

CHECKERS DRIVE IN RESTAURANTS INC /DE

Form 10-Q

May 06, 2003

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 24, 2003

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-19649

Checkers Drive-In Restaurants, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

58-1654960
(I.R.S. employer
identification no.)

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4300 West Cypress Street
Suite 600 Tampa, FL

33607
(Zip code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (813) 283-7000

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 the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The Registrant had 12,274,486 shares of Common Stock, par value \$.001 per share, outstanding as of March 24, 2003 (excluding 48,242 shares held in treasury).

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	March 24, 2003	December 30, 2002
	<u> </u>	<u> </u>
Current Assets:		
Cash and cash equivalents	\$ 13,324	\$ 14,323
Restricted cash	4,177	3,821
Accounts, notes and leases receivable, net	2,391	2,667
Inventory	1,092	1,026
Prepaid expenses and other current assets	1,367	2,309
Property and equipment held for sale	1,277	1,619
	<u> </u>	<u> </u>
Total current assets	23,628	25,765
Property and equipment, net	44,460	43,145
Notes receivable, net less current portion	3,832	3,926
Leases receivable, net less current portion	5,718	5,810
Intangible assets, net	44,663	44,728
Other assets, net	1,622	1,661
	<u> </u>	<u> </u>
	\$ 123,923	\$ 125,035
	<u> </u>	<u> </u>
Current Liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 3,234	\$ 3,243
Accounts payable	3,721	6,243
Reserves for restaurant relocations and abandoned sites	1,336	1,446
Accrued wages and benefits	2,646	2,353
Accrued liabilities	6,301	7,194
	<u> </u>	<u> </u>
Total current liabilities	17,238	20,479
Long-term debt, less current maturities	21,227	21,684
Obligations under capital leases, less current maturities	5,961	6,057
Long-term reserves for restaurant relocations and abandoned sites	5,984	6,282
Minority interests in joint ventures	141	123
Deferred revenue	4,770	4,900
Other long-term liabilities	4,756	4,981
	<u> </u>	<u> </u>
Total liabilities	60,077	64,506
Stockholders Equity:		

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Preferred stock, \$.001 par value, authorized 2,000,000 shares, none issued at March 24, 2003 and December 30, 2002		
Common stock, \$.001 par value, authorized 175,000,000 shares, issued 12,322,728 at March 24, 2003 and 12,317,601 at December 30, 2002	12	12
Additional paid-in capital	145,709	145,678
Accumulated deficit	(81,410)	(84,629)
	<u>64,311</u>	<u>61,061</u>
Less: Treasury stock, 48,242 at March 24, 2003 and December 30, 2002, at cost	(465)	(465)
Note receivable officer		(67)
	<u>63,846</u>	<u>60,529</u>
Total stockholders equity	<u>\$ 123,923</u>	<u>\$ 125,035</u>

See accompanying notes to consolidated financial statements.

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CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(Dollars in thousands except per share amounts)
(UNAUDITED)

	<u>Quarter Ended</u>	
	<u>March 24,</u>	<u>March 25,</u>
	<u>2003</u>	<u>2002</u>
REVENUES:		
Restaurant sales	\$ 39,719	\$ 37,093
Franchise royalty revenue	3,308	3,322
Franchise fees and other income	54	4
Total revenues	<u>\$ 43,081</u>	<u>\$ 40,419</u>
COSTS AND EXPENSES:		
Restaurant food and paper costs	12,441	11,247
Restaurant labor costs	12,048	11,787
Restaurant occupancy expenses	2,986	2,608
Restaurant depreciation and amortization	1,288	1,292
Other restaurant operating expenses	4,700	4,689
General and administrative expenses	3,189	2,989
Advertising	2,501	2,126
Bad debt expense	163	100
Non-cash compensation	23	23
Other depreciation and amortization	182	152
Restaurant retirement costs	14	375
Gain on sale of assets	(176)	(77)
Total costs and expenses	<u>39,359</u>	<u>37,311</u>
Operating income	3,722	3,108
OTHER INCOME (EXPENSE):		
Interest income	261	397
Interest expense	(695)	(814)
Income before minority interests, income tax expense and cumulative effect of a change in accounting principle	<u>3,288</u>	<u>2,691</u>
Minority interests in operations of joint ventures	(18)	(27)
Income before income tax expense and cumulative effect of a change in accounting principle	<u>3,270</u>	<u>2,664</u>

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Income tax expense

	_____	_____
Net income before cumulative effect of a change in accounting principle	3,270	2,664
Cumulative effect of a change in accounting principle net of income tax effect	(51)	
	_____	_____
Net income	\$ 3,219	\$ 2,664
	_____	_____
Comprehensive income	\$ 3,219	\$ 2,664
	_____	_____
Basic net earnings per share	\$ 0.26	\$ 0.24
	_____	_____
Diluted net earnings per share	\$ 0.25	\$ 0.21
	_____	_____
Weighted average number of common shares outstanding:		
Basic	12,274	10,960
Diluted	13,001	12,854

See accompanying notes to consolidated financial statements.

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CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(UNAUDITED)

	Quarter Ended	
	March 24, 2003	March 25, 2002
Cash flows from operating activities:		
Net income	\$ 3,219	\$ 2,664
Adjustments to reconcile net earnings to cash provided by operating activities:		
Cumulative effect of a change in accounting principles	51	
Depreciation and amortization	1,470	1,444
Amortization of deferred loan costs	51	52
Provisions for bad debt	163	100
Non-cash compensation	23	23
Gain on sale of assets	(176)	(77)
Minority interest in operations of joint ventures	18	27
Change in assets and liabilities:		
Decrease in receivables	298	1,241
(Increase), decrease in inventory	(66)	152
Decrease in prepaid expenses and other current assets	942	1,088
(Increase), decrease in other assets	(12)	111
Decrease in accounts payable	(2,522)	(1,104)
Decrease in accrued liabilities	(1,335)	(595)
Net cash provided by operating activities	2,124	5,126
Cash flows from investing activities:		
Capital expenditures	(2,555)	(1,119)
Acquisitions of restaurants, net of cash acquired		(66)
Proceeds from sale of property and equipment	478	1,021
Net cash used in investing activities	(2,077)	(164)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(765)	(1,009)
Increase in restricted cash	(355)	(100)
Proceeds from exercise of stock options and warrants	7	782
Repayment of note receivable officer	67	33
Purchase of treasury stock		(209)
Net cash used in financing activities	(1,046)	(503)

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Net (decrease), increase in cash	(999)	4,459
Cash at beginning of period	14,323	7,159
	<u> </u>	<u> </u>
Cash at end of period	\$ 13,324	\$ 11,618
	<u> </u>	<u> </u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 706	\$ 745
	<u> </u>	<u> </u>
Issuance of treasury stock	\$	\$ 110
	<u> </u>	<u> </u>
Issuance of capital lease obligation for equipment	\$ 203	\$
	<u> </u>	<u> </u>

See accompanying notes to the consolidated financial statements.

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CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1: Summary of Significant Accounting Policies

(a) Basis of Presentation The accompanying unaudited consolidated financial statements include the accounts of Checkers Drive-In Restaurants, Inc., its wholly-owned subsidiaries, and its joint ventures, collectively referred to as the Company. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included.

The accounts of our joint ventures have been included with those of the Company in these unaudited consolidated financial statements. Intercompany balances and transactions have been eliminated in consolidation and minority interests have been established for the outside partners' interests. The Company reports on a fiscal year which will end on the Monday closest to December 31st. Each quarter consists of three 4-week periods, with the exception of the fourth quarter which consists of four 4-week periods.

The operating results for the first quarter ended March 24, 2003, are not necessarily an indication of the results that may be expected for the fiscal year ending December 29, 2003. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 30, 2002. Therefore, it is suggested that the accompanying consolidated financial statements be read in conjunction with the Company's December 30, 2002 consolidated financial statements.

(b) Purpose and Organization Our principal business is the operation and franchising of Checkers® and Rally's Hamburgers® (Rally's) restaurants. At March 24, 2003, there were 380 Rally's restaurants operating in 17 different states and there were 398 Checkers restaurants operating in 21 different states and the District of Columbia. Of the 778 total restaurants, 242 are owned by us and 536 are owned by franchisees. Two of the Company-owned restaurants are owned by joint venture partnerships in which we have a 51% and 75% ownership interest.

Our restaurants offer high quality food, serving primarily the drive-thru and take-out segments of the quick-service restaurant industry. Checkers commenced operations in April 1986 and began offering franchises in January 1987. Rally's opened its first restaurant in January 1985 and began offering franchises in November 1986.

