

GLATFELTER P H CO  
Form 10-K  
February 27, 2015  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the fiscal year ended December 31, 2014**

or

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

**96 South George Street, Suite 520**

**York, Pennsylvania 17401**

*(Address of principal executive offices)*

**(717) 225-4711**

*(Registrant's telephone number, including area code)*

|                        |   |                    |  |
|------------------------|---|--------------------|--|
|                        |   | IRS Employer       |  |
| Commission file number | Exact name of registrant as specified in its charter        | Identification No. | State or other jurisdiction of incorporation or organization |
| <b>1-03560</b>         | <b>P. H. Glatfelter Company</b>                             | <b>23-0628360</b>  | <b>Pennsylvania</b>  |
|                        | Securities registered pursuant to Section 12(b) of the Act: |                    |  |

|  |   |
|--|---|
| Title of Each Class                            | Name of Each Exchange on which registered |
| <b>Common Stock, par value \$.01 per share</b> | <b>New York Stock Exchange</b>            |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.  Large accelerated filer  Accelerated filer  Non-accelerated filer  Small reporting company (Do not check if a smaller reporting company).

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

Based on the closing price as of June 30, 2014, the aggregate market value of the Common Stock of the Registrant held by non-affiliates was \$1,123 million.

**Common Stock outstanding on February 25, 2015 totaled 43,095,572 shares.**

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following documents are incorporated by reference in this Annual Report on Form 10-K:

Portions of the registrant's Proxy Statement to be dated on or about April 2, 2015 are incorporated by reference to Part III.

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**P. H. GLATFELTER COMPANY**  
**ANNUAL REPORT ON FORM 10-K**

**For the Year Ended**

**DECEMBER 31, 2014**

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We make regular filings with the Securities and Exchange Commission (SEC), including this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. These filings are available, free of charge, on our website, [www.glatfelter.com](http://www.glatfelter.com), and the SEC website at [www.sec.gov](http://www.sec.gov). We also provide copies of our SEC filings at no charge upon request to Investor Relations at (717) 225-2719, [ir@glatfelter.com](mailto:ir@glatfelter.com), or by mail to Investor Relations, 96 South George Street, Suite 520, York, PA, 17401. In this filing, unless the context indicates otherwise, the terms we, us, our, the Company, or Glatfelter refer to P. H. Glatfelter Company and subsidiaries.

**ITEM 1 BUSINESS**

**Overview** Glatfelter began operations in 1864, and we believe we are one of the world's leading manufacturers of specialty papers and fiber-based engineered materials. Headquartered in York, Pennsylvania, we own and operate manufacturing facilities located in Pennsylvania, Ohio, Canada, Germany, the United Kingdom, France, and the Philippines and we have sales and distribution offices in Russia and China.

**Acquisitions** Over the past several years, we have completed several acquisitions that have diversified our revenue, expanded our geographic footprint and enhanced our asset base. These transactions include the April 30, 2013, \$211 million acquisition of Dresden Papier GmbH (Dresden), a leading supplier of non-woven wall covering products. Revenue from the sale of non-woven wall covering products totaled \$150.0 million and \$97.7 million, in 2014 and 2013, respectively.

On October 1, 2014, we acquired Spezialpapierfabrik Oberschmitt GmbH (SPO) for \$8.0 million. SPO is a producer of highly technical papers for a wide range of capacitors used in consumer and industrial products; insulation papers for cables and transformers; and materials for industrial power inverters, electromagnetic current filters and electric rail traction. SPO's annual sales total approximately \$33 million.

**Products** Our three business units manufacture a wide array of specialty papers and fiber-based engineered materials including:

*Composite Fibers* with revenue from the sale of single-serve coffee and tea filtration papers, nonwoven wall covering materials, metallized and self adhesive labeling papers, composite laminates, and technical specialties including substrates for electrical applications such as batteries and capacitors.

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

*Specialty Papers* with revenue from the sale of papers for carbonless and other forms, book publishing, envelopes, and engineered products such as papers for digital imaging, packaging, casting, release, transfer, playing card, postal, FDA-compliant food and beverage applications, and other niche specialty applications.

The global growth markets served by the Composite Fibers and Advance Airlaid Materials business units are characterized by attractive growth rates as the result of new and emerging products and markets, changing end-user preferences and evolving demographics. Specialty Papers serves more mature market segments, many of which are in decline.

As a result of our strategy to diversify sources of revenue and invest in growth businesses, revenue generated from Composite Fibers and Advanced Airlaid Materials is expected to represent an increasingly greater proportion of total revenue. Combined, these two business units comprised 50% of consolidated revenue in 2014 compared with 30% in 2006.

