GLATFELTER P H CO
Form 10-Q
August 02, 2016
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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 June 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)

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 x 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 x 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 x	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 x.

Common Stock outstanding on July 29, 2016 totaled 43,547,739 shares.

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P. H. GLATFELTER COMPANY AND

SUBSIDIARIES

REPORT ON FORM 10-Q

For the QUARTERLY PERIOD ENDED

June 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 June 30** **2016**	2015	**Six months ended June 30** **2016**	2015
Net sales	**$ 406,413**	$ 410,803	**$ 808,631**	$ 828,272
Energy and related sales, net	**2,001**	715	**2,667**	2,783
Total revenues	**408,414**	411,518	**811,298**	831,055
Costs of products sold	**365,691**	378,685	**710,732**	746,114
Gross profit	**42,723**	32,833	**100,566**	84,941
Selling, general and administrative expenses	**37,191**	29,137	**69,049**	60,409
(Gains) losses on dispositions of plant, equipment and timberlands, net	**2**	(111)	**26**	(2,765)
Operating income	**5,530**	3,807	**31,491**	27,297
Non-operating income (expense)				
Interest expense	**(3,953)**	(4,352)	**(8,069)**	(8,860)
Interest income	**61**	77	**152**	142
Other, net	**317**	215	**(383)**	28
Total non-operating expense	**(3,575)**	(4,060)	**(8,300)**	(8,690)
Income (loss) before income taxes	**1,955**	(253)	**23,191**	18,607
Income tax (benefit) provision	**(10)**	(3,101)	**5,058**	1,834
Net income	**$ 1,965**	$ 2,848	**$ 18,133**	$ 16,773
Earnings per share				
Basic	**$ 0.05**	$ 0.07	**$ 0.42**	$ 0.39
Diluted	**0.04**	0.06	**0.41**	0.38
Cash dividends declared per common share	**$ 0.125**	$ 0.12	**$ 0.25**	$ 0.24
Weighted average shares outstanding				
Basic	**43,558**	43,377	**43,539**	43,315
Diluted	**44,062**	44,032	**43,963**	43,992

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)

	Three months ended June 30		Six months ended June 30	
In thousands	**2016**	2015	**2016**	2015
Net income	**$ 1,965**	$ 2,848	**$ 18,133**	$ 16,773
Foreign currency translation adjustments	**(14,864)**	16,704	**(1,445)**	(24,633)
Net change in:				
Deferred gains on cash flow hedges, net of taxes of $(258), $956, $(201) and $(107), respectively	**944**	(2,501)	**1,010**	265
Unrecognized retirement obligations, net of taxes of $(1,442), $(1,769), $(2,809) and $(3,779), respectively	**2,381**	2,884	**4,638**	6,170
Other comprehensive income (loss)	**(11,539)**	17,087	**4,203**	(18,198)
Comprehensive income (loss)	**$ (9,574)**	$ 19,935	**$ 22,336**	$ (1,425)

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)

In thousands	**June 30 2016**	December 31 2015
Assets		
Cash and cash equivalents	**$ 58,532**	$ 105,304
Accounts receivable, net	**175,336**	167,199
Inventories	**257,623**	247,214
Prepaid expenses and other current assets	**33,094**	32,650
Total current assets	**524,585**	552,367
Plant, equipment and timberlands, net	**748,036**	698,864
Goodwill	**77,044**	76,056
Intangible assets	**61,625**	63,057
Other assets	**113,894**	110,072
Total assets	**$ 1,525,184**	$ 1,500,416
Liabilities and Shareholders Equity		
Current portion of long-term debt	**$ 9,098**	$ 7,366
Accounts payable	**169,869**	172,735
Dividends payable	**5,455**	5,231
Environmental liabilities	**11,361**	12,544
Other current liabilities	**115,610**	106,444
Total current liabilities	**311,393**	304,320
Long-term debt	**358,366**	353,296
Deferred income taxes	**75,155**	76,458
Other long-term liabilities	**104,047**	103,095
Total liabilities	**848,961**	837,169
Commitments and contingencies		
Shareholders equity		
Common stock	**544**	544
Capital in excess of par value	**54,530**	54,912
Retained earnings	**970,374**	963,143
Accumulated other comprehensive loss	**(186,283)**	(190,486)
	839,165	828,113
Less cost of common stock in treasury	**(162,942)**	(164,866)
Total shareholders equity	**676,223**	663,247

Total liabilities and shareholders equity	**$ 1,525,184**	$ 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	Six months ended June 30 **2016**	2015
Operating activities		
Net income	**$ 18,133**	$ 16,773
Adjustments to reconcile to net cash provided by operations:		
Depreciation, depletion and amortization	**33,411**	31,602
Amortization of debt issue costs	**574**	599
Pension expense, net of unfunded benefits paid	**1,964**	3,699
Deferred income tax (benefit) provision	**(2,672)**	2,501
Losses (gains) on dispositions of plant, equipment and timberlands, net	**26**	(2,765)
Share-based compensation	**2,803**	3,663
Change in operating assets and liabilities		
Accounts receivable	**(8,471)**	(20,783)
Inventories	**(12,295)**	(8,609)
Prepaid and other current assets	**(163)**	(1,678)
Accounts payable	**(3,027)**	(989)
Accruals and other current liabilities	**5,252**	2,735
Other	**1,105**	(1,235)
Net cash provided by operating activities	**36,640**	25,513
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	**(80,391)**	(44,575)
Proceeds from disposals of plant, equipment and timberlands, net	**53**	3,051
Other	**(300)**	(1,600)
Net cash used by investing activities	**(80,638)**	(43,124)
Financing activities		
Net repayments of revolving credit facility	**(11,403)**	
Payments of borrowing costs	**(136)**	(1,329)
Proceeds from term loans	**19,428**	
Repayment of term loans	**(3,803)**	(1,492)
Payments of dividends	**(10,679)**	(9,992)
Proceeds from government grants	**4,443**	
Payments related to share-based compensation awards and other	**(976)**	(2,000)
Net cash used by financing activities	**(3,126)**	(14,813)
Effect of exchange rate changes on cash	**352**	(1,651)
Net decrease in cash and cash equivalents	**(46,772)**	(34,075)

Cash and cash equivalents at the beginning of period	**105,304**	99,837
Cash and cash equivalents at the end of period	**$ 58,532**	$ 65,762
Supplemental cash flow information		
Cash paid for:		
Interest, net of amounts capitalized	**$ 7,509**	$ 8,281
Income taxes, net	**8,486**	10,234

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

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter) is a manufacturer of specialty papers and fiber-based engineered materials. Headquartered in York, PA, U.S. operations include facilities in 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. 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

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transition approach. We are currently assessing the impact this standard may have on our results of operations and financial position.