(c) New Accounting Pronouncements In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses accounting and financial accounting and reporting for obligations associated with the retirement of tangible long-lived asset retirement costs. This statement requires that the fair value of a liability for an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated present value of the asset retirement costs are capitalized as part of the carrying value of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. We have adopted the standard for fiscal 2003, and have recorded the impact of such obligations on our balance sheet and income statement for estimated costs to return the premises to their previous states for those leased premises with such contractual obligations. The depreciable base of property and equipment was increased by \$10,321, net of accumulated depreciation of \$15,662 for the cumulative effect of the change as of the end of our fiscal year December 30, 2002. The asset retirement obligation, included in other long-term liabilities, recorded for the cumulative effect of the change as of December 30, 2002 was \$60,993. The impact on the consolidated income statement for the quarter ended March 24, 2003 was \$52,672, of which \$50,672 is reflected as a cumulative effect of the adoption of SFAS No. 143 and an additional \$2,000 of ongoing expense reflected in restaurant depreciation and restaurant retirement costs. Had the change in accounting principle been retroactively recorded, the pro forma net income and earnings per share would have been as follows:

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(Dollars in thousands, except per share amounts)

	Quarter Ended	
	March 24,	March 25,
	2003	2002
Net income, as reported	\$ 3,219	\$ 2,664
Change: assuming retroactive adjustment of the change in accounting principle	51	(2)
Pro forma net income	\$ 3,270	\$ 2,662
Earnings per share:		
Basic as reported	0.26	0.24
Basic pro forma	0.27	0.24
Diluted as reported	0.25	0.21
Diluted pro forma	0.25	0.21

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of the Statement are effective for exit or disposal activities that are initiated after December 31, 2002. This new standard will affect the timing of when the Company recognizes the cost for restaurant closings. We adopted SFAS No. 146 in the first quarter of fiscal 2003. The adoption of SFAS No. 146 did not materially impact our consolidated financial statements.

In November 2002, the FASB's Emerging Issues Task Force (EITF) released Issue No. 02-16, Accounting by a Reseller for Cash Consideration Received from a Vendor. The consensus reached on this issue was that cash consideration received from a vendor is presumed to be a reduction of the cost of merchandise and should be recorded as a reduction of cost of goods sold unless the consideration is for either (1) payment for assets or services and therefore revenue, or (2) a reimbursement of costs incurred to advertise the vendor's products, and therefore, a reduction of advertising expense. The Company's current accounting for funds received from vendors is consistent with EITF 02-16.

(d) Pro forma Diluted Earnings per Share If the compensation cost for all option grants to employees and directors had been determined consistent with SFAS No. 123, as amended by SFAS No. 148, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

(Dollars in thousands, except per share amounts)

Quarter Ended	
March 24,	March 25,

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	<u>2003</u>	<u>2002</u>
Net income, as reported	\$ 3,219	\$ 2,664
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	\$ (490)	\$ (1,363)
Pro forma net income	\$ 2,729	\$ 1,301
Earnings per share:		
Basic as reported	0.26	0.24
Basic pro forma	0.22	0.12
Diluted as reported	0.25	0.21
Diluted pro forma	0.21	0.10

For purposes of the pro forma disclosures assuming the use of the fair value method of accounting, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

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Assumptions	March 24, 2003	March 25, 2002
Risk-free interest rates	1.25%	1.73%
Volatility	84%	94%
Expected lives (months)	48	48

An expected dividend yield of zero percent was used for all periods based on the Company's history of no dividend payments.

(e) Use of Estimates The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(f) Reclassifications Certain amounts in the 2002 financial statements have been reclassified to conform to the current quarter 2003 presentation.

Note 2: Liquidity and Capital Resources

The restaurant industry, in general, operates with a working capital deficit because most of our investments are in long-term restaurant operating assets. We do not normally require large amounts of working capital to maintain operations since sales are for cash, purchases are on open accounts and meat and produce inventories are limited to a three-to-five day supply to assure freshness. We do not have significant levels of accounts receivable or inventory, and receive credit from our trade suppliers. Funds available from cash sales not needed immediately to pay our trade suppliers are used for non-current capital expenditures.

We had a working capital surplus of \$6.5 million at March 24, 2003 as compared to a \$5.3 million surplus at December 30, 2002. The change to liquidity was primarily due to operating profits of \$3.3 million net of capital additions of \$2.6.

The Company is subject to certain restrictive financial and non-financial covenants under certain of its debt agreements, including EBITDA and a Fixed Charge Coverage ratio. We were in compliance with all of the covenants as of March 24, 2003.

Note 3: Leases Receivable

As a result of the sale of Company-owned restaurants in 1999 and 2000, we have recorded capital leases receivable for those restaurants sold which are subject to capital lease and mortgage obligations. The amount of capital leases receivable as of March 24, 2003 was approximately \$6.2 million. As of March 24, 2003, we have deferred gains of \$4.3 million from these sales since we continue to be responsible for the payment of these obligations to the original lessors and mortgagors. The gains are being recognized over the life of the related capital leases. The deferred gains related to these sales are included in the consolidated balance sheet under the captions accrued liabilities-current and deferred revenue for \$0.5 million and \$3.8 million, respectively.

We have subleased the property associated with the sale of Company-owned restaurants under operating leases. The revenue from these subleases is offset against rent expense, as we continue to be responsible for the rent payments to the original lessors. Sublease rental income totaled \$1.7 million and \$1.9 million for the quarter ended March 24, 2003 and March 25, 2002, respectively.

Note 4: Intangible Assets

We assess the impairment of intangible assets, including such assets as franchise rights, tradename and enterprise level goodwill annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

significant underperformance relative to expected historical or projected future operating results;

significant negative industry or economic trends;

significant decline in our stock price for a sustained period; and

our market capitalization relative to net book value.

In accordance with SFAS No. 142 Goodwill and Other Intangible Assets, we have ceased to amortize approximately \$24 million of goodwill and \$17.5 million for the intangible value of our tradename. We performed an impairment review of our goodwill and tradename as of December 30, 2002. Based upon the review, no impairment charge was required and we do not believe circumstances have changed since the review date which would make it necessary to reassess their values as of the balance sheet date.

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Intangible assets consist of the following:

(Dollars in thousands)

	March 24, 2003	Dec. 30, 2002
Goodwill	\$ 24,252	\$ 24,252
Tradenname	17,548	17,548
Amortizable intangible assets	2,863	2,928
Intangible assets, net	\$ 44,663	\$ 44,728

Amortizable intangible assets:

	March 24, 2003			December 30, 2002			Estimated Lives
	Gross Amount	Accum Amort	Net	Gross Amount	Accum Amort	Net	
	Reacquired franchise rights	\$ 1,237	\$ (512)	\$ 725	\$ 1,237	\$ (494)	
Other intangibles	4,191	(2,053)	2,138	4,191	(2,006)	2,185	10-25 years
	\$ 5,428	\$ (2,565)	\$ 2,863	\$ 5,428	\$ (2,500)	\$ 2,928	
		Environmental liabilities	26,000	28,500			
Other current liabilities	107,739	111,222					
Total current liabilities	338,696	347,176					
Long-term debt	494,131	470,098					
Deferred income taxes	85,025	83,571					
Other long-term liabilities	122,768	121,022					
Total liabilities	1,040,620	1,021,867					
Commitments and contingencies	—	—					
Shareholders' equity							
Common stock	544	544					
Capital in excess of par value	62,359	62,594					
Retained earnings	970,736	948,411					

Accumulated other comprehensive loss	(148,953)	(140,675)
	884,686	870,874
Less cost of common stock in treasury	(160,694)	(161,946)
Total shareholders' equity	723,992	708,928
Total liabilities and shareholders' equity	\$ 1,764,612	\$1,730,795

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	Three months ended	
	March 31 2018	2017
Operating activities		
Net income	\$5,716	\$11,603
Adjustments to reconcile to net cash provided by operations:		
Depreciation, depletion and amortization	19,431	17,282
Amortization of debt issue costs and original issue discount	290	289
Pension expense, net of unfunded benefits paid	1,298	928
Deferred income tax provision (benefit)	(2,244)	1,704
(Gains) losses on dispositions of plant, equipment and timberlands, net	(1,554)	32
Share-based compensation	1,983	1,648
Change in operating assets and liabilities		
Accounts receivable	(6,550)	(11,462)
Inventories	(7,795)	(9,907)
Prepaid and other current assets	(3,192)	1,670
Accounts payable	4,111	2,903
Accruals and other current liabilities	(5,286)	(8,874)
Other	1,451	(255)
Net cash provided by operating activities	7,659	7,561
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	(26,568)	(36,783)
Proceeds from disposals of plant, equipment and timberlands, net	1,695	—
Other	(28)	—
Net cash used by investing activities	(24,901)	(36,783)
Financing activities		
Net borrowings under revolving credit facility	25,388	38,236
Repayment of term loans	(2,902)	(2,190)
Payments of dividends	(5,679)	(5,455)
Payments related to share-based compensation awards and other	(965)	(112)
Net cash provided by financing activities	15,842	30,479
Effect of exchange rate changes on cash	2,458	526
Net increase in cash and cash equivalents	1,058	1,783
Cash and cash equivalents at the beginning of period	116,219	55,444
Cash and cash equivalents at the end of period	\$117,277	\$57,227
Supplemental cash flow information		
Cash paid for:		
Interest, net of amounts capitalized	\$1,496	\$293

Income taxes, net	2,956	2,194
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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 Fort Smith, AR, Spring Grove, PA and Chillicothe and Fremont, OH. International operations include facilities in Canada, Germany, France, the United Kingdom and the Philippines, and sales and distribution offices in the U.S., Russia and China. The terms “we,” “us,” “our,” “the Company,” or “Glatfelter,” refer to P. H. Glatfelter Company and subsidiaries unless the context indicates otherwise. Our products are marketed worldwide, either through wholesale paper merchants, brokers and agents, or directly to customers.