Consolidated net sales and the relative net sales contribution of each of our business units for the past three years are summarized below:

| <i>Dollars in thousands</i> | 2014         | 2013         | 2012         |
|-----------------------------|--------------|--------------|--------------|
| Net sales                   | \$ 1,802,415 | \$ 1,722,615 | \$ 1,577,788 |

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### *Business unit contribution*

|                            |               |        |        |
|----------------------------|---------------|--------|--------|
| Composite Fibers           | <b>34.3%</b>  | 32.9%  | 27.7%  |
| Advanced Airlaid Materials | <b>15.6</b>   | 15.6   | 15.6   |
| Specialty Papers           | <b>50.1</b>   | 51.5   | 56.7   |
| Total                      | <b>100.0%</b> | 100.0% | 100.0% |

Our strategies are focused on growing revenues, in part, by leveraging leading positions in key global growth markets including the single-serve coffee and tea, non-woven wall covering materials and the hygiene products markets. To ensure we are best positioned to serve these markets, we have made investments to increase production capacity and intend to make additional investments in the future.

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In addition to leveraging our leading positions, our focus on product innovation is a critical component of our business strategy. During 2014, 2013 and 2012, we invested \$12.3 million, \$12.2 million and \$10.9 million, respectively, in new product development activities. In each of the past three years, in excess of 50% of net sales were generated from products developed, enhanced or improved within the past five years.

Other key elements to our success include margin expansion, driven by cost reduction and continuous improvement initiatives; the generation of strong and reliable cash flows; and strategic investments to improve our returns on invested capital. In addition, the strength of our balance sheet and generation of cash flows has allowed us to pursue strategic actions such as the Dresden and SPO acquisitions, a \$50 million investment to expand capacity in Composite Fibers, share repurchase programs and increase our dividend. These actions and our disciplined approach to capital expenditures has resulted in the generation of returns on invested capital that exceed our cost of capital.

We have a demonstrated ability to establish leading market positions through the successful acquisition and integration of complementary businesses. Since 2006, we have successfully completed and integrated six acquisitions. Our acquisition strategy complements our long-term strategy of driving growth in our markets.

**Our Business Units** We manage our company as three distinct business units: Composite Fibers; Advanced Airlaid Materials; and Specialty Papers. Net tons sold by each business unit for the past three years were as follows:

| <i>Short tons</i>          | 2014      | 2013      | 2012    |
|----------------------------|-----------|-----------|---------|
| Composite Fibers           | 157,336   | 133,570   | 90,300  |
| Advanced Airlaid Materials | 99,667    | 96,098    | 90,332  |
| Specialty Papers           | 802,877   | 800,151   | 789,201 |
| Total                      | 1,059,880 | 1,029,819 | 969,833 |

**Composite Fibers** Our Composite Fibers business unit serves customers globally and focuses on higher value-added products in the following markets:

**Food & Beverage** paper primarily used for single-serve coffee and tea products;

**Non-woven wall covering** base materials used by the world's largest wallpaper manufacturers;

**Metallized** products used in the labeling of bottles, packaging innerliners, gift wrap, self-adhesive labels and other consumer product applications;

**Composite Laminates** papers used in production of decorative laminates, furniture, and flooring applications; and

**Technical Specialties** a diverse line of special paper products used in batteries, capacitors, adhesive tapes and other highly-engineered applications.

During 2013, we completed the acquisition of Dresden a leading global supplier of nonwoven wallpaper base materials. Dresden has a preeminent position in nonwoven wallpaper materials as both the cost and quality leader because of its innovative products, proprietary manufacturing techniques, and long-standing customer relationship. It produces products with superior performance and characteristics such as dry strip-ability, higher tear resistance, and no material shrinkage or expansion when wet. As a result, nonwovens are increasingly the product of choice for wallpaper installers and design professionals in Europe and Russia, with growth potential in Asia. The acquisition of Dresden added another industry-leading nonwovens product line to our Composite Fibers business, and broadened our relationship with leading producers of consumer and industrial products.

We believe this business unit maintains a market leadership position in the single-serve coffee and tea markets and nonwoven wallpaper materials markets. Composite Fibers' revenue composition by market consisted of the following for the years indicated:

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| <i>In thousands</i>             | 2014       | 2013       | 2012       |
|---------------------------------|------------|------------|------------|
| Food & beverage                 | \$ 296,304 | \$ 302,738 | \$ 265,423 |
| Wall covering                   | 149,957    | 97,698     |            |
| Metallized                      | 80,839     | 83,949     | 87,720     |
| Composite laminates             | 38,159     | 39,296     | 44,613     |
| Technical specialties and other | 52,592     | 42,679     | 38,984     |
| Total                           | \$ 617,851 | \$ 566,360 | \$ 436,740 |

We believe many of the market segments served by Composite Fibers, particularly single-serve coffee and tea, nonwoven wallpaper materials and electrical products present attractive growth opportunities by capitalizing on evolving consumer preferences, expanding into new or emerging geographic markets, and by gaining market share through quality product and service offerings. Many of this business' papers are technically sophisticated and, in the case of single serve-coffee and tea products, are extremely lightweight and require specialized fibers. Our engineering capabilities, specifically designed papermaking equipment, use of specialized fibers and customer orientation positions us well to compete in these global markets.