3. EARNINGS PER SHARE

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

	Three months ended June 30	
In thousands, except per share	**2016**	2015
Net income	**$ 1,965**	$ 2,848
Weighted average common shares outstanding used in basic EPS	**43,558**	43,377
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	**504**	655
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**44,062**	44,032
Earnings per share		
Basic	**$ 0.05**	$ 0.07
Diluted	**0.04**	0.06

	Six months ended June 30	
In thousands, except per share	**2016**	2015
Net income	**$ 18,133**	$ 16,773
Weighted average common shares outstanding used in basic EPS	**43,539**	43,315
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	**424**	677
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**43,963**	43,992
Earnings per share		
Basic	**$ 0.42**	$ 0.39
Diluted	**0.41**	0.38

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:

	June 30	
In thousands	**2016**	2015
Three months ended	**1,368**	687

Six months ended	**1,451**	687

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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 six months ended June 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 April 1, 2016	**$ (59,622)**	**$ (159)**	**$ (118,399)**	**$ 3,436**	**$ (174,744)**
Other comprehensive income before reclassifications (net of tax)	**(14,864)**	**837**			**(14,027)**
Amounts reclassified from accumulated other comprehensive income (net of tax)		**107**	**2,613**	**(232)**	**2,488**
Net current period other comprehensive income (loss)	**(14,864)**	**944**	**2,613**	**(232)**	**(11,539)**
Balance at June 30, 2016	**$ (74,486)**	**$ 785**	**$ (115,786)**	**$ 3,204**	**$ (186,283)**
Balance at April 1, 2015	$ (75,561)	$ 5,122	$ (116,994)	$ (2,722)	$ (190,155)
Other comprehensive income before reclassifications (net of tax)	16,704	(1,220)			15,484
Amounts reclassified from accumulated other comprehensive income (net of tax)		(1,281)	2,918	(34)	1,603
Net current period other comprehensive income (loss)	16,704	(2,501)	2,918	(34)	17,087
Balance at June 30, 2015	$ (58,857)	$ 2,621	$ (114,076)	$ (2,756)	$ (173,068)

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)	**(1,445)**	**1,089**			**(356)**
Amounts reclassified from accumulated other comprehensive income (net of tax)		**(79)**	**4,928**	**(290)**	**4,559**
Net current period other comprehensive income (loss)	**(1,445)**	**$ 1,010**	**4,928**	**(290)**	**4,203**

Balance at June 30, 2016	**$ (74,486)**	**$ 785**	**$ (115,786)**	**$ 3,204**	**$ (186,283)**
Balance at January 1, 2015	$ (34,224)	$ 2,356	$ (120,260)	$ (2,742)	$ (154,870)
Other comprehensive income before reclassifications (net of tax)	(24,633)	2,174			(22,459)
Amounts reclassified from accumulated other comprehensive income (net of tax)		(1,909)	6,184	(14)	4,261
Net current period other comprehensive income (loss)	(24,633)	265	6,184	(14)	(18,198)
Balance at June 30, 2015	$ (58,857)	$ 2,621	$ (114,076)	$ (2,756)	$ (173,068)

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Reclassifications out of accumulated other comprehensive income were as follows:

In thousands	Three months ended June 30 **2016**	2015	Six months ended June 30 **2016**	2015	
Description					**Line Item in Statements of Income**
Cash flow hedges (Note 12)					
(Gains) losses on cash flow hedges	**$ 215**	$ (1,750)	**$ (83)**	$ (2,623)	Costs of products sold
Tax expense (benefit)	**(108)**	469	**4**	714	Income tax provision
Net of tax	**107**	(1,281)	**(79)**	(1,909)	
Retirement plan obligations (Note 7)					
Amortization of deferred benefit pension plan items					
Prior service costs	**509**	574	**1,013**	1,142	Costs of products sold
	166	187	**336**	379	Selling, general and administrative
Actuarial losses	**2,618**	2,924	**4,900**	6,288	Costs of products sold
	915	1,023	**1,687**	2,165	Selling, general and administrative
	4,208	4,708	**7,936**	9,974	
Tax benefit	**(1,595)**	(1,790)	**(3,008)**	(3,790)	Income tax provision
Net of tax	**2,613**	2,918	**4,928**	6,184	
Amortization of deferred benefit other plan items					
Prior service costs	**(38)**	(57)	**(75)**	(115)	Costs of products sold
	(8)	(13)	**(16)**	(25)	Selling, general and administrative
Actuarial losses	**(269)**	12	**(311)**	94	Costs of products sold
	(58)	3	**(67)**	21	Selling, general and administrative
	(373)	(55)	**(469)**	(25)	
Tax expense	**141**	21	**179**	11	Income tax provision
Net of tax	**(232)**	(34)	**(290)**	(14)	
Total reclassifications, net of tax	**$ 2,488**	$ 1,603	**$ 4,559**	$ 4,261	

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 June 30, 2016 and December 31, 2015, we had $13.2 million and $12.2 million of gross unrecognized tax benefits. As of June 30, 2016, if such benefits were to be recognized, approximately $10.6 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

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

	Open Tax Years	
Jurisdiction	**Examinations not yet initiated**	**Examination in progress**
United States		
Federal	2013 - 2015	N/A
State	2011 - 2015	2011 - 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

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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 $1.7 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:

	Six months ended June 30	
In millions	**2016**	2015
Interest expense	**$ 0.2**	$
Penalties		

	June 30	December 31
	2016	2015
Accrued interest payable	**$ 0.8**	$ 0.6

6. 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, cumulative financial performance targets covering two or three year periods. 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 periods indicated:

Units	**2016**	2015
Balance at January 1,	**674,523**	888,942
Granted	**295,654**	152,531
Forfeited	**(143,209)**	(77,652)

Shares delivered	**(149,475)**	(283,627)
Balance at June 30,	**677,493**	680,194

The amount granted in 2016 and 2015 includes PSAs of 199,693 and 100,801, respectively, exclusive of reinvested dividends.

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

	June 30	
In thousands	**2016**	2015
Three months ended	**$ 935**	$ 453
Six months ended	**1,402**	820

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.

The following table sets forth information related to outstanding SOSARS.