2. ACCOUNTING POLICIES

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

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

Reclassification As a result of adopting the provisions of Accounting Standards Update (“ASU”) No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost we reclassified certain amounts of periodic benefit expense for previously reported periods from Cost of products sold and Selling, general and administrative expense to Non Operating Expense. As a result of applying the ASU, Costs of products sold for the first quarter of 2017 was increased by \$1.3 million and Selling, general and administrative expenses were reduced by \$0.2 million and the offsetting net reclassification reduced Non-operating expense by \$1.1 million.

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of

contingencies as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes the estimates and assumptions used in the preparation of these financial statements are

reasonable, based upon currently available facts and known circumstances, but recognizes that actual results may differ from those estimates and assumptions.

Revenue Recognition We adopted ASU No. 2014-09, Revenue from Contracts with Customers in the first quarter of 2018. This ASU clarifies the principles for recognizing revenue and establishes expanded disclosure requirements; however, the adoption of ASU No. 2014-09 had no impact on the timing or amount of revenue recognized for any period presented. Refer to Note 3 for additional information about the disaggregation of our net sales.

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

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

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

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

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

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

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

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

currently evaluating the impact the adoption of ASU No. 2017-12 will have on our consolidated financial statements.

3. REVENUE

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

	Three months ended	
	March 31	
In thousands	2018	2017
Composite Fibers		
Food & beverage	\$70,397	\$62,602
Wallcovering	28,132	22,455
Technical specialties	20,958	17,707

Composite laminates	9,398	8,839
Metallized	12,713	13,500
	141,598	125,103
Advanced Airlaid Materials		
Feminine hygiene	48,473	42,424
Specialty wipes	7,767	6,050
Adult incontinence	4,432	3,644
Home care	4,027	2,758
Other	4,910	4,962
	69,609	59,838
Specialty Papers		
Carbonless & forms	71,870	77,072
Engineered products	49,951	48,162
Envelope & converting	37,905	42,857
Book publishing	38,558	37,173
Other	1,156	508
	199,440	205,772
TOTAL	\$410,647	\$390,713

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	Three months ended	
	March 31	
In thousands	2018	2017
Composite Fibers		
Europe, Middle East and Africa	\$94,782	\$83,547
Americas	24,048	23,059
Asia Pacific	22,768	18,497
	141,598	125,103
Advanced Airlaid Materials		
Europe, Middle East and Africa	36,228	29,729
Americas	32,815	29,921
Asia Pacific	566	188
	69,609	59,838
Specialty Papers		
Americas	197,829	204,774
Other	1,611	998
	199,440	205,772
TOTAL	\$410,647	\$390,713

4. GAINS (LOSSES) ON DISPOSITION OF PLANT, EQUIPMENT AND TIMBERLANDS

During the three months ended March 31, 2018 and 2017 we completed the following sales of assets:

Dollars in thousands	Acres	Proceeds	Gain (loss)
2018			
Timberlands	426	\$ 1,156	\$ 1,115
Other	n/a	539	439
Total		\$ 1,695	\$ 1,554
2017			
Other	n/a	\$ -	\$(32)
Total		\$ -	\$(32)

5. EARNINGS PER SHARE

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

	Three months ended	
	March 31	
In thousands, except per share	2018	2017
Net income	\$5,716	\$11,603
Weighted average common shares outstanding used in basic EPS	43,700	43,583
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	867	910
Weighted average common shares outstanding and common share equivalents used in diluted EPS	44,567	44,493
Earnings per share		
Basic	\$0.13	\$0.27
Diluted	0.13	0.26

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:

	March 31	
In thousands	2018	2017
Three months ended	587	592

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6. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months ended March 31, 2018 and 2017.

In thousands	Currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in pensions	Change in other postretirement defined benefit plans	Total
Balance at January 1, 2018	\$ (41,839)	\$ (4,092)	\$ (98,295)	\$ 3,551	\$(140,675)
Amount reclassified for adoption of ASU No. 2018-02			(23,297)	999	(22,298)
Balance as adjusted at January 1, 2018	(41,839)	(4,092)	(121,592)	4,550	(162,973)
Other comprehensive income					
before reclassifications (net of tax)	12,747	(3,217)	—	—	9,530
Amounts reclassified from accumulated					
other comprehensive income (net of tax)	—	1,415	3,164	(89)	4,490
Net current period other comprehensive					
income (loss)	12,747	(1,802)	3,164	(89)	14,020
Balance at March 31, 2018	\$ (29,092)	\$ (5,894)	\$ (118,428)	\$ 4,461	\$(148,953)
Balance at January 1, 2017	\$ (100,448)	\$ 1,500	\$ (110,656)	\$ 4,998	\$(204,606)
Other comprehensive income					
before reclassifications (net of tax)	6,065	(255)	—	—	5,810
Amounts reclassified from accumulated					
other comprehensive income (net of tax)	—	(691)	2,190	(116)	1,383
Net current period other comprehensive					
income (loss)	6,065	(946)	2,190	(116)	7,193
Balance at March 31, 2017	\$ (94,383)	\$ 554	\$ (108,466)	\$ 4,882	\$(197,413)

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

In thousands Description	Three months ended		Line Item in Statements of Income
	March 31 2018	March 31 2017	
Cash flow hedges (Note 13)			

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(Gains) losses on cash flow hedges	\$1,959	\$(931)) Costs of products sold
Tax expense (benefit)	(544)) 240	Income tax provision
Net of tax	1,415	(691))
Retirement plan obligations (Note 8)			
Amortization of deferred benefit pension plans			
Prior service costs	780	704	Other, net
Actuarial losses	3,390	2,822	Other, net
	4,170	3,526)
Tax benefit	(1,006)	(1,336)	Income tax provision
Net of tax	3,164	2,190)
Amortization of deferred benefit other plans			
Prior service costs	(45)	(45)	Other, net
Actuarial gains	(73)	(143)	Other, net
	(118)	(188))
Tax expense	29	72	Income tax provision
Net of tax	(89)	(116))
Total reclassifications, net of tax	\$4,490	\$1,383)

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7. INCOME TAXES

Effects of the Tax Cuts and Jobs Act

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

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

Our accounting for certain elements of the TCJA was incomplete as of December 31, 2017 and remains incomplete as of March 31, 2018. However, we were able to make reasonable estimates of the effects and therefore, recorded provisional estimates for these items.

During early 2018, the Internal Revenue Service issued additional guidance affecting the computation of our 2017 federal income tax liability. As a result of this and additional analysis, we revised our prior estimates and recorded \$0.2 million of additional tax benefits. The ultimate impact of the TCJA may differ from current estimates, and such differences could be material, due to changes in interpretations or assumptions.

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

For the three months ended March 31, 2018, our effective tax rate increased by approximately 10% as a result of the GILTI provisions due to our utilization of U.S. federal tax loss carryforward, which restricts our ability to recognize the associated foreign tax credits and a deduction of up to 50% of the GILTI income. Since we are using U.S. federal tax loss

carryforwards, there is no impact to cash taxes related to the GILTI provisions.

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

As of March 31, 2018 and December 31, 2017, we had \$27.8 million and \$26.9 million of gross unrecognized tax benefits. As of March 31, 2018, if such benefits were to be recognized, approximately \$17.6 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:

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

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the lapse of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to \$4.9 million. Substantially all of this range relates to tax positions taken in Germany and the U.S.

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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:

	Three months ended	
	March 31	
In millions	2018	2017
Interest expense (income)	\$0.1	\$0.1
Penalties	—	—

	March 31	December 31
	2018	2017
Accrued interest payable	\$ 0.9	\$ 0.8

8. STOCK-BASED COMPENSATION

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

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

Restricted Stock Units (“RSU”) and Performance Share Awards (“PSAs”) Awards of RSUs and PSAs are made under our LTIP. The RSUs vest on the passage of time, generally on a graded scale over a three, four, and five-year period, or in certain instances the RSUs were issued with five year cliff vesting. PSAs are issued to members of management and vesting is based on achievement of cumulative financial performance targets covering a two year period followed by an additional one-year service period. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than targeted depending on actual financial performance. In addition, beginning in 2018, PSA awards include a modifier based on the three-year total shareholder return relative to a broad market index. For RSUs the grant date fair value of the awards, or the closing price per common share on the date of the award, is used to determine the amount of expense to be recognized over the applicable service period. For PSAs, the grant date fair value is estimated using a lattice model. The significant inputs include the stock price, volatility, dividend yield, and risk free rate of return. Settlement of RSUs and PSAs will be made in shares of our common stock currently held in treasury.

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

Units	2018	2017
Balance at January 1,	929,386	679,038
Granted	312,555	290,880
Forfeited	(70,719)	(90,801)
Shares delivered	(69,372)	—
Balance at March 31,	1,101,850	879,117

The amount granted in 2018 and 2017 includes 181,653 and 157,064, respectively, of PSAs exclusive of reinvested dividends.

