

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

☒ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2020

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____



**4350 Congress Street, Suite 600
Charlotte, North Carolina 28209**
(Address of principal executive offices)

(704) 885-2555
(Registrant's telephone number, including area code)

Commission file
number

1-03560

Exact name of registrant as
specified in its charter

Glatfelter Corporation

IRS Employer
Identification No.

23-0628360

State or other jurisdiction of
incorporation or organization

Pennsylvania

(N/A)

Former name or former address, if changed since last report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	GLT	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Common Stock outstanding on November 6, 2020 totaled 44,367,836 shares.

GLATFELTER CORPORATION AND SUBSIDIARIES
REPORT ON FORM 10-Q
For the QUARTERLY PERIOD ENDED

September 30, 2020

Table of Contents

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1	
<u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2020 and 2019 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2020 and 2019 (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019 (unaudited)</u>	5
<u>Statements of Shareholders' Equity for the three months and nine months ended September 30, 2020 and 2019 (unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
1. <u>Organization</u>	7
2. <u>Accounting Policies</u>	7
3. <u>Restructuring</u>	8
4. <u>Asset Impairment</u>	8
5. <u>Revenue</u>	8
6. <u>Discontinued Operations</u>	9
7. <u>Gain on Disposition of Plant, Equipment and Timberlands</u>	10
8. <u>Earnings Per Share</u>	10
9. <u>Accumulated Other Comprehensive Income</u>	12
10. <u>Income Taxes</u>	13
11. <u>Stock-based Compensation</u>	14
12. <u>Retirement Plans and Other Post- Retirement Benefits</u>	16
13. <u>Inventories</u>	17
14. <u>Leases</u>	17
15. <u>Long-term Debt</u>	18
16. <u>Fair Value of Financial Instruments</u>	19
17. <u>Financial Derivatives and Hedging Activities</u>	19
18. <u>Commitments, Contingencies and Legal Proceedings</u>	22
19. <u>Segment Information</u>	23
Item 2	25
Item 3	37
Item 4	38
<u>PART II – OTHER INFORMATION</u>	
Item 1A	38
Item 6	39
<u>SIGNATURES</u>	40

PART I

Item 1 – Financial Statements

GLATFELTER CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

<i>In thousands, except per share</i>	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net sales	\$ 233,473	\$ 232,515	\$ 681,216	\$ 696,701
Costs of products sold	195,222	194,494	574,100	585,563
Gross profit	38,251	38,021	107,116	111,138
Selling, general and administrative expenses	24,635	23,721	72,707	71,143
Gains on dispositions of plant, equipment and timberlands, net	(413)	(235)	(1,010)	(1,327)
Operating income	14,029	14,535	35,419	41,322
Non-operating income (expense)				
Interest expense	(1,810)	(1,902)	(5,347)	(8,513)
Interest income	39	185	390	931
Pension settlement expenses, net	(389)	—	(6,792)	—
Other, net	(1,728)	(1,034)	(3,243)	(3,547)
Total non-operating expense	(3,888)	(2,751)	(14,992)	(11,129)
Income from continuing operations before income taxes	10,141	11,784	20,427	30,193
Income tax provision	3,614	3,141	8,775	10,654
Income from continuing operations	6,527	8,643	11,652	19,539
Discontinued operations:				
Income (loss) before income taxes	—	1,062	(135)	1,291
Income tax provision (benefit)	—	(2,519)	—	(2,511)
Income (loss) from discontinued operations	—	3,581	(135)	3,802
Net income	\$ 6,527	\$ 12,224	\$ 11,517	\$ 23,341
Basic earnings per share				
Income from continuing operations	\$ 0.15	\$ 0.19	\$ 0.26	\$ 0.44
Income from discontinued operations	—	0.09	—	0.09
Basic earnings per share	\$ 0.15	\$ 0.28	\$ 0.26	\$ 0.53
Diluted earnings per share				
Income from continuing operations	\$ 0.15	\$ 0.19	\$ 0.26	\$ 0.44
Income from discontinued operations	—	0.09	—	0.09
Diluted earnings per share	\$ 0.15	\$ 0.28	\$ 0.26	\$ 0.53
Cash dividends declared per common share	\$ 0.135	\$ 0.13	\$ 0.40	\$ 0.39
Weighted average shares outstanding				
Basic	44,368	44,171	44,329	44,113
Diluted	44,636	44,442	44,549	44,405

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

GLATFELTER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

<i>In thousands</i>	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net income	\$ 6,527	\$ 12,224	\$ 11,517	\$ 23,341
Foreign currency translation adjustments	17,836	(17,073)	9,824	(20,452)
Net change in:				
Deferred gains (losses) on cash flow hedges, net of taxes of \$1,049, \$(873), \$1,745 and \$(1,629), respectively	(2,835)	2,365	(4,704)	4,608
Unrecognized retirement obligations, net of taxes of \$53, \$(220), \$156 and \$(1,606), respectively	270	2,817	70	7,657
Other comprehensive income (loss)	15,271	(11,891)	5,190	(8,187)
Comprehensive income	<u>\$ 21,798</u>	<u>\$ 333</u>	<u>\$ 16,707</u>	<u>\$ 15,154</u>