	2016		2015	
SOSARS	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at January 1,	**2,199,742**	**$ 17.82**	1,864,707	$ 16.20
Granted	**743,925**	**17.54**	406,142	24.94
Exercised	**(53,190)**	**9.91**	(58,343)	13.52
Canceled / forfeited	**(108,945)**	**21.81**	(3,349)	26.53
Outstanding at June 30,	**2,781,532**	**$ 17.74**	2,209,157	$ 17.87
SOSAR Grants				
Weighted average grant date fair value per share	**$ 4.07**		$ 7.54	
Aggregate grant date fair value *(in thousands)*	**$ 3,013**		$ 3,063	
Black-Scholes assumptions				
Dividend yield	**2.85%**		1.92%	
Risk free rate of return	**1.34%**		1.64%	
Volatility	**31.97%**		36.48%	
Expected life	**6 yrs**		6 yrs	

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

	June 30	
In thousands	**2016**	2015
Three months ended	**$ 669**	$ 680
Six months ended	**1,401**	1,268

7. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

	Three months ended June 30	
In thousands	**2016**	2015
Pension Benefits		
Service cost	**$ 2,510**	$ 2,561
Interest cost	**6,153**	5,788
Expected return on plan assets	**(11,275)**	(11,454)
Amortization of prior service cost	**675**	761
Amortization of unrecognized loss	**3,533**	3,947
Net periodic benefit cost	**$ 1,596**	$ 1,603
Other Benefits		
Service cost	**$ 250**	$ 303
Interest cost	**456**	436
Amortization of prior service cost	**(46)**	(70)
Amortization of unrecognized (gain)/loss	**(327)**	15
Net periodic benefit cost	**$ 333**	$ 684

	Six months ended June 30	
In thousands	**2016**	2015
Pension Benefits		
Service cost	**$ 5,240**	$ 5,696
Interest cost	**12,240**	11,738
Expected return on plan assets	**(22,661)**	(22,997)
Amortization of prior service cost	**1,349**	1,521
Amortization of unrecognized loss	**6,587**	8,453
Net periodic benefit cost	**$ 2,755**	$ 4,411
Other Benefits		
Service cost	**$ 573**	$ 716
Interest cost	**996**	999
Amortization of prior service cost	**(91)**	(140)
Amortization of unrecognized (gain)/loss	**(378)**	115
Net periodic benefit cost	**$ 1,100**	$ 1,690

GLATFELTER

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8. INVENTORIES

Inventories, net of reserves, were as follows:

In thousands	**June 30 2016**	December 31 2015
Raw materials	**$ 62,881**	$ 60,098
In-process and finished	**122,322**	115,874
Supplies	**72,420**	71,242
Total	**$ 257,623**	$ 247,214

9. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	**June 30 2016**	December 31 2015
Revolving credit facility, due Mar. 2020	**$ 48,851**	$ 58,792
5.375% Notes, due Oct. 2020	**250,000**	250,000
2.40% Term Loan, due Jun. 2022	**9,516**	10,109
2.05% Term Loan, due Mar. 2023	**40,000**	42,130
1.30% Term Loan, due Jun. 2023	**11,102**	
1.55% Term Loan, due Sep. 2025	**10,884**	2,839
Total long-term debt	**370,353**	363,870
Less current portion	**(9,098)**	(7,366)
Unamortized deferred issuance costs	**(2,889)**	(3,208)
Long-term debt, net of current portion	**$ 358,366**	$ 353,296

The amount set forth for Long-term debt, net of current portion as of December 31, 2015, has been restated to retroactively adopt ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. This ASU requires debt issuance costs to be presented as a direct deduction from the carrying value of the related debt instrument rather than as a deferred asset except for costs associated with a revolving line of credit. We adopted this standard in the first quarter of 2016 retroactive to December 31, 2015.

On March 12, 2015, we amended our revolving credit agreement with a consortium of banks (the Revolving Credit Facility) which increased the amount available for borrowing to $400 million, extended the maturity of the facility to March 12, 2020, and instituted a revised interest rate pricing grid.

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

The Revolving Credit Facility contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios including: i) maximum net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio (the leverage ratio); and ii) a consolidated EBITDA to interest expense ratio. The most restrictive of our covenants is a maximum leverage ratio of 3.5x. As of June 30, 2016, the leverage ratio, as calculated in accordance with the definition in our credit agreement, was 1.9x. A breach of these requirements would give rise to certain remedies under the Revolving Credit Facility, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

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

The 5.375% Notes are redeemable, in whole or in part, at 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.

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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 June 30, 2016, we met all of the requirements of our debt covenants.

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

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

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

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

Letters of credit issued to us by certain financial institutions totaled $5.1 million and $5.3 million as of June 30, 2016 and December 31, 2015, respectively. 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.

10. 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 has been substantially completed primarily 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 condensed 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 six months of 2016 and 2015:

In thousands	**2016**	2015
Balance at January 1,	**$ 419**	$ 4,114
Accretion		59
Payments	**(16)**	(1,905)
Downward revision		(1,000)
Gain	**(2)**	(286)
Balance at June 30,	**$ 401**	$ 982

The amount set forth above as of June 30, 2016, is recorded in other current liabilities in the accompanying condensed consolidated balance sheet.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	June 30, 2016		December 31, 2015	
In thousands	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable rate debt	**$ 48,851**	**$ 48,851**	$ 58,792	$ 58,792
Fixed-rate bonds	**250,000**	**255,625**	250,000	250,938
2.40% Term loan	**9,516**	**9,406**	10,109	10,535
2.05% Term loan	**40,000**	**38,724**	42,130	42,886
1.30% Term Loan	**11,102**	**10,403**		
1.55% Term loan	**10,884**	**9,554**	2,839	2,524
Total	**$ 370,353**	**$ 372,563**	$ 363,870	$ 365,675

As of June 30, 2016, and December 31, 2015, we had $250.0 million of 5.375% fixed rate bonds. These bonds

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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 12.

12. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

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

Derivatives Designated as Hedging Instruments - Cash Flow Hedges We use currency forward contracts as cash flow hedges to manage our exposure to fluctuations in the currency exchange rates on certain forecasted production costs or capital expenditures expected to be incurred. Currency forward contracts involve fixing the exchange for delivery of a specified amount of foreign currency on a specified date. As of June 30, 2016, the maturity of currency forward contracts ranged from one month to 25 months.

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

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

In thousands	**June 30 2016**	December 31 2015
Derivative		
Sell/Buy - sell notional		
Euro / British Pound	**9,237**	10,527
Sell/Buy - buy notional		
Euro / Philippine Peso	**670,402**	758,634
British Pound / Philippine Peso	**486,437**	542,063
Euro / U.S. Dollar	**48,574**	51,433
U.S. Dollar / Canadian Dollar	**33,839**	34,649
U.S. Dollar / Euro	**20,202**	

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.