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

	March 31	
In thousands	2018	2017
Three months ended	\$ 1,804	\$ 1,039

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

The following table sets forth information related to outstanding SOSARS for the three months ended March 31;

	2018		2017	
		Wtd Avg		Wtd Avg
		Exercise		Exercise
SOSARS	Shares	Price	Shares	Price
Outstanding at January 1,	2,561,846	\$ 17.87	2,736,616	\$ 17.64
Granted	—	—	—	—
Exercised	(138,423)	12.98	(33,050)	14.65
Canceled / forfeited	(20,994)	18.76	(17,420)	18.38
Outstanding at March 31,	2,402,429	\$ 18.14	2,686,146	\$ 17.67

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

	March 31	
In thousands	2018	2017
Three months ended	\$ 179	\$ 609

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9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

In thousands	Three months ended	
	March 31 2018	2017
Pension Benefits		
Service cost	\$2,859	\$2,721
Interest cost	5,589	5,907
Expected return on plan assets	(10,839)	(10,831)
Amortization of prior service		
cost	780	704
Amortization of unrecognized		
loss	3,390	2,822
Total net periodic benefit cost	\$1,779	\$1,323
Other Benefits		
Service cost	\$307	\$295
Interest cost	451	485
Amortization of prior		
service credit	(45)	(45)
Amortization of		
actuarial gain	(73)	(143)
Total net periodic		
benefit cost	\$640	\$592

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

10. INVENTORIES

Inventories, net of reserves, were as follows:

	December	
	March 31	31
In thousands	2018	2017
Raw materials	\$63,024	\$60,806
In-process and finished	122,432	116,678
Supplies	77,491	74,580
Total	\$262,947	\$252,064

11. CAPITALIZED INTEREST

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

	Three months ended	
	March 31	2017
In thousands	2018	2017
Interest cost incurred	\$5,591	\$4,597
Interest capitalized	396	589
Interest expense	\$5,195	\$4,008

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

12. LONG-TERM DEBT

Long-term debt is summarized as follows:

	December	
	March 31	31
In thousands	2018	2017
Revolving credit facility, due Mar. 2020	\$196,588	\$171,200
5.375% Notes, due Oct. 2020	250,000	250,000
2.40% Term Loan, due Jun. 2022	7,481	7,710
2.05% Term Loan, due Mar. 2023	32,883	33,607
1.30% Term Loan, due Jun. 2023	9,241	9,423
1.55% Term Loan, due Sep. 2025	11,324	11,390

Total long-term debt	507,517	483,330
Less current portion	(11,607)	(11,298)
Unamortized deferred issuance costs	(1,779)	(1,934)
Long-term debt, net of current portion	\$494,131	\$470,098

On March 12, 2015, we amended our revolving credit agreement with a consortium of banks (the “Revolving Credit Facility”) which increased the amount available for borrowing to \$400 million, extended the maturity of the facility to March 12, 2020, and instituted a revised interest rate pricing grid. On February 1, 2017, the Revolving Credit Facility was further amended to, among other things, change the definition of earnings before interest, taxes, depreciation and amortization (“EBITDA”) for purposes of calculating covenant compliance.

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

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The Revolving Credit Facility contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios including: i) maximum net debt to EBITDA ratio (the “leverage ratio”); and ii) a consolidated EBITDA to interest expense ratio. The most restrictive of our covenants is a maximum leverage ratio of 3.5x. As of March 31, 2018, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 2.8x. 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 any time on or after October 15, 2016 at the redemption prices specified in the applicable Indenture. These Notes and the guarantees of the notes are senior obligations of the Company and the Guarantors, respectively, rank equally in right of payment with future senior indebtedness of the Company and the Guarantors and will mature on October 15, 2020.

The 5.375% Notes contain various covenants customary to indebtedness of this nature including limitations on i) the amount of indebtedness that may be incurred; ii) certain restricted payments including common stock dividends; iii) distributions from certain subsidiaries; iv) sales of assets; v) transactions amongst subsidiaries; and vi) incurrence of liens on assets. In addition, the 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the Revolving Credit Facility at maturity or a default under the Revolving Credit Facility that accelerates the debt outstanding thereunder. As of March 31, 2018, we met all of the requirements of our debt covenants.

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

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

Each of the borrowings require quarterly repayments of principal and interest and provide for representations, warranties and covenants customary for financings of these types. The financial covenants contained in each of the IKB loans, which relate to the minimum ratio of consolidated EBITDA to consolidated interest expense and the

maximum ratio of consolidated total net debt to consolidated adjusted EBITDA, are calculated by reference to our Revolving Credit Facility.

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

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

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13. 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:

In thousands	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable rate debt	\$196,588	\$196,588	\$171,200	\$171,200
Fixed-rate bonds	250,000	253,980	250,000	253,823
2.40% Term loan	7,481	7,637	7,710	7,889
2.05% Term loan	32,883	33,318	33,607	34,122
1.30% Term Loan	9,241	9,177	9,423	9,370
1.55% Term loan	11,324	11,229	11,390	11,320
Total	\$507,517	\$511,929	\$483,330	\$487,724

As of March 31, 2018, and December 31, 2017, we had \$250.0 million of 5.375% fixed rate bonds. These bonds are publicly registered, but thinly traded. The fair value of financial derivatives is set forth below in Note 14.

14. 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 March 31, 2018, the maturity of currency forward contracts ranged from one month to 18 months.

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

hedged transaction affects earnings. For hedged capital expenditures, deferred gains or losses are reclassified and included in the historical cost of the capital asset and subsequently affect earnings as depreciation is recognized. The ineffective portion of the change in fair value of the derivative is recognized directly to earnings and reflected in the accompanying condensed consolidated statements of income as non-operating income (expense) under the caption "Other, net."

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

In thousands	March	
	31 2018	December 31 2017
Derivative		
Sell/Buy - sell notional		
Philippine Peso / British Pound	—	19,047
Euro / British Pound	12,887	13,586
Euro / U.S. Dollar	—	1,048
U.S. Dollar / Euro	248	946
Sell/Buy - buy notional		
Euro / Philippine Peso	902,076	890,096
British Pound / Philippine Peso	785,659	797,496
U.S. Dollar / Euro	1,390	4,253
Euro / U.S. Dollar	64,098	60,519
U.S. Dollar / Canadian Dollar	32,152	32,265
British Pound / Euro	—	335

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

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

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

In thousands	March		March	
	31 2018	December 31 2017	31 2018	December 31 2017
Prepaid Expenses				
Balance sheet caption	and Other Current Assets		Other Current Liabilities	
Designated as hedging:				
Forward foreign currency exchange contracts	\$138	\$ 1,066	\$5,955	\$ 4,787
Not designated as hedging:				
Forward foreign currency exchange contracts	\$276	\$ 151	\$147	\$ 43

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

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

income where the results are recorded:

In thousands	Three months ended	
	March 31 2018	March 31 2017
Designated as hedging:		
Forward foreign currency exchange contracts:		
Effective portion – cost of products sold	\$(1,959)	\$931
Ineffective portion – other – net	(322)	50
Not designated as hedging:		
Forward foreign currency exchange contracts:		
Other – net	\$297	\$21

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

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

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

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

In thousands	2018	2017
Balance at January 1,	\$(5,640)	\$1,882
Deferred (losses) gains on cash flow hedges	(4,344)	(303)
Reclassified to earnings	1,959	(931)
Balance at March 31,	\$(8,025)	\$648

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

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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.

15. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River - Neenah, Wisconsin

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

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

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

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

We and WTM I Company ("WTM I"), one of the PRPs, implemented the remedial action in OU1 under a consent decree with the Governments; Menasha Corporation made a financial contribution to that work. That project began in 2004 and the work is complete, other than on-going monitoring and maintenance. We and WTM I have recently executed documents for the withdrawal of WTM I from the entity we jointly formed for the performance of the OU1 work and releasing all claims between us related to the Site, subject to approval of the court overseeing WTM I's bankruptcy.

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

Litigation and Settlement. In 2008, in an allocation action, NCR and Appvion sued us and many other defendants in an effort to allocate among the liable parties the costs of cleaning up this Site and compensating the Governments for

their costs and the natural resource trustees for NRDs. This case has been called the “Whiting litigation.” After several summary judgment rulings and a trial, the trial court entered judgment in the Whiting Litigation allocating to NCR 100% of the costs of (a) the OU2-5 cleanup, (b) NRDs, (c) past and future costs incurred by the Governments in OU2-5, and (d) past and future costs incurred by any of the other parties net of an appropriate equitable adjustment for insurance recoveries.