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

GLATFELTER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

<i>In thousands</i>	September 30 2020	December 31 2019
Assets		
Cash and cash equivalents	\$ 59,241	\$ 126,201
Accounts receivable, net	133,577	124,442
Inventories	193,434	190,415
Prepaid expenses and other current assets	35,497	36,274
Total current assets	421,749	477,332
Plant, equipment and timberlands, net	528,512	537,421
Goodwill	156,863	150,816
Intangible assets, net	80,114	83,735
Other assets	46,704	34,490
Total assets	\$ 1,233,942	\$ 1,283,794
Liabilities and Shareholders' Equity		
Current portion of long-term debt	\$ 23,908	\$ 22,940
Accounts payable	95,506	130,039
Dividends payable	5,990	5,752
Environmental liabilities	4,500	9,000
Other current liabilities	68,262	62,772
Total current liabilities	198,166	230,503
Long-term debt	307,984	336,919
Deferred income taxes	75,789	76,374
Other long-term liabilities	93,578	84,039
Total liabilities	675,517	727,835
Commitments and contingencies	—	—
Shareholders' equity		
Common stock	544	544
Capital in excess of par value	61,600	59,900
Retained earnings	719,572	725,795
Accumulated other comprehensive loss	(72,706)	(77,896)
	709,010	708,343
Less cost of common stock in treasury	(150,585)	(152,384)
Total shareholders' equity	558,425	555,959
Total liabilities and shareholders' equity	\$ 1,233,942	\$ 1,283,794

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

GLATFELTER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

<i>In thousands</i>	Nine months ended September 30	
	2020	2019
Operating activities		
Net income	\$ 11,517	\$ 23,341
Loss (income) from discontinued operations, net of taxes	135	(3,802)
Adjustments to reconcile to net cash provided by continuing operations:		
Depreciation, depletion and amortization	43,310	38,114
Amortization of debt issue costs and original issue discount	441	1,525
Asset impairment charge	900	—
Deferred income tax provision	446	441
Gains on dispositions of plant, equipment and timberlands, net	(1,010)	(1,327)
Share-based compensation	3,994	2,683
Change in operating assets and liabilities		
Accounts receivable	(6,053)	(5,431)
Inventories	2,229	(23,728)
Prepaid and other current assets	(1,154)	(4,512)
Accounts payable	(33,790)	(5,347)
Accruals and other current liabilities	284	(5,891)
Other	3,290	(472)
Net cash provided by operating activities from continuing operations	24,539	15,594
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	(20,165)	(18,017)
Proceeds from disposals of plant, equipment and timberlands, net	1,037	1,363
Acquisition, net of cash acquired	—	(1,974)
Other	(50)	(163)
Net cash used by investing activities from continuing operations	(19,178)	(18,791)
Financing activities		
Net (repayments) borrowings under revolving credit facility	(26,092)	(30,183)
Repayment of 5.375% Notes	—	(250,000)
Proceeds from term loans	—	248,644
Payments of borrowing costs	—	(2,170)
Repayment of term loans	(17,136)	(11,020)
Payments of dividends	(17,502)	(17,194)
Payments related to share-based compensation awards and other	(233)	(755)
Net cash used by financing activities from continuing operations	(60,963)	(62,678)
Effect of exchange rate changes on cash	2,361	(1,794)
Net decrease in cash, cash equivalents and restricted cash	(53,241)	(67,669)
Decrease in cash, cash equivalents and restricted cash from discontinued operations	(1,108)	(17,970)
Cash, cash equivalents and restricted cash at the beginning of period	126,201	142,685
Cash, cash equivalents and restricted cash at the end of period	71,852	57,046
Less: restricted cash in Prepaid and other current assets	(2,000)	—
Less: restricted cash in Other assets	(10,611)	—
Cash and cash equivalents at the end of period	\$ 59,241	\$ 57,046

Supplemental cash flow information

Cash paid for:

Interest	\$ 4,704	\$ 9,245
Income taxes, net	8,592	10,741

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

GLATFELTER CORPORATION AND SUBSIDIARIES
STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

<i>In thousands</i>	Common stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at July 1, 2020	\$ 544	\$ 59,982	\$ 719,035	\$ (87,977)	\$ (150,585)	\$ 540,999
Net income			6,527			6,527
Other comprehensive income				15,271		15,271
Comprehensive income						21,798
Cash dividends declared (\$0.135 per share)			(5,990)			(5,990)
Share-based compensation expense		1,618				1,618
Delivery of treasury shares						
RSUs and PSAs		—			—	—
Employee stock options exercised — net		—			—	—
Balance at September 30, 2020	<u>\$ 544</u>	<u>\$ 61,600</u>	<u>\$ 719,572</u>	<u>\$ (72,706)</u>	<u>\$ (150,585)</u>	<u>\$ 558,425</u>
Balance at July 1, 2019	\$ 544	\$ 59,920	\$ 769,940	\$ (133,736)	\$ (153,549)	\$ 543,119
Net income			12,224			12,224
Other comprehensive loss				(11,891)		(11,891)
Comprehensive income						333
Cash dividends declared (\$0.13 per share)			(5,740)			(5,740)
Share-based compensation expense		1,045				1,045
Delivery of treasury shares						
RSUs and PSAs		—			—	—
Employee stock options exercised — net		—			—	—
Balance at September 30, 2019	<u>\$ 544</u>	<u>\$ 60,965</u>	<u>\$ 776,424</u>	<u>\$ (145,627)</u>	<u>\$ (153,549)</u>	<u>\$ 538,757</u>
Balance at January 1, 2020	\$ 544	\$ 59,900	\$ 725,795	\$ (77,896)	\$ (152,384)	\$ 555,959
Net income			11,517			11,517
Other comprehensive income				5,190		5,190
Comprehensive income						16,707
Cash dividends declared (\$0.40 per share)			(17,740)			(17,740)
Share-based compensation expense		3,994				3,994
Delivery of treasury shares						
RSUs and PSAs		(2,077)			1,657	(420)
Employee stock options exercised — net		(217)			142	(75)
Balance at September 30, 2020	<u>\$ 544</u>	<u>\$ 61,600</u>	<u>\$ 719,572</u>	<u>\$ (72,706)</u>	<u>\$ (150,585)</u>	<u>\$ 558,425</u>
Balance at January 1, 2019	\$ 544	\$ 62,239	\$ 770,305	\$ (137,440)	\$ (156,750)	\$ 538,898
Net income			23,341			23,341
Other comprehensive loss				(8,187)		(8,187)
Comprehensive income						15,154
Cash dividends declared (\$0.39 per share)			(17,222)			(17,222)
Share-based compensation expense		2,683				2,683
Delivery of treasury shares						
RSUs and PSAs		(2,421)			2,097	(324)
Employee stock options exercised — net		(1,536)			1,104	(432)
Balance at September 30, 2019	<u>\$ 544</u>	<u>\$ 60,965</u>	<u>\$ 776,424</u>	<u>\$ (145,627)</u>	<u>\$ (153,549)</u>	<u>\$ 538,757</u>