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

In thousands	**June 30 2016**	December 31 2015
Derivative		
Sell/Buy - sell notional		
U.S. Dollar / British Pound	**10,500**	10,000
British Pound / Euro	**2,500**	3,500
Sell/Buy - buy notional		
Euro / U.S. Dollar	**3,500**	12,500
British Pound / Euro	**19,000**	13,500

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

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

In thousands	**June 30 2016**	December 31 2015	**June 30 2016**	December 31 2015
Balance sheet caption	Prepaid Expenses and Other Current Assets		Other Current Liabilities	
Designated as hedging:				
Forward foreign currency exchange contracts	**$ 915**	$ 955	**$ 15**	$ 1,545
Not designated as hedging:				
Forward foreign currency exchange contracts	**$ 124**	$ 68	**$**	$ 49

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

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

	Three months ended June 30		Six months ended June 30	
In thousands	**2016**	2015	**2016**	2015

Designated as hedging:				
Forward foreign currency exchange contracts:				
Effective portion cost of products sold	**$ (215)**	$ 1,750	**$ 83**	$ 2,623
Ineffective portion other net	**73**	(62)	**(330)**	288
***Not designated as hedging*:**				
Forward foreign currency exchange contracts:				
Other net	**$ 475**	$ (313)	**$ 1,064**	$ 407

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

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

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

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

In thousands	**2016**	2015
Balance at January 1,	**$ (178)**	$ 3,282
Deferred gains on cash flow hedges	**1,294**	2,995
Reclassified to earnings	**(83)**	(2,623)
Balance at June 30,	**$ 1,033**	$ 3,654

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

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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.

13. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River - Neenah, Wisconsin

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

The United States notified the following parties (PRPs) of their potential responsibility to implement response actions, to pay response costs, and to compensate for NRDs at this site: us, Appvion, Inc. (formerly known as Appleton Papers Inc.), CBC Coating, Inc. (formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (Georgia-Pacific , formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation (NCR), U.S. Paper Mills Corp., and WTM I Company. As described below, many other parties have been joined in litigation. After giving effect to settlements reached with the Governments, the remaining PRPs exposed to continuing obligations to implement the remainder of the cleanup consist of us, Georgia-Pacific and NCR.

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

The United States Environmental Protection Agency (EPA) has divided the Site into five operable units ,

including the most upstream portion of the Site on which our facility was located (OU1) and four downstream reaches of the river and bay (OU2-5).

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

For OU2-5, work has proceeded primarily under a Unilateral Administrative Order (UAO) issued in November 2007 by the EPA to us and seven other respondents. The remedial actions from 2007 through 2014 were funded primarily by NCR and its indemnitors, including Appvion, Inc. In 2015, we placed certain covering and capping in OU4b as a response to the Government s demands at a cost of $9.7 million. Georgia Pacific and NCR funded work in 2015 pursuant to a proposed consent decree that the United States did not move to enter until April 12, 2016; the court has not yet ruled on that motion. Work is scheduled to continue in OU2-5 through 2018, with monitoring and maintenance to follow.

As more fully discussed below, significant uncertainties exist pertaining to the ultimate allocation of OU2-5 remediation costs as well as the shorter term funding of the remedial actions for OU2-5.

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. On October 14, 2014, the Governments represented to the United States District Court in Green Bay that $1.1 billion provided an upper end estimate of total past and future response costs including a $100 million uncertainty premium for future response costs. 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. Much of that amount has already been incurred, including approximately $100 million for OU1 and what we believe to be approximately $575 million for OU2-5 prior to the 2016 remediation season.

In 2016, the Governments again seek approximately $100 million of work to be completed in OU2-5. The exact work and a more precise estimate of its cost depend on certain unresolved technical issues. We have begun an effort to place the final layer on certain caps. We do not yet know to what extent we will undertake additional work in 2016; however, we expect to spend less than $10 million.

As the result of a partial settlement, Georgia-Pacific has no obligation to pay for work upstream of a line near Georgia-Pacific s Green Bay West Mill located in OU4. We believe substantially all in-water work upstream of this line had been completed as of the end of the 2014 dredging season.

Allocation Litigation. In January 2008, NCR and Appvion brought an action in the federal district court in Green Bay to allocate among all parties responsible for this Site all of the costs incurred by the Governments, all of the costs incurred by the parties, and all of the NRDs owed to the Natural Resource Trustees. We have previously referred to this case as the Whiting Litigation. After several summary judgment rulings and a trial, the trial court entered judgment in the Whiting Litigation allocating to NCR 100% of the costs of (a) the OU2-5 cleanup, (b) NRDs, (c) past and future costs incurred by the Governments in OU2-5, and (d) past and future costs incurred by any of the other parties net of an appropriate equitable adjustment for insurance recoveries. As to Glatfelter, NCR was judged liable to us for $4.28 million and any future costs or damages we may incur. NCR was held not responsible for costs incurred in OU1.

All parties appealed the Whiting Litigation judgment to the United States Court of Appeals for the Seventh Circuit. On September 25, 2014, that court affirmed, holding that if knowledge and fault were the only equitable factors governing allocation of costs and NRDs at the Site, NCR would owe 100% of all costs and damages in OU2-5, but would not have a share of costs in OU1 which is upstream of the outfall of the facilities for which NCR is responsible solely as an arranger for disposal of PCB-containing waste paper by recycling it at our mill. However, the court of appeals vacated the judgment and remanded the case for the district court s further consideration of whether any other equitable factors might cause the district court to alter its allocation.

We contend the district court should, after further consideration, reinstate the 100%, or some similar very high, allocation to NCR of all the costs, and should hold that we should bear no share or a very small share. However, NCR has taken a contrary position and has sought contributions from others for future work until all allocation issues are resolved.

In addition, we take the position that the single site theory on which the courts held us responsible for cleaning up parts of the Site far downstream of our former mill should, if applied to NCR, make it liable for costs incurred in OU1. The district court agreed with us in an order dated March 3, 2015. On March 31, 2015, NCR sought review of that order by the court of appeals which review was denied on May 1, 2015.

Appvion and NCR have had a cost-sharing agreement since at least 1998. The court of appeals held if Appvion incurred any recoverable costs because the Governments had named Appvion as a potentially responsible party, then Appvion may have a right to recover those costs under CERCLA. We and Appvion disagree over the proper treatment of amounts that Appvion incurred while a PRP that were also subject to a cost-sharing agreement with NCR; we contend Appvion may not recover costs it was contractually obligated to incur, that it has no other costs, and if it did, we would have a right to contribution of any recovery against NCR and others. However, Appvion takes a contrary position and claims approximately $200 million.