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The primary raw materials used in the production of our lightweight papers are abaca pulp, wood pulp and synthetic fibers. Abaca pulp is a specialized pulp with limited sources of availability. Our abaca pulp production process, fulfilled by our Philippine mill, provides a unique advantage to our Composite Fibers business unit. Sufficient quantities of abaca pulp and its source fiber are required to support growth in this business unit. In the event the supply of abaca fiber becomes constrained or when production demands exceed the capacity of the Philippines mill, alternative sources and/or substitute fibers are used to meet customer demands.

The Composite Fibers business unit is comprised of four paper making facilities (Germany, France and England), a non-woven wall cover base mill (Germany), metallizing operations (Wales and Germany) and a pulp mill (the Philippines) with the following combined attributes:

| Production Capacity<br>(short tons) | Principal Raw Material<br>( PRM ) | Estimated Annual Quantity of PRM<br>(short tons) |
|-------------------------------------|-----------------------------------|--|
| 153,500 lightweight and other       | Abaca pulp                        | 17,200   |
|                                     | Wood pulp                         | 91,600   |
|                                     | Synthetic fiber                   | 26,900   |
| 28,100 metallized                   | Base stock                        | 26,800   |
| 17,600 abaca pulp                   | Abaca fiber                       | 26,900   |

Composite Fibers lightweight products are produced using highly specialized inclined wire paper machine technology and we believe we currently maintain approximately 25% of the global inclined wire capacity.

In addition to critical raw materials, the cost to produce Composite Fibers products is influenced by energy. Although the business unit generates all of its steam needed for production, in 2014, it purchased 75% of its electricity.

In Composite Fibers markets, competition is product line specific as the necessity for technical expertise and specialized manufacturing equipment limits the number of companies offering multiple product lines. The following chart summarizes key competitors by market segment:

| Market segment            | Competitor  |
|---------------------------|---|
| Single serve coffee & tea | Ahlstrom, Purico, MB Papeles and Zhejiang Kan   |
| Nonwoven wallcovering     | Ahlstrom, Technocell, Neu Kaliss, Goznak and Neenah Paper   |
| Composite laminates       | PdM, a division of Schweitzer-Mauduit, Purico, MB Papeles and Oi feng                                       |
| Metallized                | AR Metallizing, Torras Papel Novellis, Vaassen, Galileo Nanotech, and Wenzhou Protec Vacuum Metallizing Co. |

Our strategy in Composite Fibers is focused on:

Capitalizing on growing global markets in food & beverage, nonwoven wall covering materials, and electrical products;

maximizing capacity utilization provided by the investment in state-of-the-art inclined wire technology to support consistent growth of key markets;

enhancing product mix across all of the business unit s markets by utilizing new product and new business development capabilities;

implementing continuous improvement methodologies to increase productivity, reduce costs and expand capacity; and

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ensuring readily available access to specialized raw material requirements to support projected growth.

As part of our commitment to realizing the growth potential of certain of this business unit's markets, in 2013 we completed a \$50 million investment to expand our inclined wire capacity by nearly 20%, or approximately 10,500 short tons. We converted a flat wire machine in Gernsbach, Germany into a state-of-the-art inclined wire machine. Production of saleable products from the new machine began in the second quarter of 2013.

In addition, the acquisition of SPO furthers our strategy of capitalizing on the fast-growing electrical market by broadening our electrical papers platform and know-how.

**Advanced Airlaid Materials** is a leading global supplier of highly absorbent cellulose-based airlaid non-woven materials used to manufacture consumer and industrial products for growing global end-user markets. These products include:

feminine hygiene;

adult incontinence;

specialty wipes;

home care;

table top; and

food pads.

Advanced Airlaid Materials serves customers who are industry leading consumer product companies for feminine hygiene and adult incontinence products. Advanced Airlaid Materials holds leading market share positions in many of

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the markets it serves, excels in building long-term customer relationships through superior quality and customer service programs, and has a well-earned reputation for innovation and its ability to quickly bring new products to market.