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

GLATFELTER CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION

Glatfelter Corporation and subsidiaries (“Glatfelter”), formerly known as P. H. Glatfelter Company and subsidiaries, is a leading global supplier of engineered materials. Our high-quality, innovative and customizable solutions are found in tea and single-serve coffee filtration, personal hygiene and packaging products as well as home improvement and industrial applications. We are headquartered in Charlotte, NC, and operate facilities in the United States, Canada, Germany, France, the United Kingdom and the Philippines. We have sales and distribution offices in the U.S., Europe, Russia and China and our products are marketed worldwide, either directly to customers or through brokers and agents. The terms “we,” “us,” “our,” “the Company,” or “Glatfelter,” refer to Glatfelter Corporation and subsidiaries unless the context indicates otherwise.

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 you have read the audited consolidated financial statements included in our 2019 Annual Report on Form 10-K.

Discontinued Operations The results of operations for our former Specialty Papers business have been classified as discontinued operations for all periods presented in the condensed consolidated statements of income.

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 actual results may differ from those estimates and assumptions.

Restricted Cash Restricted cash represents amounts contributed to a 401(k) suspense accounts in connection with the termination of the Company’s qualified pension plan in 2019 and subsequent reversion of excess plan assets to the Company in 2020. The amounts contributed to the 401(k)-suspense account can only be used to pay 401(k) contributions to employees for a period not to exceed the next seven years from its establishment in 2020.

Recently Issued Accounting Pronouncements 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. We adopted this standard effective January 1, 2020 using a modified retrospective approach. The adoption of this standard did not impact our results of operations or financial position.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The update eliminates, clarifies, and modifies certain guidance related to the accounting for income taxes. ASU 2019-12 is effective for annual reporting periods beginning after December 15, 2020, with early adoption permitted. We are currently evaluating the impact this ASU will have on our financial statements and we expect to adopt this standard in the first quarter of 2021.

3. RESTRUCTURING

In the first quarter of 2020, we announced restructuring actions within the Composite Fibers operating segment. The actions primarily consisted of the consolidation of our metallizing operation from Gernsbach, Germany to our Caerphilly, U.K. site.

<i>In thousands</i>	Three months ended September 30 2020	Nine months ended September 30 2020
Severance and benefit continuation	\$ —	\$ 6,143
Accelerated depreciation	15	3,900
Inventory and spare parts	42	977
Other	—	91
Total	<u>\$ 57</u>	<u>\$ 11,111</u>

The restructuring charge is recorded under the caption “Costs of product sold” in the accompanying condensed consolidated statements of income for the three months and nine months ended September 30, 2020. With the exception of the severance and benefit continuation amounts, all other amounts accrued represent accelerated non-cash asset write-downs. As of September 30, 2020, the accrued and unpaid restructuring charge totaled approximately \$1.6 million. The severance and benefit continuation costs are generally expected to be paid out ratably over the next 3 months.

4. ASSET IMPAIRMENT

During the second quarter of 2020, in connection with an assessment of potential impairment of indefinite lived intangible assets, we recorded \$0.9 million of non-cash asset impairment charge related to a trade name intangible asset acquired in connection with our Composite Fibers segment’s 2013 Dresden acquisition. The charge was due to a change in the estimated fair value of the trade name, primarily driven by lower forecasted wallcover revenues associated with economic instability in Russia and Ukraine and incremental impacts from the COVID-19 pandemic on this business. The charge is recorded in the accompanying condensed consolidated statements of income under the caption “Selling, general and administrative expenses.” The fair value of the asset was estimated using a discounted cash flow model, Level 3 fair value classification.

5. REVENUE

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

<i>In thousands</i>	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Composite Fibers				
Food & beverage	\$ 68,593	\$ 66,637	\$ 213,074	\$ 208,480
Wallcovering	24,695	20,673	55,847	62,181
Technical specialties	22,517	20,301	61,340	58,855
Composite laminates	8,640	8,859	26,529	26,552
Metallized	7,974	11,234	30,477	32,934
	<u>132,419</u>	<u>127,704</u>	<u>387,267</u>	<u>389,002</u>
Airlaid Materials				
Feminine hygiene	53,463	52,159	154,227	158,998
Specialty wipes	17,929	17,994	56,088	52,982
Tabletop	12,445	19,179	33,026	48,857
Adult incontinence	5,255	5,855	16,411	17,708
Home care	7,121	4,857	18,611	13,173
Other	4,841	4,767	15,586	15,981
	<u>101,054</u>	<u>104,811</u>	<u>293,949</u>	<u>307,699</u>
	<u>\$ 233,473</u>	<u>\$ 232,515</u>	<u>\$ 681,216</u>	<u>\$ 696,701</u>