The district court has established a schedule for the Whiting Litigation under which it would hold a trial beginning in March 2017 on remaining issues.

Enforcement Litigation. In October 2010, the United States and the State of Wisconsin brought an action (Government Action) in the federal district court in Green Bay against us and 13 other defendants seeking (a) to recover all of the United States and the State of Wisconsin s unreimbursed past costs, (b) to obtain a declaration of joint and several liability for all of their future costs, (c) to recover NRDs, and (d) to obtain a declaration of liability of all of the respondents on the UAO to perform the remedy in OU2-5 as required by the UAO and a mandatory permanent injunction to the same effect. The last of these claims was tried in 2012, and in May 2013, the district court enjoined us, NCR, WTM I, and Menasha Corp. to perform the work under the UAO. As the result of partial settlements, U.S. Paper Mills Corp. and Georgia-Pacific Consumer Products L.P. agreed to joint and several liability for some of the work. Appvion was held not liable for this Site under CERCLA.

All other potentially responsible parties, including the United States and the State of Wisconsin, have settled with the Governments. As a result, the remaining defendants consist of us, NCR, and Georgia-Pacific.

We appealed the injunction to the United States Court of Appeals for the Seventh Circuit, as did NCR, WTM I, and Menasha. On September 25, 2014, the court of appeals decided our and NCR s appeals; the others appeals were not decided because they entered into a settlement. The court of appeals vacated the injunction as to us and NCR. However, it affirmed the district court s ruling that we are liable for response actions in OU2-5 and for complying with the UAO. The court of appeals vacated and remanded the district court s decision that NCR had failed to prove that liability for OU2-5 could be apportioned, directing the lower court to consider issues it had not considered initially.

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On remand, the district court issued an opinion on October 19, 2015, holding that NCR had not shown a reasonable basis for apportionment of its liability for the site. On January 25, 2016, the court denied NCR s request to certify that decision for immediate appeal.

As described below, the United States has withdrawn its natural resources damages claim against us. The Governments remaining claims principally consist of claims for (1) unreimbursed past costs of the United States totaling $35.1 million (as incurred through September 30, 2015) and unreimbursed past costs of the Wisconsin Department of Natural Resources totaling $3.9 million (as incurred through June 30, 2015), and (2) costs incurred and/or to be incurred after September 30, 2015 and June 30, 2015, respectively. The remaining issues in the Government Action are set for trial to commence after the conclusion of the 2017 trial in the Whiting Litigation.

Interim Funding of Ongoing Work. As described above, the court of appeals vacated the allocation judgment in the Whiting Litigation on September 25, 2014, but neither court has since replaced that allocation with any other. The 2007 UAO requires the PRPs to submit annual remediation work plans. For 2015, the EPA approved the 2015 Work Plan for $100 million of remediation activities. NCR, GP, and we were not able to reach agreement on a division of the costs of that work on an interim basis, subject to reallocation in the Whiting Litigation. NCR and GP entered into a proposed consent decree with the United States under which they agreed to fund certain work estimated to cost approximately $67 million in 2015, and they would not be responsible for completing the remainder of the work in 2015, estimated to cost approximately $33 million. However, NCR and GP did not complete all of the work assigned to them under the consent decree. The United States did not move to enter that consent decree until April 12, 2016, and the court has not yet ruled on that motion. Through the issuance of the 2015 Work Plan the EPA assigned to us those remaining tasks. Under the proposed consent decree, all parties would remain jointly and severally liable for work in the 2015 Work Plan not completed in 2015, except for a small amount of work upstream of the area for which GP is responsible. We contracted for remediation work in OU4 at a total cost of $9.7 million, an amount of work less than the amount assigned to us in the 2015 Work Plan. We anticipate that the amount of work performed by us in 2015 satisfied our share of the obligation if NCR and GP perform the work assigned to them in the 2015 Work Plan. The United States disagrees. We cannot predict the outcome of these disagreements or any possible resulting litigation.

The 2016 Work Plan similarly calls for completion of work that is estimated to cost in the range of $100 million. However, unlike the 2015 Work Plan, it does not allocate

the work among NCR, GP, and us. The parties have again not come to agreement on an interim allocation among them of responsibility for completing the work called for by the 2016 Work Plan. NCR and GP have begun certain work. We have begun placement of certain capping material.

Because we may not be able to obtain an agreement with the other parties or a ruling in litigation defining our obligation to contribute to work in 2016 prior to the time that work would have to be implemented, it is conceivable that we may have to choose an amount of work that we believe satisfies any obligation we may have to complete work in 2016, which selection we will have to defend after the fact. We expect to spend less than $10 million in connection with the 2016 Work Plan. In addition, it is conceivable we may be in the same position with respect to work in OU2-5 beyond the 2016 season. Although we are unable to determine with any degree of certainty the amount we may be required to complete or to fund, those amounts could be significant. Any amounts we pay or any other party pays in the interim may be subject to reallocation when the Whiting Litigation is resolved.

NRDs. The Governments NRD assessment documents originally claimed we are jointly and severally responsible for NRDs with a value between $176 million and $333 million. The Governments claimed this range should be inflated to current dollars and then certain unreimbursed past assessment costs should be added, so the range of their claim was

$287 million to $423 million in 2009.

However, on October 14, 2014, the Governments represented to the district court that if certain settlements providing $45.9 million toward compensation of NRDs were approved, the total NRD recovery would amount to $105 million. The Governments stated they would consider those recoveries adequate and they would withdraw their claims against us and NCR for additional compensation of NRDs. On October 19, 2015, the district court granted the Governments leave to withdraw their NRD claims against us without prejudice to re-filing them at some later time. Some of the settling parties, including all of the settling parties contributing the $45.9 million, have waived their rights to seek contribution from us of the settlement amounts. We previously paid a portion of the earlier settlements that the Governments value at $59 million and that we contend may be somewhat more.

Reserves for the Site. Our reserve including ongoing monitoring obligations in OU1, our share of remediation of the downstream portions of the Site, NRDs and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination is set forth below:

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In thousands	Six months ended June 30 2016	2015
Balance at January 1,	**$ 17,105**	$ 16,223
Payments	**(1,189)**	(21)
Accruals		
Balance at June 30,	**$ 15,916**	$ 16,202

The payments set forth above represent cash paid towards completion of remediation activities in connection with the 2015 and 2016 Work Plans. Our reserve as of June 30, 2016, includes our estimate of costs to be incurred for remediation work, pending clarity from the Whiting litigation. If we are unsuccessful in the allocation litigation or in the enforcement litigation described above, we may be required to record additional charges and such charges could be significant.