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

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

On January 17, 2017, the United States filed a consent decree with the federal district court among the United States, Wisconsin, NCR, and Appvion (the “NCR/Appvion consent decree”) under which NCR would agree to complete the remaining cleanup and both NCR and Appvion would agree not to seek to recover from us or anyone else any amounts

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they have spent or will spend, and we and others would be barred from seeking claims against NCR or Appvion. On March 29, 2017, the United States moved for entry of a somewhat revised version of the NCR/Appvion consent decree, which the federal district court entered on August 23, 2017. Under the consent decree, if it were to withstand appeal, we would only face exposure to: (i) government past oversight costs, (ii) government future oversight costs, (iii) long term monitoring and maintenance, and (iv) depending on the reason, a further remedy if necessary in the event the currently ordered remedy fails, over 30 or more years, to achieve its objectives. As the result of earlier settlements, Georgia Pacific is only jointly liable with us to the Governments for monitoring and maintenance costs incurred in the most downstream three miles of the river (“OU4b”) and the bay of Green Bay (“OU5”).

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

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

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

Cost estimates. The proposed NCR/Appvion consent decree, as revised, states that all parties combined have spent more than \$1 billion through March 2017 towards remedial actions and NRDs, of which we have contributed approximately \$75 million. In addition, work to complete the remaining site remedy under the UAO was anticipated to cost approximately \$200 million at the beginning of the 2017

remediation season. We believe NCR to have completed a full season of work in 2017 and to be commencing work for the 2018 season. So long as the NCR/Appvion consent decree remains in effect, we are not exposed to reallocation of any of those amounts, and no other party will be exposed to reallocation of any of the amounts that we have incurred or may incur in the future.

So long as the NCR/Appvion consent decree remains in effect, we (and not NCR) would remain responsible for the Governments’ unreimbursed past costs. Many parties have entered into settlements with the Governments over time, including us, that have called for payments of cash or in-kind provision of natural resource restoration projects. Certain amounts were allocated to the United States and the State to reimburse their costs, and other amounts were allocated to the Natural Resource Damages Assessment and Restoration (“NRDAR”) Fund to pay for natural resource damages assessment, if any, and restoration projects. The Governments may not recover costs from us that anyone has reimbursed previously. As of the end of 2015, the United States claims to have incurred about \$32.7 million in unreimbursed recoverable costs including prejudgment interest, an amount that we dispute. The State had no unreimbursed recoverable costs, and now claims to have had on hand approximately \$4.6 million of unspent settlement money, a claim that we also dispute. Further, the NRDAR Fund had received what the Governments claim to have been approximately \$105 million in settlement payments, of which more than \$60 million remained unspent. On February 5, 2018, the district court decided that the Governments’ recovery of costs would be reduced by the funds

held by the State at the end of 2015 and by any amount by which the Governments had applied settlement payments to natural resource damages in excess of the actual amount of natural resource damages. We contend that the natural resource restoration projects already constructed fully compensate the public for any natural resource damages, and therefore that the entire unspent balance in the NRDAR Fund remains as an off-set, an amount likely to exceed all of the Governments' past and future costs of response. The Governments have sought reconsideration of that decision. No date has yet been set for trial of the issue. If at trial the actual amount of NRDs were determined to be more than the Governments have collected in settlements, we might be exposed to that shortfall.

So long as the NCR/Appvion consent decree remains in effect, we would also remain subject to our remaining obligations under the OU1 consent decree, which now consist of long term monitoring and maintenance that we expect earlier contributions to the OU1 escrow account to fund these costs. Furthermore, we, along with Georgia Pacific, but not NCR, would be responsible for long term monitoring and maintenance required pursuant to the Lower Fox River 100% Remedial Design Report dated December 2009 – Long Term Monitoring Plan (the "Plan"). The Plan requires long term monitoring of each of OU2 through OU5 over a period of at

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least 30 years. The monitoring activities consist of, among others, testing fish tissue, sampling water quality and sediment, and inspections of the engineered caps. Each operable unit is required to be monitored; however, because of our settlement with Georgia Pacific, our obligations are in OU1-OU4a. In the first quarter of 2018, we entered into a fixed-price, 30 year agreement with a third party for the performance of all of our monitoring and maintenance obligations in OU1 through the upper four miles of OU4 (“OU4a”) with limited exceptions, such as, for extraordinary amounts of cap maintenance or replacement. Our obligation under this agreement is included in our total reserve for the Site. The portion of this agreement that pertains to OU1 will be paid out of the previously funded OU1 escrow account.

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

	Three months ended	
	March 31	
In thousands	2018	2017
Balance at January 1,	\$43,144	\$52,788
Payments	(2,536)	(85)
Accruals	-	-
Balance at March 31,	\$40,608	\$52,703

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

“Environmental liabilities” and the remaining \$14.6 million is recorded under the caption “Other long term liabilities.”

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

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

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16. SEGMENT INFORMATION

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

Three months ended March 31	Composite Fibers		Advanced Airlaid		Specialty Papers		Other and Unallocated		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Dollars in millions										
Net sales	\$ 141.6	\$ 125.1	\$ 69.6	\$ 59.8	\$ 199.4	\$ 205.8	\$—	\$—	\$ 410.6	\$ 390.7
Energy and related sales, net	—	—	—	—	1.4	1.1	—	—	1.4	1.1
Total revenue	141.6	125.1	69.6	59.8	200.8	206.9	—	—	412.1	391.8
Cost of products sold	114.7	99.6	59.7	50.5	186.5	179.9	2.3	6.2	363.2	336.2
Gross profit (loss)	26.9	25.5	9.9	9.3	14.3	27.0	(2.3)	(6.2)	48.9	55.6
SG&A	11.6	11.1	2.7	2.2	11.9	13.5	10.9	8.1	37.1	34.9
(Gains) losses on dispositions of plant, equipment and timberlands, net	—	—	—	—	—	—	(1.6)	—	(1.6)	—
Total operating income (loss)	15.3	14.4	7.2	7.1	2.4	13.5	(11.6)	(14.3)	13.4	20.7
Non-operating expense	—	—	—	—	—	—	(4.9)	(3.1)	(4.9)	(3.1)
Income (loss) before income taxes	\$ 15.3	\$ 14.4	\$ 7.2	\$ 7.1	\$ 2.4	\$ 13.5	\$ (16.5)	\$ (17.4)	\$ 8.5	\$ 17.6
Supplementary Data										
Net tons sold (thousands)	40.0	38.8	26.3	24.8	188.4	197.2	—	—	254.8	260.8
Depreciation, depletion and amortization	\$ 7.4	\$ 6.8	\$ 2.8	\$ 2.3	\$ 8.1	\$ 7.2	\$ 1.1	\$ 1.0	\$ 19.4	\$ 17.3
Capital expenditures	5.1	4.7	13.2	10.6	6.5	18.3	1.8	3.2	26.6	36.8

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 retirement expenses, 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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17. 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; or (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 ended March 31, 2018 and 2017, our condensed consolidating balance sheets as of March 31, 2018 and December 31, 2017, and our condensed consolidating cash flows for the three months ended March 31, 2018 and 2017.

Condensed Consolidating Statement of Income for the three months ended March 31, 2018

	Parent		Non	Adjustments/	
In thousands	Company	Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$ 199,439	\$ 20,013	\$ 216,135	\$ (24,940)	\$ 410,647
Energy and related sales, net	1,428	—	—	—	1,428
Total revenues	200,867	20,013	216,135	(24,940)	412,075
Costs of products sold	191,165	18,265	178,679	(24,940)	363,169
Gross profit	9,702	1,748	37,456	—	48,906
Selling, general and administrative expenses	20,437	2,005	14,621	—	37,063
Gain on dispositions of plant equipment and timberlands, net	(438)	(1,115)	(1)	—	(1,554)
Operating income (loss)	(10,297)	858	22,836	—	13,397
Other non-operating income (expense)					
Interest expense	(5,682)	(455)	(428)	1,370	(5,195)
Interest income	146	1,244	34	(1,370)	54
Equity in earnings of subsidiaries	21,233	22,255	—	(43,488)	—
Other, net	(2,413)	(3,263)	5,905	—	229
Total other non-operating income (expense)	13,284	19,781	5,511	(43,488)	(4,912)
Income before income taxes	2,987	20,639	28,347	(43,488)	8,485
Income tax provision (benefit)	(2,729)	(594)	6,092	—	2,769
Net income	5,716	21,233	22,255	(43,488)	5,716
Other comprehensive income	14,020	11,036	12,035	(23,071)	14,020
Comprehensive income	\$ 19,736	\$ 32,269	\$ 34,290	\$ (66,559)	\$ 19,736

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Condensed Consolidating Statement of Income for the three months ended March 31, 2017

	Parent		Non		Adjustments/	
In thousands	Company	Guarantors	Guarantors	Eliminations	Consolidated	
Net sales	\$205,771	\$ 19,533	\$ 185,887	\$ (20,478)	\$ 390,713	
Energy and related sales, net	1,129	—	—	—	1,129	
Total revenues	206,900	19,533	185,887	(20,478)	391,842	
Costs of products sold	185,246	18,586	152,859	(20,478)	336,213	
Gross profit	21,654	947	33,028	—	55,629	
Selling, general and administrative expenses	20,162	74	14,641	—	34,877	
Loss on dispositions of plant equipment and timberlands, net	32	—	—	—	32	
Operating income	1,460	873	18,387	—	20,720	
Other non-operating income (expense)						
Interest expense	(4,661)	(113)	(504)	1,270	(4,008)	
Interest income	149	1,161	73	(1,270)	113	
Equity in earnings of subsidiaries	13,617	13,852	—	(27,469)	—	
Other, net	1,584	(2,206)	1,434	—	812	
Total other non-operating income (expense)	10,689	12,694	1,003	(27,469)	(3,083)	
Income before income taxes	12,149	13,567	19,390	(27,469)	17,637	
Income tax provision (benefit)	546	(50)	5,538	—	6,034	
Net income	11,603	13,617	13,852	(27,469)	11,603	
Other comprehensive income	7,193	5,102	5,014	(10,116)	7,193	
Comprehensive income	\$ 18,796	\$ 18,719	\$ 18,866	\$ (37,585)	\$ 18,796	