<i>In thousands</i>	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Composite Fibers				
Europe, Middle East and Africa	\$ 82,032	\$ 77,012	\$ 230,434	\$ 234,928
Americas	31,583	33,179	97,656	98,783
Asia Pacific	18,804	17,513	59,177	55,291
	<u>132,419</u>	<u>127,704</u>	<u>387,267</u>	<u>389,002</u>
Airlaid Materials				
Europe, Middle East and Africa	52,835	58,279	151,434	167,924
Americas	44,141	45,039	133,789	134,634
Asia Pacific	4,078	1,493	8,726	5,141
	<u>101,054</u>	<u>104,811</u>	<u>293,949</u>	<u>307,699</u>
	<u>\$ 233,473</u>	<u>\$ 232,515</u>	<u>\$ 681,216</u>	<u>\$ 696,701</u>

6. DISCONTINUED OPERATIONS

On October 31, 2018, we completed the previously announced sale of our Specialty Papers business on a cash free and debt free basis to Pixelle Specialty Solutions LLC, an affiliate of Lindsay Goldberg (the “Purchaser”) for \$360 million. Cash proceeds from the sale were approximately \$323 million in cash reflecting estimated purchase price adjustments as of the closing date and the assumption by the Purchaser of approximately \$38 million in retiree healthcare liabilities. In addition, the Purchaser assumed approximately \$210 million of pension liabilities relating to Specialty Papers’ employees and received approximately \$274 million of related assets from the Company’s existing pension plan.

In connection with the sale of Specialty Papers, we entered into a Transition Services Agreement with Purchaser pursuant to which we agreed to provide various back-office and information technology support until the business is fully separated from us, which was completed in the third quarter of 2019.

The following table sets forth a summary of discontinued operations included in the condensed consolidated statements of income:

<i>In thousands</i>	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net sales	\$ —	\$ —	\$ —	\$ —
Energy and related sales, net	—	—	—	—
Total revenues	—	—	—	—
Costs of products sold	—	—	—	—
Gross profit	—	—	—	—
Selling, general and administrative expenses	—	(2,455)	135	(2,684)
Gains on dispositions of plant, equipment and timberlands, net	—	—	—	—
Operating income (loss)	—	2,455	(135)	2,684
Non-operating income (expense)				
Interest expense	—	—	—	—
Other, net	—	(1,393)	—	(1,393)
Impairment charge	—	—	—	—
Income (loss) before income taxes	-	1,062	(135)	1,291
Income tax provision (benefit)	—	(2,519)	—	(2,511)
Income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ 3,581</u>	<u>\$ (135)</u>	<u>\$ 3,802</u>

The following table sets forth a summary of cash flows from discontinued operations which is included in the condensed consolidated statements of cash flows:

<i>In thousands</i>	Nine months ended September 30	
	2020	2019
Net cash used by operating activities	\$ (1,108)	\$ (9,749)
Net cash used by investing activities	—	(8,221)
Net cash provided by financing activities	—	—
Change in cash and cash equivalents from discontinued operations	\$ (1,108)	\$ (17,970)

7. GAINS ON DISPOSITION OF PLANT, EQUIPMENT AND TIMBERLANDS

The following table sets forth sales of timberlands and other assets completed during the first nine months ended September 30, 2020 and 2019:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain
2020			
Timberlands	357	\$ 1,037	\$ 1,013
Other	n/a	-	(3)
Total		\$ 1,037	\$ 1,010
2019			
Timberlands	463	\$ 1,147	\$ 1,114
Other	n/a	216	213
Total		\$ 1,363	\$ 1,327

8. EARNINGS PER SHARE

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

<i>In thousands, except per share</i>	Three months ended September 30	
	2020	2019
Income from continuing operations	\$ 6,527	\$ 8,643
Weighted average common shares outstanding used in basic EPS	44,368	44,171
Effect of dilutive SOSARs, PSAs and RSUs	268	271
Weighted average common shares outstanding and common share equivalents used in diluted EPS	44,636	44,442
Earnings per share from continuing operations		
Basic	\$ 0.15	\$ 0.19
Diluted	0.15	0.19

<i>In thousands, except per share</i>	Nine months ended September 30	
	2020	2019
Income from continuing operations	\$ 11,652	\$ 19,539
Weighted average common shares outstanding used in basic EPS	44,329	44,113
Effect of dilutive SOSARs, PSAs and RSUs	220	292
Weighted average common shares outstanding and common share equivalents used in diluted EPS	44,549	44,405
Earnings per share from continuing operations		
Basic	\$ 0.26	\$ 0.44
Diluted	0.26	0.44

The numerator used to compute per share amounts from discontinued operations was \$0.0 million, \$3.6 million, a loss of \$0.1 million and \$3.8 million, for the third quarters of 2020 and 2019 and the first nine months of 2020 and 2019, respectively. The denominator used to compute per share amounts from discontinued operations is the same as the denominator used for per share amounts from continuing operations.

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

<i>In thousands</i>	September 30	
	2020	2019
Three months ended	1,082	1,233
Nine months ended	1,082	1,233

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three months and nine months ended September 30, 2020 and 2019.