Of our total reserve for the Fox River, $11.4 million is recorded in the accompanying June 30, 2016 condensed consolidated balance sheet under the caption Environmental liabilities and the remainder is recorded under the caption Other long term liabilities.

As described above, the appellate court vacated and remanded for reconsideration the district court s ruling in the Whiting Litigation that NCR would bear 100% of costs for the downstream portion of the Site. We continue to believe we will not be allocated a significant share of liability in any final equitable allocation of the response costs for OU2-5 or for NRDs. The accompanying condensed consolidated financial statements do not include reserves for any future defense costs, which could be significant, related to our involvement at the Site.

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 original determination in the Whiting Litigation that NCR owes us full contribution for response costs and for NRDs that we may become obligated to pay except in OU1. We assume we will not bear the entire cost of remediation or damages to the exclusion of other known parties at the Site, who are also jointly and severally liable. The existence and ability of other parties to participate has also been taken into account in setting our reserve, and setting our reserve 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, we have considered 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 associated with the Site.

Other Information. The Governments have published studies estimating the amount of PCBs discharged by each identified potentially responsible party 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 has found the discharge mass estimates used in these studies not to be accurate. We believe the Neenah mill s absolute and relative contribution of PCB mass is significantly lower than the estimates set forth in these studies. The district court in the Government Action has found that the Neenah mill discharged an unknown amount of PCBs.

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 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 other factors, such as a party s role in causing costs, the location of discharge, and the location of contamination must be considered in order for the allocation to be equitable.

Range of Reasonably Possible Outcomes. Based on our analysis of all available information, including but not limited to decisions of the courts, official documents such as records of decision, as well as discussions with legal counsel and cost estimates for work to be performed at the Site, and substantially dependent on the resolution of the allocation issues discussed above, we believe it is reasonably possible that our costs associated with the Fox River matter could exceed the aggregate amounts accrued for the Fox River matter by amounts ranging from insignificant to $190 million. We believe the likelihood of an outcome in the upper end of the monetary range is less than other possible outcomes within the range and the possibility of an outcome in excess of the upper end of the monetary range is remote.

We expect remediation costs to be incurred primarily over the next two to three years, although we are unable to determine with any degree of certainty the amount we may be required to fund for interim remediation work. To the extent we provide such interim funding, we contend that NCR or another party would be required to reimburse us once the final allocation is determined.

Summary. Our current assessment is we will be able to manage this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on

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our consolidated financial position, liquidity and/or results of operations or could result in a default under our debt covenants. Moreover, there can be no assurance our reserves will be adequate to provide for future obligations related to this matter, or our share of costs and/or damages will not exceed our available resources, or those obligations will not have a 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 requiring us

individually either to perform directly or to contribute significant amounts towards remedial action downstream of Little Lake Butte des Morts 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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14. SEGMENT INFORMATION

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

Three months ended June 30 *Dollars in millions*	Composite Fibers		Advanced Airlaid Materials		Specialty Papers		Other and Unallocated		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net sales	**$ 136.4**	$ 140.4	**$ 60.8**	$ 57.5	**$ 209.3**	$ 212.9	**$**	$	**$ 406.4**	$ 410.8
Energy and related sales, net					**2.0**	0.7			**2.0**	0.7
Total revenue	**136.4**	140.4	**60.8**	57.5	**211.3**	213.6			**408.4**	411.5
Cost of products sold	**109.0**	112.4	**51.8**	52.3	**202.9**	211.9	**2.0**	2.1	**365.7**	378.7
Gross profit (loss)	**27.4**	28.0	**9.0**	5.2	**8.4**	1.7	**(2.0)**	(2.1)	**42.7**	32.8
SG&A	**12.1**	11.3	**2.2**	2.1	**14.2**	11.7	**8.7**	4.0	**37.2**	29.1
Gains on dispositions of plant, equipment and timberlands, net								(0.1)		(0.1)
Total operating income (loss)	**15.3**	16.7	**6.8**	3.1	**(5.8)**	(10.0)	**(10.7)**	(6.0)	**5.5**	3.8
Non-operating expense							**(3.6)**	(4.1)	**(3.6)**	(4.1)
Income (loss) before income taxes	**$ 15.3**	$ 16.7	**$ 6.8**	$ 3.1	**$ (5.8)**	$ (10.0)	**$ (14.3)**	$ (10.1)	**$ 2.0**	$ (0.3)
Supplementary Data										
Net tons sold *(thousands)*	**40.7**	39.4	**24.4**	22.6	**194.7**	191.3			**259.7**	253.3
Depreciation, depletion and amortization	**$ 7.2**	$ 6.7	**$ 2.4**	$ 2.1	**$ 6.5**	$ 6.3	**$ 0.7**	$ 0.5	**$ 16.8**	$ 15.6
Capital expenditures	**2.3**	5.6	**6.1**	1.5	**28.7**	15.6		0.1	**37.1**	22.8

Six months ended June 30 *Dollars in millions*	Composite Fibers		Advanced Airlaid Materials		Specialty Papers		Other and Unallocated		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net sales	**$ 259.9**	$ 275.7	**$ 121.5**	$ 119.8	**$ 427.2**	$ 432.8	**$**	$	**$ 808.6**	$ 828.3
Energy and related sales, net					**2.7**	2.8			**2.7**	2.8
Total revenue	**259.9**	275.7	**121.5**	119.8	**429.9**	435.6			**811.3**	831.1
Cost of products sold	**210.3**	221.5	**104.1**	107.3	**394.0**	412.3	**2.3**	5.0	**710.7**	746.1
Gross profit (loss)	**49.6**	54.2	**17.4**	12.5	**35.9**	23.3	**(2.3)**	(5.0)	**100.6**	84.9
SG&A	**23.2**	22.9	**4.2**	4.0	**26.6**	23.9	**15.0**	9.5	**69.0**	60.4
Gains on dispositions of plant, equipment and timberlands, net								(2.8)		(2.8)
Total operating income (loss)	**26.4**	31.3	**13.2**	8.5	**9.3**	(0.6)	**(17.3)**	(11.7)	**31.5**	27.3