Condensed Consolidating Balance Sheet as of March 31, 2018

	Parent		Non		Adjustments/	
In thousands	Company	Guarantors	Guarantors	Eliminations	Consolidated	
Assets						
Cash and cash equivalents	\$1,022	\$ 1,266	\$ 114,989	\$-	\$ 117,277	
Other current assets	250,524	237,841	296,093	(293,035)	491,423	
Plant, equipment and timberlands, net	370,669	87,000	413,065	—	870,734	
Investments in subsidiaries	842,154	667,419	—	(1,509,573)	—	
Other assets	142,088	—	143,090	—	285,178	
Total assets	\$1,606,457	\$ 993,526	\$ 967,237	\$ (1,802,608)	\$ 1,764,612	
Liabilities and Shareholders' Equity						

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Current liabilities	\$398,152	\$67,660	\$165,919	\$(293,035)	\$338,696
Long-term debt	371,036	65,000	58,095	—	494,131
Deferred income taxes	12,049	18,209	54,767	—	85,025
Other long-term liabilities	101,228	503	21,037	—	122,768
Total liabilities	882,465	151,372	299,818	(293,035)	1,040,620
Shareholders' equity	723,992	842,154	667,419	(1,509,573)	723,992
Total liabilities and shareholders' equity	\$1,606,457	\$993,526	\$967,237	\$(1,802,608)	\$1,764,612

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Condensed Consolidating Balance Sheet as of December 31, 2017

In thousands	Parent		Non		Adjustments/	Consolidated
	Company	Guarantors	Guarantors	Eliminations		
Assets						
Cash and cash equivalents	\$ 1,292	\$ 720	\$ 114,207	\$ -		\$ 116,219
Other current assets	249,293	217,822	279,626	(277,989)		468,752
Plant, equipment and timberlands, net	375,231	80,992	409,520	—		865,743
Investments in subsidiaries	829,895	653,128	—	(1,483,023)		—
Other assets	139,552	—	140,529	—		280,081
Total assets	\$ 1,595,263	\$ 952,662	\$ 943,882	\$ (1,761,012)		\$ 1,730,795
Liabilities and Shareholders' Equity						
Current liabilities	\$ 402,787	\$ 54,640	\$ 167,738	\$ (277,989)		\$ 347,176
Long-term debt	368,496	51,000	50,602	—		470,098
Deferred income taxes	14,081	16,814	52,676	—		83,571
Other long-term liabilities	100,971	313	19,738	—		121,022
Total liabilities	886,335	122,767	290,754	(277,989)		1,021,867
Shareholders' equity	708,928	829,895	653,128	(1,483,023)		708,928
Total liabilities and shareholders' equity	\$ 1,595,263	\$ 952,662	\$ 943,882	\$ (1,761,012)		\$ 1,730,795

Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2018

In thousands	Parent		Non		Adjustments/	Consolidated
	Company	Guarantors	Guarantors	Eliminations		
Net cash provided (used) by						
Operating activities	\$(10,584)	\$(980)	\$ 19,223	\$ -		\$ 7,659
Investing activities						
Expenditures for purchases of plant, equipment and timberlands	(8,251)	(11,320)	(6,997)	—		(26,568)
Proceeds from disposals of plant, equipment and timberlands, net	539	1,156	—	—		1,695
Advances of intercompany loans	—	(2,310)	—	2,310		—
Intercompany capital contributed	—	20,000	(20,000)	—		—
Other	(28)	—	—	—		(28)
Total investing activities	(7,740)	7,526	(26,997)	2,310		(24,901)

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Financing activities

Net (repayments) borrowings of long-term debt	2,388	14,000	6,098	—	22,486
Payment of dividends to shareholders	(5,679)	—	—	—	(5,679)
Borrowings of intercompany loans	2,310	—	—	(2,310)	—
Payment of intercompany dividend	20,000	(20,000)	—	—	—
Payments related to share-based compensation awards and other	(965)	—	—	—	(965)
Total financing activities	18,054	(6,000)	6,098	(2,310)	15,842
Effect of exchange rate on cash	—	—	2,458	—	2,458
Net increase (decrease) in cash	(270)	546	782	—	1,058
Cash at the beginning of period	1,292	720	114,207	—	116,219
Cash at the end of period	\$ 1,022	\$ 1,266	\$ 114,989	\$ —	\$ 117,277

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Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2017

In thousands	Parent Company	Non Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$(19,330)	\$(307)	\$ 27,839	\$ (641)	\$ 7,561
Investing activities					
Expenditures for purchases of plant, equipment and timberlands	(21,515)	(9,551)	(5,717)	—	(36,783)
Repayments from intercompany loans	—	8,000	—	(8,000)	—
Advances of intercompany loans	—	(8,550)	—	8,550	—
Intercompany capital contributed	—	(400)	—	400	—
Total investing activities	(21,515)	(10,501)	(5,717)	950	(36,783)
Financing activities					
Net (repayments) borrowings of long-term debt	38,000	12,000	(13,954)	—	36,046
Payment of dividends to shareholders	(5,455)	—	—	—	(5,455)
Repayments of intercompany loans	—	—	(8,000)	8,000	—
Borrowings of intercompany loans	8,550	—	—	(8,550)	—
Intercompany capital received	—	—	400	(400)	—
Payment of intercompany dividend	—	—	(641)	641	—
Payments related to share-based compensation awards and other	(112)	—	—	—	(112)
Total financing activities	40,983	12,000	(22,195)	(309)	30,479
Effect of exchange rate on cash	—	—	526	—	526
Net increase in cash	138	1,192	453	—	1,783
Cash at the beginning of period	5,082	1,461	48,901	—	55,444
Cash at the end of period	\$ 5,220	\$ 2,653	\$ 49,354	\$ —	\$ 57,227

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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 2017 Annual Report on Form 10-K.

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

- i. variations in demand for our products including the impact of unplanned market-related downtime, variations in product pricing, or product substitution;
- ii. the impact of competition, both domestic and international, changes in industry production capacity, including the construction of new mills or new machines, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- iii. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- iv. geopolitical events, including the impact of conflicts such as Russia, Ukraine and Philippines;
- v. our ability to develop new, high value-added products;
- vi. changes in the price or availability of raw materials we use, in particular pulpwood, pulp, pulp substitutes, synthetic pulp, colorformers, caustic soda, and abaca fiber;
- vii. changes in energy-related prices and commodity raw materials with an energy component;
- viii. the impact of unplanned production interruption;
- ix. disruptions in production and/or increased costs due to labor disputes;
- x. the impact of exposure to volatile market-based pricing for sales of excess electricity;
- xi. the gain or loss of significant customers and/or on-going viability of such customers;
- xii. cost and other effects of environmental compliance, cleanup, damages, remediation or restoration, or personal injury or property damages related thereto, such as the costs of natural resource restoration or damages related to the presence of polychlorinated biphenyls ("PCBs") in the lower Fox River on which our former Neenah mill was located;
- xiii. adverse results in litigation in the Fox River matter;
- xiv. the impact of war and terrorism;
- xv. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities or changes in pre-tax income and its impact on the valuation of deferred taxes;

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

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

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

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

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

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

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RESULTS OF OPERATIONS

Three months ended March 31, 2018 versus the three months ended March 31, 2017

Overview For the first quarter of 2018, net income totaled \$5.7 million, or \$0.13 per diluted share compared with \$11.6 million, or \$0.26 per diluted share in the first quarter of 2017. Adjusted earnings for the first quarter of 2018 were \$8.6 million, or \$0.19 per diluted share compared with \$17.2 million, or \$0.39 per diluted share, for the same period a year ago. Our Composite Fibers and Advanced Airlaid Materials businesses, which combined represented 51.5% of consolidated net sales and 90.4% of business unit operating income, reported higher operating income in the comparison driven by higher shipping volumes, increased selling prices, improved productivity and favorable foreign currency translation. Specialty Papers' results were lower in the comparison primarily due to lower shipping volumes, higher input costs and one-time operational issues.

The following table sets forth summarized consolidated results of operations:

	Three months ended	
	March 31	
In thousands, except per share	2018	2017
Net sales	\$410,647	\$390,713
Gross profit	48,906	55,629
Operating income	13,397	20,720
Net income	5,716	11,603
Earnings per diluted share	0.13	0.26

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

Costs related to strategic initiatives. These adjustments primarily reflect one-time professional and legal fees incurred directly related to evaluating certain strategic initiatives.