<i>In thousands</i>	Currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in pensions	Change in other postretirement defined benefit plans	Total
Balance at July 1, 2020	\$ (84,358)	\$ 2,447	\$ (6,956)	\$ 890	\$ (87,977)
Other comprehensive income (loss) before reclassifications (net of tax)	17,836	(1,850)	365	—	16,351
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	(985)	153	(248)	(1,080)
Net current period other comprehensive income (loss)	17,836	(2,835)	518	(248)	15,271
Balance at September 30, 2020	<u>\$ (66,522)</u>	<u>\$ (388)</u>	<u>\$ (6,438)</u>	<u>\$ 642</u>	<u>\$ (72,706)</u>
Balance at July 1, 2019	\$ (73,001)	\$ 4,442	\$ (66,325)	\$ 1,148	\$ (133,736)
Other comprehensive income (loss) before reclassifications (net of tax)	(17,073)	3,596	2,449	—	(11,028)
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	(1,231)	592	(224)	(863)
Net current period other comprehensive income (loss)	(17,073)	2,365	3,041	(224)	(11,891)
Balance at September 30, 2019	<u>\$ (90,074)</u>	<u>\$ 6,807</u>	<u>\$ (63,284)</u>	<u>\$ 924</u>	<u>\$ (145,627)</u>
<i>In thousands</i>	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, 2020	\$ (76,346)	\$ 4,316	\$ (7,253)	\$ 1,387	\$ (77,896)
Other comprehensive income (loss) before reclassifications (net of tax)	9,824	(1,051)	365	—	9,138
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	(3,653)	450	(745)	(3,948)
Net current period other comprehensive income (loss)	9,824	(4,704)	815	(745)	5,190
Balance at September 30, 2020	<u>\$ (66,522)</u>	<u>\$ (388)</u>	<u>\$ (6,438)</u>	<u>\$ 642</u>	<u>\$ (72,706)</u>
Balance at January 1, 2019	\$ (69,622)	\$ 2,199	\$ (71,431)	\$ 1,414	\$ (137,440)
Other comprehensive income (loss) before reclassifications (net of tax)	(20,452)	7,326	7,375	—	(5,751)
Amounts reclassified from accumulated other comprehensive income (net of tax)	—	(2,718)	772	(490)	(2,436)
Net current period other comprehensive income (loss)	(20,452)	4,608	8,147	(490)	(8,187)
Balance at September 30, 2019	<u>\$ (90,074)</u>	<u>\$ 6,807</u>	<u>\$ (63,284)</u>	<u>\$ 924</u>	<u>\$ (145,627)</u>

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

	Three months ended September 30		Nine months ended September 30		
<i>In thousands</i>	2020	2019	2020	2019	
Description	Line Item in Statements of Income				
Cash flow hedges (Note 17)					
Gains on cash flow hedges	\$ (1,345)	\$ (1,738)	\$ (5,015)	\$ (3,783)	Costs of products sold
Tax expense	360	507	1,362	1,065	Income tax provision
Net of tax	(985)	(1,231)	(3,653)	(2,718)	
Retirement plan obligations (Note 12)					
Amortization of deferred benefit pension plans					
Prior service costs	12	64	35	152	Other, net
Actuarial losses	164	819	485	2,383	Other, net
	176	883	520	2,535	
Tax benefit	(23)	(291)	(70)	(1,763)	Income tax provision
Net of tax	153	592	450	772	
Amortization of deferred benefit other plans					
Prior service costs	(115)	(2)	(347)	(7)	Other, net
Actuarial gains	(209)	(293)	(626)	(639)	Other, net
	(324)	(295)	(973)	(646)	
Tax expense	76	71	228	156	Income tax provision
Net of tax	(248)	(224)	(745)	(490)	
Total reclassifications, net of tax	\$ (1,080)	\$ (863)	\$ (3,948)	\$ (2,436)	

10. INCOME TAXES

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

For the nine months ended September 30, 2020 we had pretax income of \$20.4 million and income tax expense of \$8.8 million. The effective income tax rate for the period ended September 30, 2020 was unfavorably impacted by operating losses in the US which generated no tax benefit, and \$10.2 million of pension, restructuring, and other non-recurring costs for which no tax benefit was recorded, offset in part by \$5.0 million recorded in connection with passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES"). This Act, which was signed into law on March 27, 2020, modified the "net operating loss" provisions of previous law to allow losses arising in a taxable year beginning after December 31, 2017 and before January 1, 2021, to be carried back five years. We are in the process of evaluating additional tax refund opportunities arising under CARES.

For the nine months ended September 30, 2020, we recorded a decrease in our valuation allowance of \$6.2 million against our net deferred tax assets primarily due to the passage of the CARES Act and the ability to carry our "net operating loss" back five years. In assessing the need for a valuation allowance, management considers all available positive and negative evidence in its analysis. Based on this analysis, we recorded a valuation allowance for the portion of deferred tax assets where the weight of the evidence indicated it is more likely than not that the deferred assets will not be realized.

As of September 30, 2020 and December 31, 2019, we had \$34.7 million and \$30.5 million of gross unrecognized tax benefits. As of September 30, 2020, if such benefits were to be recognized, approximately \$23.9 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

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

Jurisdiction	Open Tax Years	
	Examinations not yet initiated	Examination in progress
United States		
Federal	2017 - 2019	N/A
State	2015 - 2019	2015 - 2018
Canada ⁽¹⁾	2012 - 2019	N/A
Germany ⁽¹⁾	2016 - 2019	N/A
France	2018 - 2019	N/A
United Kingdom	2018 - 2019	N/A
Philippines	2019	2017 - 2018

(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 \$7.0 million. Substantially all of this range relates to tax positions taken in Canada and the U.S.

We recognize interest and penalties related to uncertain tax positions as income tax expense. The following table summarizes information included in continuing operations related to interest on uncertain tax positions:

In millions	Nine months ended September 30	
	2020	2019
Interest expense (income)	\$ 0.2	\$ -

	September 30	
	2020	December 31 2019
Accrued interest payable	\$ 0.6	\$ 0.4

11. 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 (“RSUs”), performance share awards (“PSAs”) and stock only stock appreciation rights.