Non-operating expense							**(8.3)**	(8.7)	**(8.3)**	(8.7)
Income (loss) before income taxes	**$ 26.4**	$ 31.3	**$ 13.2**	$ 8.5	**$ 9.3**	$ (0.6)	**$ (25.6)**	$ (20.4)	**$ 23.2**	$ 18.6
Supplementary Data										
Net tons sold *(thousands)*	**77.6**	77.3	**48.9**	46.7	**400.5**	390.0			**527.0**	514.0
Depreciation, depletion and amortization	**$ 14.3**	$ 13.4	**$ 4.7**	$ 4.3	**$ 13.2**	$ 12.9	**$ 1.2**	$ 1.0	**$ 33.4**	$ 31.6
Capital expenditures	**8.6**	11.5	**20.7**	2.8	**50.8**	28.8	**0.3**	1.5	**80.4**	44.6

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 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. In the evaluation of business unit results, management does not use any measures of total assets. 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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15. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Our 5.375% Notes issued by P. H. Glatfelter Company (the Parent) 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., Glatfelter Composite Fibers N. A., Inc. (CFNA), Glatfelter Advance Materials N.A., Inc. (GAMNA), 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 and the First Supplemental Indenture dated as of October 27, 2015, 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 and six months ended June 30, 2016, our condensed consolidating cash flows for the six months ended June 30, 2016 and 2015 and our condensed consolidating balance sheets as of June 30, 2016 and December 31, 2015. The condensed consolidating financial statements set forth below include the addition of CFNA and GAMNA as guarantors during 2015.

Condensed Consolidating Statement of Income for the Three months ended June 30, 2016

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	**$ 209,269**	**$ 17,561**	**$ 196,675**	**$ (17,092)**	**$ 406,413**
Energy and related sales, net	**2,001**				**2,001**
Total revenues	**211,270**	**17,561**	**196,675**	**(17,092)**	**408,414**
Costs of products sold	**204,495**	**16,711**	**161,577**	**(17,092)**	**365,691**
Gross profit	**6,775**	**850**	**35,098**		**42,723**
Selling, general and administrative expenses	**22,622**	**(36)**	**14,605**		**37,191**
Loss on dispositions of plant, equipment and timberlands, net	**2**				**2**
Operating income (loss)	**(15,849)**	**886**	**20,493**		**5,530**
Other non-operating income (expense)					
Interest expense	**(4,289)**		**(814)**	**1,150**	**(3,953)**
Interest income	**169**	**1,001**	**41**	**(1,150)**	**61**
Equity in earnings of subsidiaries	**16,385**	**16,071**		**(32,456)**	
Other, net	**(575)**	**(1,421)**	**2,313**		**317**
Total other non-operating income (expense)	**11,690**	**15,651**	**1,540**	**(32,456)**	**(3,575)**
Income (loss) before income taxes	**(4,159)**	**16,537**	**22,033**	**(32,456)**	**1,955**
Income tax provision (benefit)	**(6,124)**	**152**	**5,962**		**(10)**
Net income	**1,965**	**16,385**	**16,071**	**(32,456)**	**1,965**
Other comprehensive income (loss)	**(11,539)**	**(13,937)**	**(13,490)**	**27,427**	**(11,539)**

Comprehensive income (loss)	**$**	**(9,574)**	**$**	**2,448**	**$**	**2,581**	**$**	**(5,029)**	**$**	**(9,574)**

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Condensed Consolidating Statement of Income for the Six months ended June 30, 2016

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$ 427,157	$ 36,207	$ 381,141	$ (35,874)	$ 808,631
Energy and related sales, net	2,667				2,667
Total revenues	429,824	36,207	381,141	(35,874)	811,298
Costs of products sold	396,454	34,761	315,391	(35,874)	710,732
Gross profit	33,370	1,446	65,750		100,566
Selling, general and administrative expenses	41,067	(221)	28,203		69,049
Loss on dispositions of plant, equipment and timberlands, net	4		22		26
Operating income (loss)	(7,701)	1,667	37,525		31,491
Other non-operating income (expense)					
Interest expense	(8,704)		(1,601)	2,236	(8,069)
Interest income	350	1,993	45	(2,236)	152
Equity in earnings of subsidiaries	29,257	27,825		(57,082)	
Other, net	(1,117)	(1,401)	2,135		(383)
Total other non-operating income (expense)	19,786	28,417	579	(57,082)	(8,300)
Income before income taxes	12,085	30,084	38,104	(57,082)	23,191
Income tax provision (benefit)	(6,048)	827	10,279		5,058
Net income	18,133	29,257	27,825	(57,082)	18,133
Other comprehensive income (loss)	4,203	(384)	(373)	757	4,203
Comprehensive income	$ 22,336	$ 28,873	$ 27,452	$ (56,325)	$ 22,336

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Condensed Consolidating Statement of Income for the Three months ended June 30, 2015

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$ 212,920	$ 22,667	$ 194,779	$ (19,563)	$ 410,803
Energy and related sales, net	715				715
Total revenues	213,635	22,667	194,779	(19,563)	411,518
Costs of products sold	212,472	21,921	163,855	(19,563)	378,685
Gross profit	1,163	746	30,924		32,833
Selling, general and administrative expenses	15,661	458	13,018		29,137
Loss on dispositions of plant, equipment and timberlands, net	(51)		(60)		(111)
Operating income (loss)	(14,447)	288	17,966		3,807
Other non-operating income (expense)					
Interest expense	(4,608)		(6,370)	6,626	(4,352)
Interest income	169	6,498	36	(6,625)	77
Equity in earnings of subsidiaries	17,478	11,305		(28,783)	
Other, net	(746)	(29)	990		215
Total other non-operating income (expense)	12,293	17,774	(5,344)	(28,782)	(4,060)
Income (loss) before income taxes	(2,154)	18,062	12,622	(28,782)	(253)
Income tax provision (benefit)	(5,002)	584	1,317		(3,101)
Net income	2,848	17,478	11,305	(28,782)	2,848
Other comprehensive income (loss)	17,087	13,680	(9,958)	(3,722)	17,087
Comprehensive income	$ 19,935	$ 31,158	$ 1,347	$ (32,504)	$ 19,935

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Condensed Consolidating Statement of Income for the Six months ended June 30, 2015

