	(8)	(12)	(24)	(37)	
	(156)	48	(467)	142	Costs of products sold Selling, general and administrative
	(33)	10	(100)	31	
	(234)	(12)	(703)	(37)	
Tax expense	89	5	268	16	Income tax provision
Net of tax	(145)	(7)	(435)	(21)	
Total reclassifications, net of tax	\$2,656	\$1,641	\$7,215	\$5,902	

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5. INCOME TAXES

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

As of September 30, 2016 and December 31, 2015, we had \$15.2 million and \$12.2 million of gross unrecognized tax benefits. As of September 30, 2016, if such benefits were to be recognized, approximately \$12.2 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:

Jurisdiction	Open Tax Years	
	Examinations not yet initiated	Examination in progress
United States		
Federal	2013 - 2015	N/A
State	2011 - 2015	2014
Canada (1)	2010 - 2015	N/A
Germany (1)	2012 - 2015	2007 - 2011
France	2013 - 2015	2011 - 2012
United Kingdom	2014 - 2015	N/A
Philippines	2015	2013, 2014

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the lapse of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to \$1.8 million. Substantially all of this range relates to tax positions taken in 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:

In millions	Nine months ended	
	September 30, 2016	September 30, 2015

Interest expense \$ 0.2