Awards of RSUs and PSAs are made under our LTIP. The vesting of RSUs is generally based on the passage of time, generally over a one-year or three-year period or in one instance the RSUs were issued with three-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, 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:

<i>Units</i>	2020	2019
Balance at January 1,	896,463	756,786
Granted	386,995	484,108
Forfeited	(87,523)	(158,767)
Shares delivered	(136,182)	(163,078)
Balance at September 30,	1,059,753	919,049

The amount granted in 2020 and 2019 includes 171,150 and 218,422, respectively, of PSAs exclusive of reinvested dividends.

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

<i>In thousands</i>	September 30	
	2020	2019
Three months ended	\$ 1,617	\$ 1,048
Nine months ended	3,994	2,643

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 since 2016.

The following table sets forth information related to outstanding SOSARS:

SOSARS	2020		2019	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at January 1,	1,291,947	\$ 20.05	2,334,742	\$ 18.08
Granted	—	—	—	—
Exercised	(58,460)	12.85	(441,920)	14.31
Canceled / forfeited	(151,074)	20.25	(446,435)	21.06
Outstanding at September 30,	1,082,413	\$ 20.40	1,446,387	\$ 19.31

The following table sets forth SOSAR compensation expense included in continuing operations for the periods indicated:

<i>In thousands</i>	September 30	
	2020	2019
Three months ended	\$ —	\$ —
Nine months ended	—	40

12. 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 included in continuing operations.

<i>In thousands</i>	Three months ended September 30	
	2020	2019
Pension Benefits		
Service cost	\$ 61	\$ 216
Interest cost	318	3,287
Expected return on plan assets	—	(3,895)
Amortization of prior service cost	12	64
Amortization of unrecognized loss	164	819
Total net periodic benefit cost	<u>\$ 555</u>	<u>\$ 491</u>
Other Benefits		
Service cost	\$ 8	\$ 7
Interest cost	46	67
Amortization of prior service credit	(115)	(2)
Amortization of actuarial gain	(209)	(293)
Total net periodic benefit credit	<u>\$ (270)</u>	<u>\$ (221)</u>

<i>In thousands</i>	Nine months ended September 30	
	2020	2019
Pension Benefits		
Service cost	\$ 153	\$ 1,073
Interest cost	919	10,074
Expected return on plan assets	—	(11,290)
Amortization of prior service cost	35	152
Amortization of unrecognized loss	485	2,383
Total net periodic benefit cost	<u>\$ 1,592</u>	<u>\$ 2,392</u>
Other Benefits		
Service cost	\$ 22	\$ 25
Interest cost	138	235
Amortization of prior service credit	(347)	(7)
Amortization of actuarial gain	(626)	(639)
Total net periodic benefit credit	<u>\$ (813)</u>	<u>\$ (386)</u>

During 2019, our qualified pension plan was terminated, and all plan liabilities were settled by either a lump sum distribution or assumed by a third-party in exchange for a transfer of assets from the pension plan trust fund. For active participants, the pension benefit was replaced with an enhanced defined contribution plan, or 401(k), to which we contributed a percent of eligible compensation. Currently we contribute 10% from a suspense account established in connection with the termination of the qualified pension plan and reversion of excess assets to us.

During the second quarter of 2020, we recorded a \$6.3 million pension settlement charge, net of post settlement adjustments, in connection with the completion of the reversion of \$55.5 million of excess pension plan assets. After transferring \$14.1 million to a suspense account to fund future 401(k) contributions and accruing \$8.2 million of excise taxes, approximately \$33.1 million is available for general corporate purposes. During the third quarter of 2020, we paid approximately \$0.4 million to the third party that assumed the qualified pension liabilities as a result of certain identified adjustments to obligations transferred as part of the pension settlement.

In December 2019, our Board of Directors approved the freezing of benefit accruals in the non-qualified pension plan for active participants effective December 31, 2019. As of January 1, 2020, each active participant's frozen non-qualified pension benefit was transferred to a newly approved Deferred Compensation Plan non-qualified benefit plan and earns interest credits going forward. The Deferred Compensation Plan also provides for employer contributions and the Plan provides for elective employee deferrals. Under the Deferred Compensation Plan, participants are eligible to receive annual Company contributions that such participants would have

received under the P. H. Glatfelter 401(k) Savings Plan but for certain limitations imposed by the Internal Revenue Code on 401(k) plan contributions (“Company Contributions”).

The remaining non-contributory pension plans are unfunded non-qualified plans.

13. INVENTORIES

Inventories, net of reserves, were as follows:

<i>In thousands</i>	September 30 2020	December 31 2019
Raw materials	\$ 59,869	\$ 59,164
In-process and finished	91,020	92,231
Supplies	42,545	39,020
Total	<u>\$ 193,434</u>	<u>\$ 190,415</u>

14. LEASES

We enter into a variety of arrangements in which we are the lessee for the use of automobiles, forklifts and other production equipment, production facilities, warehouses and office space. We determine if an arrangement contains a lease at inception. All our lease arrangements are operating leases and are recorded in the condensed consolidated balance sheet under the caption “Other assets” and the lease obligation is under “Other current liabilities” and “Other long-term liabilities.” We currently do not have any finance leases.

Operating lease right of use (“ROU”) assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. We use our incremental borrowing rate based on information available at the commencement date in determining the lease liabilities as our leases generally do not provide an implicit rate. Lease terms may include options to extend or terminate when we are reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

The following table sets forth information related to our leases as of the periods indicated.