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$ 432,796	$ 42,817	$ 392,877	$ (40,218)	$ 828,272
Energy and related sales, net	2,783				2,783
Total revenues	435,579	42,817	392,877	(40,218)	831,055
Costs of products sold	416,154	41,255	328,923	(40,218)	746,114
Gross profit	19,425	1,562	63,954		84,941
Selling, general and administrative expenses	32,843	955	26,611		60,409
Gains on dispositions of plant, equipment and timberlands, net	(1,522)	(1,183)	(60)		(2,765)
Operating income (loss)	(11,896)	1,790	37,403		27,297
Other non-operating income (expense)					
Interest expense	(9,425)		(12,764)	13,329	(8,860)
Interest income	331	13,097	41	(13,327)	142
Equity in earnings of subsidiaries	34,562	21,499		(56,061)	
Other, net	(1,460)	(159)	1,649	(2)	28
Total other non-operating income (expense)	24,008	34,437	(11,074)	(56,061)	(8,690)
Income before income taxes	12,112	36,227	26,329	(56,061)	18,607
Income tax provision (benefit)	(4,661)	1,665	4,830		1,834
Net income	16,773	34,562	21,499	(56,061)	16,773
Other comprehensive income (loss)	(18,198)	(24,870)	28,890	(4,020)	(18,198)
Comprehensive income (loss)	$ (1,425)	$ 9,692	$ 50,389	$ (60,081)	$ (1,425)

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Condensed Consolidating Balance Sheet as of June 30, 2016

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Cash and cash equivalents	**$ 6,512**	**$ 2,545**	**$ 49,475**	**$**	**$ 58,532**
Other current assets	**207,168**	**255,574**	**266,025**	**(262,714)**	**466,053**
Plant, equipment and timberlands, net	**329,041**	**18,507**	**400,488**		**748,036**
Investments in subsidiaries	**783,479**	**535,117**		**(1,318,596)**	
Other assets	**112,876**		**139,687**		**252,563**
Total assets	**$ 1,439,076**	**$ 811,743**	**$ 855,675**	**$ (1,581,310)**	**$ 1,525,184**
Liabilities and Shareholders Equity					
Current liabilities	**$ 401,540**	**$ 28,180**	**$ 144,387**	**$ (262,714)**	**$ 311,393**
Long-term debt	**247,381**		**110,985**		**358,366**
Deferred income taxes	**26,905**	**(229)**	**48,479**		**75,155**
Other long-term liabilities	**87,027**	**313**	**16,707**		**104,047**
Total liabilities	**762,853**	**28,264**	**320,558**	**(262,714)**	**848,961**
Shareholders equity	**676,223**	**783,479**	**535,117**	**(1,318,596)**	**676,223**
Total liabilities and shareholders equity	**$ 1,439,076**	**$ 811,743**	**$ 855,675**	**$ (1,581,310)**	**$ 1,525,184**

Condensed Consolidating Balance Sheet as of December 31, 2015

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 59,130	$ 465	$ 45,709	$	$ 105,304
Other current assets	199,690	238,515	239,367	(230,509)	447,063
Plant, equipment and timberlands, net	286,334	1,114	411,416		698,864
Investments in subsidiaries	737,450	507,116		(1,244,566)	
Other assets	106,586		142,599		249,185
Total assets	$ 1,389,190	$ 747,210	$ 839,091	$ (1,475,075)	$ 1,500,416
Liabilities and Shareholders Equity					
Current liabilities	$ 363,037	$ 9,725	$ 162,081	$ (230,523)	$ 304,320
Long-term debt	247,075		106,221		353,296
Deferred income taxes	28,561	(79)	47,976		76,458
Other long-term liabilities	87,270		15,825		103,095
Total liabilities	725,943	9,646	332,103	(230,523)	837,169

Shareholders equity	663,247	737,564	506,988	(1,244,552)	663,247
Total liabilities and shareholders equity	$ 1,389,190	$ 747,210	$ 839,091	$ (1,475,075)	$ 1,500,416

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Condensed Consolidating Statement of Cash Flows for the Six months ended June 30, 2016

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	$ 17,067	$ 2,821	$ 16,752	$	$ 36,640
Investing activities					
Expenditures for purchases of plant, equipment and timberlands	(51,043)	(18,861)	(10,487)		(80,391)
Proceeds from disposals of plant, equipment and timberlands, net	41		12		53
Repayments from intercompany loans		7,500		(7,500)	
Advances of intercompany loans		(7,880)		7,880	
Intercompany capital contributed	(17,000)	(500)		17,500	
Other	(300)				(300)
Total investing activities	(68,302)	(19,741)	(10,475)	17,880	(80,638)
Financing activities					
Net long-term borrowings			4,222		4,222
Payments of borrowing costs	(51)		(85)		(136)
Payment of dividends to shareholders	(10,679)				(10,679)
Repayments of intercompany loans			(7,500)	7,500	
Borrowings of intercompany loans	7,880			(7,880)	
Intercompany capital (returned) received		17,000	500	(17,500)	
Proceeds from government grants	2,443	2,000			4,443
Payments related to share-based compensation awards and other	(976)				(976)
Total financing activities	(1,383)	19,000	(2,863)	(17,880)	(3,126)
Effect of exchange rate on cash			352		352
Net increase (decrease) in cash	(52,618)	2,080	3,766		(46,772)
Cash at the beginning of period	59,130	465	45,709		105,304
Cash at the end of period	$ 6,512	$ 2,545	$ 49,475	$	$ 58,532

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Condensed Consolidating Statement of Cash Flows for the Six months ended June 30, 2015

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	$ (4,343)	$ (695)	$ 30,551	$	$ 25,513
Investing activities					
Expenditures for purchases of plant, equipment and timberlands	(30,241)		(14,334)		(44,575)
Proceeds from disposals of plant, equipment and timberlands, net	1,581	1,213	257		3,051
Repayments from intercompany loans		48,855		(48,855)	
Advances of intercompany loans		(38,690)		38,690	
Intercompany capital (contributed) returned	10,500	(300)		(10,200)	
Other	(1,600)				(1,600)
Total investing activities	(19,760)	11,078	(14,077)	(20,365)	(43,124)
Financing activities					
Net repayments of indebtedness			(1,492)		(1,492)
Payments of borrowing costs	(1,329)				(1,329)
Payment of dividends to shareholders	(9,992)				(9,992)
Repayments of intercompany loans	(9,158)		(39,697)	48,855	
Borrowings of intercompany loans	38,690			(38,690)	
Intercompany capital (returned) received		(10,500)	300	10,200	
Payments related to share-based compensation awards and other	(2,000)				(2,000)
Total financing activities	16,211	(10,500)	(40,889)	20,365	(14,813)
Effect of exchange rate on cash			(1,651)		(1,651)
Net decrease in cash	(7,892)	(117)	(26,066)		(34,075)
Cash at the beginning of period	42,208	509	57,120		99,837
Cash at the end of period	$ 34,316	$ 392	$ 31,054	$	$ 65,762

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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 2015 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. Th