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

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

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

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

U.S. Tax Reform. These adjustments reflect amounts estimating the impact of the Tax Cuts and Jobs Act (“TCJA”) which was signed into law on December 22, 2017. The TCJA includes, among many provisions, a tax on the mandatory repatriation of earnings of the Company’s non-U.S. subsidiaries and a change in the corporate tax rate from 35 % to 21%.

Adjusted earnings and adjusted earnings per diluted share are considered measures not calculated in accordance with GAAP, and therefore are non-GAAP measures. The non-GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with GAAP. The following table sets forth the reconciliation of net income to adjusted earnings for the three months ended March 31, 2018 and 2017:

In thousands, except per share	Three months ended March 31			
	2018		2017	
	Amount	Diluted EPS	Amount	Diluted EPS
Net income	\$5,716	\$ 0.13	\$11,603	\$ 0.26
Adjustments (pre-tax)				
Costs related to strategic initiatives	2,109		-	
Airlaid capacity expansion costs	3,033		1,958	
Cost optimization actions	-		2,013	
Specialty Papers' environmental compliance	-		2,264	
Timberland sales and related costs	(1,115)		-	
Total adjustments (pre-tax)	4,027		6,235	
Income taxes (1)	(955)		(682)	
U.S. Tax Reform	(180)		-	
Total after-tax adjustments	2,892	0.06	5,553	0.12
Adjusted earnings	\$8,608	\$ 0.19	\$17,156	\$ 0.39

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

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

Business Unit Performance

Three months ended March 31	Composite Fibers		Advanced Airlaid		Specialty Papers		Other and Unallocated		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Dollars in millions										
Net sales	\$ 141.6	\$ 125.1	\$ 69.6	\$ 59.8	\$ 199.4	\$ 205.8	\$—	\$—	\$ 410.6	\$ 390.7
Energy and related sales, net	—	—	—	—	1.4	1.1	—	—	1.4	1.1
Total revenue	141.6	125.1	69.6	59.8	200.8	206.9	—	—	412.1	391.8
Cost of products sold	114.7	99.6	59.7	50.5	186.5	179.9	2.3	6.2	363.2	336.2
Gross profit (loss)	26.9	25.5	9.9	9.3	14.3	27.0	(2.3)	(6.2)	48.9	55.6
SG&A	11.6	11.1	2.7	2.2	11.9	13.5	10.9	8.1	37.1	34.9
(Gains) losses on dispositions of plant, equipment and timberlands, net	—	—	—	—	—	—	(1.6)	—	(1.6)	—
Total operating income (loss)	15.3	14.4	7.2	7.1	2.4	13.5	(11.6)	(14.3)	13.4	20.7
Non-operating expense	—	—	—	—	—	—	(4.9)	(3.1)	(4.9)	(3.1)
Income (loss) before income taxes	\$ 15.3	\$ 14.4	\$ 7.2	\$ 7.1	\$ 2.4	\$ 13.5	\$ (16.5)	\$ (17.4)	\$ 8.5	\$ 17.6
Supplementary Data										
Net tons sold (thousands)	40.0	38.8	26.3	24.8	188.4	197.2	—	—	254.8	260.8
Depreciation, depletion and amortization	\$ 7.4	\$ 6.8	\$ 2.8	\$ 2.3	\$ 8.1	\$ 7.2	\$ 1.1	\$ 1.0	\$ 19.4	\$ 17.3
Capital expenditures	5.1	4.7	13.2	10.6	6.5	18.3	1.8	3.2	26.6	36.8

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 retirement expenses, 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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Sales and Costs of Products Sold

	Three months ended		
	March 31		
In thousands	2018	2017	Change
Net sales	\$410,647	\$390,713	\$19,934
Energy and related			
sales, net	1,428	1,129	299
Total revenues	412,075	391,842	20,233
Costs of products sold	363,169	336,213	26,956
Gross profit	\$48,906	\$55,629	\$(6,723)
Gross profit as a percent			
of Net sales	11.9 %	14.2 %	

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

	Three months ended	
	March 31	
Percent of Total	2018	2017
Business Unit		
Composite Fibers	34.5 %	32.0 %
Advanced Airlaid Material	17.0	15.3
Specialty Papers	48.5	52.7
Total	100.0%	100.0%

Net sales totaled \$410.6 million and \$390.7 million in the first three months of 2018 and 2017, respectively. Foreign currency translation favorably impacted the year-over-year comparison by \$21.8 million. On a constant currency basis, Composite Fibers' net sales were essentially flat and Advanced Airlaid Materials' increased by 7.8%. Specialty Papers' net sales declined 3.1% in the year-over-year comparison reflecting the shutdown of a machine in the third quarter of 2017.

Composite Fibers' net sales increased \$16.5 million, or 13.2% primarily due to a 3.2% increase in shipping volumes, a \$16.7 million favorable impact from currency translation and \$0.3 million from higher selling prices.

Composite Fibers' first quarter of 2018 operating income totaled \$15.3 million, an increase of \$0.9 million compared to the year-ago period. The benefit of higher shipping and production volumes together with efficient material usage partially offset the \$3.5 million unfavorable impact from higher raw material prices. The primary drivers are summarized in the following chart:

Advanced Airland Materials' net sales increased \$9.8 million, or 16.3% primarily due to a 5.9% increase in shipping volumes, a \$5.1 million favorable impact of currency translation and \$0.7 million from higher selling prices.

Operating income for the first quarter of 2018 totaled \$7.2 million, or 1.8% higher than the comparable period a year ago. Higher selling prices were more than offset by higher input costs and other general cost inflation totaling \$1.2 million. The primary drivers are summarized in the following chart:

Specialty Papers' net sales decreased \$6.3 million, or 3.1%, reflecting the shutdown of a machine in the third quarter of 2017, partially offset by a more favorable mix of products sold.

Specialty Papers' operating income totaled \$2.4 million in the first quarter of 2018, a decrease of \$11.2 million compared with the same period a year ago. Higher raw material and energy prices adversely impacted results by approximately \$5.6 million. Higher freight costs and depreciation expense negatively impacted results by \$1.1 million and \$0.9 million, respectively. In addition, transition costs associated with the machine shutdown, severe weather and water quality issues, partially offset by the benefits of workforce reductions efforts,

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adversely impacted earnings by \$3.4 million. The primary drivers are summarized in the following chart:

We sell excess power generated by the Spring Grove, PA facility. Renewable energy credits (“RECs”) represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste. We sell RECs into an illiquid market. The extent and value of future revenues from REC sales is dependent on many factors outside of management’s control. Therefore, we may not be able to generate consistent additional sales of RECs in future periods. The following table summarizes this activity for the first three months of 2018 and 2017:

	Three months ended		
	March 31		
In thousands	2018	2017	Change
Energy sales	\$1,459	\$1,006	\$ 453
Costs to produce	(966)	(1,438)	472
Net	493	(432)	925
Renewable energy credits	935	1,561	(626)
Total	\$1,428	\$1,129	\$ 299

Other and Unallocated The amount of net operating expenses not allocated to a business unit and reported as “Other and Unallocated” in our table of Business Unit Performance totaled \$11.6 million in the first three months of 2018 compared with \$14.3 million in the first three months of 2017. The decrease in Other and Unallocated expenses, excluding the impact of gains from timberland sales in 2018, primarily relates to lower legal fees.

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

	Three months ended		
	March 31		
In thousands	2018	2017	Change
Recorded as:			
Costs of products sold	\$2,308	\$2,171	\$ 137
SG&A expense	551	550	1
Non operating expense	(1,080)	(1,398)	318
Total	\$1,779	\$1,323	\$ 456

The amount of pension expense recognized each year is dependent on various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets. Pension expense for the full year of 2018 is expected to be approximately \$7.2 million compared with \$6.6 million in 2017.

Gains (losses) on Dispositions of Plant, Equipment and Timberlands During three months ended March 31, 2018 and 2017, we completed the following sales of assets:

Dollars in thousands	Acres	Proceeds	Gain (loss)
2018			
Timberlands	426	\$ 1,156	\$ 1,115
Other	n/a	539	439
Total		\$ 1,695	\$ 1,554
2017			
Other	n/a	\$ -	\$(32)
Total		\$ -	\$(32)

Income taxes For the first three months of 2018, we recorded a provision for income taxes of \$2.8 million on pre-tax income of \$8.5 million compared with a \$6.0 million provision on pre-tax income of \$17.6 million in the first quarter of 2017. The effective tax rate in the first quarter of 2018 includes the impact of the 2017 U.S. tax reform. This required us to record a provision for the Global Intangible Low Taxed Income, also known as GILTI, which increased the effective tax rate by approximately 10%. In addition, since we are using U.S. federal tax loss carryforwards there is no impact to cash taxes related to the GILTI provisions. The effective tax rate for 2018 is expected to be approximately 33%.