<i>Dollars in thousands</i>	September 30 2020	December 31 2019
Right of use asset	\$ 13,027	\$ 11,701
Weighted average discount rate	2.30%	2.92%
Weighted average remaining maturity (<i>months</i>)	70	34

The following table sets forth operating lease expense for the periods indicated:

<i>In thousands</i>	September 30 2020	September 30 2019
Three months ended	\$ 1,400	\$ 1,403
Nine months ended	4,285	4,425

The following table sets forth required future minimum lease payments for the years indicated:

<i>In thousands</i>	
2020	\$ 1,222
2021	4,259
2022	2,836
2023	1,417
2024	972
Thereafter	4,339

15. LONG-TERM DEBT

Long-term debt is summarized as follows:

<i>In thousands</i>	September 30 2020	December 31 2019
Revolving credit facility, due Feb. 2024	\$ 62,052	\$ 84,255
Term loan, due Feb. 2024	241,478	240,969
2.40% Term Loan, due Jun. 2022	2,927	4,012
2.05% Term Loan, due Mar. 2023	15,623	19,487
1.30% Term Loan, due Jun. 2023	4,600	5,617
1.55% Term Loan, due Sep. 2025	7,174	7,915
Total long-term debt	333,854	362,255
Less current portion	(23,908)	(22,940)
Unamortized deferred issuance costs	(1,962)	(2,396)
Long-term debt, net of current portion	\$ 307,984	\$ 336,919

On February 8, 2019, we entered into an amended and restated \$400 million Revolving Credit Facility and a €220 million Term Loan with a consortium of banks (together, the “Credit Agreement”). The proceeds of the Term Loan due Feb. 2024 were used to redeem in its entirety the 5.375% Notes. The principal amount of the Term Loan amortizes in consecutive quarterly installments of principal, with each such quarterly installment to be in an amount equal to 1.25% of the Term Loan funded, commencing on July 1, 2019 and continuing quarterly thereafter.

For all U.S. 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 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 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, the borrowing rate is, at our option, based on (b) above or for Euro denominated borrowings, the Euro Interbank Offering Rate (“EURIBOR”) 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.

In October 2019, we entered into a €180 million notional value floating-to-fixed interest rate swap agreement with certain financial institutions. Under the terms of the swap, we will pay a fixed interest rate of the applicable margin plus 0.0395% on €180 million of the underlying variable rate term loan. We will receive the greater of 0.00% or EURIBOR.

The Credit Agreement 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 4.0x provided that such ratio increases to 4.5x during the period of four fiscal quarters immediately following a material acquisition. As of September 30, 2020, the leverage ratio, as calculated in accordance with the definition in our Credit Agreement, was 2.4x. 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 Agreement.

All remaining principal outstanding and accrued interest under the Credit Agreement will be due and payable on February 8, 2024.

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

<i>Amounts in thousands</i>		Original Principal	Interest Rate	Maturity
Borrowing date				
Apr. 11, 2013	€	42,700	2.05%	Mar. 2023
Sep. 4, 2014		10,000	2.40%	Jun. 2022
Oct. 10, 2015		2,608	1.55%	Sep. 2025
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 Credit Agreement.

Glatfelter Corporation 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 \$7.3 million as of September 30, 2020 and December 31, 2019. 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 and for performance of certain remediation activity related to the Fox River matter. 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.

16. 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:

<i>In thousands</i>	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable rate debt	\$ 62,052	\$ 62,052	\$ 84,255	\$ 84,255
Term loan, due Feb. 2024	241,478	241,478	240,969	240,969
2.40% Term Loan	2,927	2,972	4,012	4,076
2.05% Term Loan	15,623	15,868	19,487	19,764
1.30% Term Loan	4,600	4,627	5,617	5,624
1.55% Term Loan	7,174	7,282	7,915	7,975
Total	\$ 333,854	\$ 334,279	\$ 362,255	\$ 362,663

The values set forth above are based on observable inputs and other relevant market data (Level 2). The fair value of financial derivatives is set forth below in Note 17.

17. 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”); 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”); or iii) convert variable-interest-rate debt to fixed rates.

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. Currency forward contracts involve fixing the exchange for delivery of a specified amount of foreign currency on a specified date. As of September 30, 2020, 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. 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.

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

<i>In thousands</i>	September 30, 2020	December 31, 2019
Derivative		
<i>Sell/Buy - sell notional</i>		
Euro / British Pound	19,976	17,702
U.S. Dollar / Euro	4,254	5,347
Canadian Dollar / U.S. Dollar	70	—
U.S. Dollar / Canadian Dollar	603	1,523
<i>Sell/Buy - buy notional</i>		
Euro / Philippine Peso	947,711	1,039,432
British Pound / Philippine Peso	1,162,616	1,077,871
Euro / U.S. Dollar	68,829	82,317
U.S. Dollar / Canadian Dollar	33,373	34,094
Canadian Dollar / U.S. Dollar	603	1,523

The €220 million Term Loan is designated as a net investment hedge of our Euro functional currency foreign subsidiaries. During the first nine months of 2020, we recognized a pre-tax loss of \$9.7 million from changes in currency exchange rates through Other Comprehensive Income (Loss).

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

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

<i>In thousands</i>	September 30, 2020	December 31, 2019
Derivative		
<i>Sell/Buy - sell notional</i>		
U.S. Dollar / British Pound	19,850	25,500
Euro / British Pound	4,700	—
British Pound / Euro	2,000	3,000
<i>Sell/Buy - buy notional</i>		
Euro / U.S. Dollar	1,400	8,000
British Pound / Euro	—	7,000
Swiss Franc / Euro	200	—
Swiss Franc / U.S. Dollar	200	—

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:

<i>In thousands</i>	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Balance sheet caption	Prepaid Expenses and Other Current Assets	Other Current Liabilities		
Designated as hedging:				
Forward foreign currency exchange contracts	\$ 91	\$ 4,314	\$ 1,220	\$ 34
Not designated as hedging:				
Forward foreign currency exchange contracts	\$ 62	\$ 566	\$ 873	\$ 205

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 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."