Advanced Airlaid Materials' revenue composition by market consisted of the following for the years indicated:

| <i>In thousands</i> | 2014       | 2013       | 2012       |
|---------------------|------------|------------|------------|
| Feminine hygiene    | \$ 216,836 | \$ 219,222 | \$ 197,792 |
| Adult incontinence  | 17,586     | 5,046      | 6,959      |
| Wipes               | 16,002     | 15,186     | 13,562     |
| Home care           | 15,401     | 14,857     | 14,527     |
| Other               | 15,848     | 14,085     | 13,442     |
| Total               | \$ 281,673 | \$ 268,396 | \$ 246,282 |

The feminine hygiene category accounted for 77% of Advanced Airlaid Materials' revenue in 2014. The majority of sales of this product are to a small group of large, leading global consumer products companies. This market is considered to be more growth oriented driven by population growth in certain geographic regions, consumer preferences, and suppliers' ability to provide innovative products. In developing regions, demand is also influenced by increases in disposable income and cultural preferences. During 2014, sales to the adult incontinence market increased substantially compared with previous years reflecting this unit's success developing and bringing to market products in support of its customers growth initiatives.

The Advanced Airlaid Materials business unit operates state-of-the-art facilities in Falkenhagen, Germany and Gatineau, Canada. The Falkenhagen location operates three multi-bonded production lines and three proprietary single-lane festooners. The Gatineau location consists of two airlaid production lines employing multi-bonded and thermal-bonded airlaid technologies and two proprietary single-lane festooners.

The business unit's two facilities operate with the following combined attributes:

| Airlaid Production<br>Capacity (short tons) | Principal Raw<br>Material ( PRM )<br>Fluff pulp | Estimated Annual<br>Quantity of PRM<br>(short tons) |
|---|---|---|
| 107,000                                     |   | 73,900  |

In addition to the cost of critical raw materials, the cost to produce multi-bonded and thermal-bonded airlaid materials is impacted by energy. Advanced Airlaid Materials purchases substantially all of the electricity and natural gas used in its operations. Approximately 90% of this business unit's revenue is earned under contracts with pass-through provisions directly related to the price of key raw material costs.

Advanced Airlaid Materials continues to be a technology and product innovation leader in technically

demanding segments of the airlaid market, most notably feminine hygiene. We believe that its facilities are among the most modern and flexible airlaid facilities in the world, allowing it to produce at industry leading operating rates. Its proprietary single-lane festooning technology provides product packaging which supports efficiency optimization by the customers converting processes. This business unit's in-house technical expertise, combined with significant capital investment requirements and rigorous customer expectations creates large barriers to entry for new competitors.

The following summarizes this business unit's key competitors:

| Market segment   | Competitor   |
|------------------|--|
| Airlaid products | Georgia-Pacific LLC, Duni AB, Fitesa, McAirlaid's GmbH, Domtar |

The global markets served by this business unit are characterized by attractive growth opportunities. To take advantage of this, our strategy is focused on:

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maintaining and expanding relationships with customers that are market-leading consumer product companies;

capitalizing on our product and process innovation capabilities;

expanding geographic reach of markets served;

optimizing the use of existing production capacity; and

employing continuous improvement methodologies and initiatives to reduce costs, improve efficiencies and create capacity.

**Specialty Papers** Our North America-based Specialty Papers business unit focuses on producing papers for the following markets:

**Carbonless & non-carbonless forms** papers for credit card receipts, multi-part forms, security papers and other end-user applications;

**Engineered products** for digital imaging, packaging, casting, release, transfer, playing card, postal, FDA-compliant food and beverage applications, and other niche specialty applications;

**Envelope and converting** papers primarily utilized for transactional and direct mail envelopes; and

**Book publishing** papers for the production of high-quality hardbound books and other book publishing needs.

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The market segments in which Specialty Papers competes continue to undergo significant changes in response to declining demand resulting in excess capacity. As a result, over the past several years, certain producers have closed, or announced plans to reduce, production capacity due to a supply/demand imbalance. In addition, foreign producers have been increasing the volume of product imported into the U.S. creating additional imbalance.

This business unit produces both commodity products and higher-value-added specialty products. Specialty Papers' revenue composition by market consisted of the following for the years indicated:

| <i>In thousands</i>   | <b>2014</b>       | 2013       | 2012       |
|-----------------------|-------------------|------------|------------|
| Carbonless & forms    | \$ <b>376,959</b> | \$ 369,618 | \$ 372,950 |
| Engineered products   | <b>194,189</b>    | 184,913    | 187,724    |
| Envelope & converting | <b>183,194</b>    | 175,928    | 174,781    |
| Book publishing       | <b>144,744</b>    | 153,054    | 155,925    |
| Other                 | <b>3,805</b>      | 4,346      | 3,397      |
| Total                 | \$ <b>902,891</b> | \$ 887,859 | \$ 894,777 |

Although many of the markets served by Specialty Papers are mature and, in many instances, declining, we have been successful at maintaining this unit's shipments through new product and new business development initiatives while leveraging the flexibility of our operating assets to efficiently respond to changing c