Foreign Currency We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK, it is the British Pound Sterling, and in the Philippines the functional currency is the Peso. On an annual basis, our euro denominated revenue exceeds euro expenses by an estimated €145 million. For the first three months of 2018, the average currency exchange rate was 1.229 dollar/euro compared with 1.064 in the same period of 2017. With respect to the British Pound Sterling, Canadian dollar, and Philippine Peso, we have differing amounts of inflows and outflows of these currencies, although to a lesser degree than the euro. As a result, we are exposed to changes in currency exchange rates and such changes could be significant. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

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The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operation's results for the first three months of 2018.

	Three months ended	
In thousands	March 31, 2018	
	Favorable (unfavorable)	
Net sales	\$ 21,819	
Costs of products sold	(18,667)	
SG&A expenses	(1,508)	
Income taxes and other	7	
Net income	\$ 1,651	

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2018 were the same as 2017. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

LIQUIDITY AND CAPITAL RESOURCES

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

	Three months ended	
In thousands	March 31	
	2018	2017
Cash and cash equivalents at beginning of period	\$ 116,219	\$ 55,444
Cash provided (used) by		
Operating activities	7,659	7,561
Investing activities	(24,901)	(36,783)
Financing activities	15,842	30,479
Effect of exchange rate changes on cash	2,458	526
Net cash provided	1,058	1,783
Cash and cash equivalents at end of period	\$ 117,277	\$ 57,227

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At March 31, 2018, we had \$117.3 million in cash and cash equivalents held by both domestic and foreign subsidiaries. Unremitted earnings of our foreign subsidiaries as of January 1, 2018 and forward are deemed to be indefinitely reinvested and therefore no U.S. tax liability is reflected in the accompanying condensed consolidated financial statements. Substantially all of our cash and cash equivalents is held by our foreign subsidiaries but could be repatriated without incurring a significant amount of additional taxes. In addition to our cash and cash equivalents,

\$20.2 million is available under our revolving credit agreement, which matures in March 2020.

Cash provided by operating activities totaled \$7.7 million in the first three months of 2018 compared with \$7.6 million in the same period a year ago as improved working capital usage offset lower operating profits.

Net cash used by investing activities decreased by \$11.9 million in the year-over-year comparison due to lower capital expenditures primarily driven by the completion of the Specialty Papers environmental compliance project in 2017. Capital expenditures are expected to total between \$67 million and \$72 million for 2018.

Net cash provided by financing activities totaled \$15.8 million in the first three months of 2018 compared with \$30.5 million in the same period of 2017. The decrease in cash provided by financing activities primarily reflects lower borrowings under our credit agreement.

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

In thousands	March 31 2018	December 31 2017
Revolving credit facility, due Mar. 2020	\$196,588	\$171,200
5.375% Notes, due Oct. 2020	250,000	250,000
2.40% Term Loan, due Jun. 2022	7,481	7,710
2.05% Term Loan, due Mar. 2023	32,883	33,607
1.30% Term Loan, due Jun. 2023	9,241	9,423
1.55% Term Loan, due Sep. 2025	11,324	11,390
Total long-term debt	507,517	483,330
Less current portion	(11,607)	(11,298)
Unamortized deferred issuance costs	(1,779)	(1,934)
Long-term debt, net of current portion	\$494,131	\$470,098

Our revolving credit facility contains a number of customary compliance covenants, the most restrictive of which is a maximum leverage ratio of 3.5x. As of March 31, 2018, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 2.8x, within the limits set forth in our credit agreement. Based on our expectations of future results of operations and capital needs, we do not believe the debt covenants will impact our operations or limit our ability to undertake financings that may be necessary to meet our capital needs.

The 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity, or a default under the credit agreement that accelerates the debt outstanding thereunder. As of March 31, 2018, we met all of the requirements of our debt covenants. The significant terms of the debt instruments are more fully discussed in Item 1 - Financial Statements – Note 11.

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Financing activities includes cash used for common stock dividends which increased in the comparison reflecting a 4% increase in our quarterly cash dividend. In the first three months of 2018, we used \$5.7 million of cash for dividends on our common stock compared with \$5.5 million in the same period of 2017. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

We are subject to various federal, state and local laws and regulations intended to protect the environment as well as human health and safety. At various times, we have incurred significant costs to comply with these regulations and we could incur additional costs as new regulations are developed or regulatory priorities change.

As more fully discussed in Item 1 - Financial Statements – Note 15 – Commitments, Contingencies and Legal Proceedings (“Note 15”), we are involved in the Lower Fox River in Wisconsin (the “Fox River”), an EPA Superfund site for which we remain potentially liable for certain response costs and long-term monitoring and maintenance related matters. Based on the recent developments more fully discussed in Note 15, it is conceivable the resolution of this matter may require us to spend in excess of \$26 million in 2018. Although we are unable to determine with any degree of certainty the amount we may be required to spend, the recent developments provide greater clarity to the extent of such amounts.

We expect to meet all of our near and long-term cash needs from a combination of operating cash flow, cash and cash equivalents, our existing credit facility and other long-term debt. However, as discussed in Note 15, an unfavorable outcome of the Fox River matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

Off-Balance-Sheet Arrangements As of March 31, 2018 and December 31, 2017, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries, are reflected in the condensed consolidated balance sheets included herein in Item 1 – Financial Statements.

Outlook Composite Fibers’ shipping volumes in the second quarter of 2018 are expected to be approximately 5% higher than the first quarter with an improved mix. Selling prices are expected to be in-line with the first quarter and raw material and energy prices are expected to increase moderately.

Advanced Airlaid Materials’ shipping volumes in the second quarter of 2018 are expected to be approximately 3% higher than 2018 first quarter. For the full-year 2018, we anticipate shipping volumes to be 10% to 12% higher than 2017. Selling prices and raw material and energy prices are expected to increase slightly when compared to the first quarter of this year.

Specialty Papers’ shipping volumes in the second quarter are expected to be 5% below the first quarter of 2018 reflecting the annual maintenance outages at both mills. Average selling prices are expected to increase \$30/ton and we expect raw material and energy prices to increase slightly; however, energy consumption is expected to be seasonally lower in the second quarter. The adverse impact of operational challenges related to machine transition

costs, weather and water quality issues totaling approximately \$5 million in the first quarter are not anticipated to impact the second quarter. The Company also plans to complete the annual maintenance outages at its U.S. facilities in the second quarter of 2018, which are expected to adversely impact operating income by approximately \$26 million to \$28 million compared with \$22.9 million in the second quarter of 2017.

Consolidated capital expenditures for the year are expected to be between \$67 million and \$72 million.

The effective tax rate on adjusted earnings is expected to be approximately 33% in 2018 compared with 19% for 2017.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Dollars in thousands	Year Ended December 31					March 31, 2018	
	2018	2019	2020	2021	2022	Carrying Value	Fair Value
Long-term debt							
Average principal outstanding							
At fixed interest rates – Bond	\$250,000	\$250,000	\$197,917	\$—	\$—	\$250,000	\$253,980
At fixed interest rates – Term Loans	56,576	46,420	34,813	23,206	12,258	60,929	61,361
At variable interest rates	196,588	196,588	40,956	—	—	196,588	196,588
						\$507,517	\$511,929
Weighted-average interest rate							
On fixed rate debt – Bond	5.375	%	5.375	%	5.375	%	—
On fixed rate debt – Term Loans	1.89	%	1.87	%	1.85	%	1.82
On variable rate debt	3.30	%	3.30	%	3.30	%	—

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of March 31, 2018. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities.

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At March 31, 2018, we had \$505.7 million of long-term debt, net of unamortized debt issuance costs, of which 38.9% was at variable interest rates. Variable-rate debt outstanding represents borrowings under our revolving credit agreement that accrues interest based on LIBOR plus a margin. At March 31, 2018, the interest rate paid was approximately 3.30%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$2.0 million.

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

We are subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. Dollar. On an annual basis, our euro denominated revenue exceeds euro expenses by an estimated €145 million. With respect to the British Pound Sterling, Canadian dollar, and Philippine Peso, we have differing amounts of inflows and outflows of these currencies, although to a lesser degree than the euro. As a result, particularly with respect to the euro, we are exposed to changes in currency exchange rates and such changes could be significant.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Our chief executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)

and 15d-15(e)) as of March 31, 2018, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Changes in Internal Controls There were no changes in our internal control over financial reporting during the three months ended March 31, 2018, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

ITEM 6. EXHIBITS

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

- 10.1 Form of Performance Share Award Certificate (form effective February 22, 2018), filed herewith
- 31.1 Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002, filed herewith
- 31.2 Certification of John P. Jacunski, Executive Vice President and Chief Financial Officer, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002, filed herewith
- 32.1 Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, furnished herewith
- 32.2 Certification of John P. Jacunski, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, furnished herewith
- 101.INS XBRL Instance Document, filed herewith
- 101.SCHXBRL Taxonomy Extension Schema, filed herewith
- 101.CALXBRL Extension Calculation Linkbase, filed herewith
- 101.DEF XBRL Extension Definition Linkbase, filed herewith
- 101.LABXBRL Extension Label Linkbase, filed herewith
- 101.PRE XBRL Extension Presentation Linkbase, filed herewith

SIGNATURES

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

P. H. GLATFELTER
COMPANY

(Registrant)

May 1, 2018

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

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