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

<i>In thousands</i>	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Designated as hedging:				
Forward foreign currency exchange contracts:				
Cost of products sold	\$ 1,345	\$ 1,738	\$ 5,015	\$ 3,783
Not designated as hedging:				
Forward foreign currency exchange contracts:				
Other – net	\$ 1,037	\$ (511)	\$ 510	\$ (483)

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

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

<i>In thousands</i>	2020	2019
Balance at January 1,	\$ 5,859	\$ 3,004
Deferred gains (losses) on cash flow hedges	(1,435)	10,020
Reclassified to earnings	(5,015)	(3,783)
Balance at September 30,	\$ (591)	\$ 9,241

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

Credit risk related to derivative activity arises in the event the counterparty fails to meet its obligations to us. This exposure is generally limited to the amounts, if any, by which the counterparty's obligations exceed our obligation to them. Our policy is to enter into contracts only with financial institutions which meet certain minimum credit ratings.

18. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River - Neenah, Wisconsin

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

The United States 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, with contributions of certain other PRPs, implemented the remedial action in OU1 under a consent decree with the Governments. That work is complete, other than on-going monitoring and maintenance.

For OU2-5, work has proceeded primarily under a Unilateral Administrative Order (“UAO”) issued in November 2007 by the EPA to us and seven other respondents. The majority of the work in OU 2-5 has been funded or conducted by parties other than us. The cleanup was completed in 2020 and the site is being decommissioned.

In January 2019, we reached an agreement with the United States, the State of Wisconsin, and Georgia-Pacific to resolve all remaining claims among those parties. Under the Glatfelter consent decree, we settled the United States’ and Wisconsin’s claims for response costs paid by them before October 2018 and for NRDs. In addition, we are primarily responsible for long-term monitoring and maintenance in OU2-OU4a and for reimbursement of government oversight costs paid after October 2018. Finally, we remain responsible for our obligation to continue long-term monitoring and maintenance under our OU1 consent decree.

Cost estimates. Under terms of the Glatfelter consent decree, in January 2019 we paid \$20.5 million to the United States in satisfaction of the governments’ claims for costs incurred prior to October 2018, and NRDs.

We are subject to remaining obligations under the OU1 consent decree, which now consist primarily of long-term monitoring and maintenance and for long term monitoring and maintenance in OU2-OU4a over a period of at least 30 years. The monitoring activities consist of, among others, testing fish tissue, sampling water quality and sediment, and inspections of the engineered caps. 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 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. We are obligated to make the regular payments under that fixed-price contract until the remaining amount due is less than the OU1 escrow account balance. We are permitted to pay for this contract using the remaining balance of the escrow account established by us and WTM I Company (“WTM I”) another PRP, under the OU1 consent decree during any period that the balance in the escrow account exceeds the amount due under our fixed-price contract. As of September 30, 2020, the balance in the escrow is less than amounts due under the fixed-price contract by approximately \$0.5 million. We secured our obligation to pay that difference with a letter of credit.

At September 30, 2020, the escrow account balance totaled \$9.0 million which is included in the condensed consolidated balance sheet under the caption “Other assets.”

Under the consent decree, we will be responsible for reimbursement of government oversight costs incurred from October 2018 and later over approximately the next 30 years. We anticipate that a significant portion of the oversight costs will be incurred until such time as remediation is completed. Once completed, costs will be an order of magnitude lower in most years during the period of long-term monitoring and maintenance.

Reserves for the Site. Our reserve for past and future government oversight costs and long-term monitoring and maintenance is set forth below:

<i>In thousands</i>	Nine months ended September 30	
	2020	2019
Balance at January 1,	\$ 21,870	\$ 45,001
Payments	(3,243)	(20,771)
Reserve adjustment	—	(2,509)
Accretion	155	141
Balance at September 30,	\$ 18,782	\$ 21,862

The payments set forth above represent amounts due under the long-term monitoring and maintenance agreement and government oversight costs and, in 2019, the \$20.5 million paid pursuant to the Glatfelter consent decree. With respect to our total reserve for the Fox River, \$4.5 million is recorded in the accompanying September 30, 2020 condensed consolidated balance sheet under the caption “Environmental liabilities” and the remaining \$14.3 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 do not believe that our costs associated with the Fox River matter could exceed the aggregate amounts accrued by a material amount.

19. SEGMENT INFORMATION

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

Three months ended September 30		Composite Fibers		Airlaid Materials		Other and Unallocated		Total	
<i>Dollars in thousands</i>		2020	2019	2020	2019	2020	2019	2020	2019
Net sales	\$	132,419	\$ 127,704	\$ 101,054	\$ 104,811	\$ —	\$ —	\$ 233,473	\$ 232,515
Cost of products sold		112,031	106,024	83,699	88,442	(508)	28	195,222	194,494
Gross profit (loss)		20,388	21,680	17,355	16,369	508	(28)	38,251	38,021
SG&A		9,924	10,551	4,438	4,774	10,273	8,396	24,635	23,721
Gains on dispositions of plant, equipment and timberlands, net		—	—	—	—	(413)	(235)	(413)	(235)
Total operating income (loss)		10,464	11,129	12,917	11,595	(9,352)	(8,189)	14,029	14,535
Non-operating expense		—	—	—	—	(3,888)	(2,751)	(3,888)	(2,751)
Income (loss) before income taxes	\$	10,464	\$ 11,129	\$ 12,917	\$ 11,595	\$ (13,240)	\$ (10,940)	\$ 10,141	\$ 11,784
Supplementary Data									
Net tons sold (thousands)		35,009	33,394	34,752	35,907	—	—	69,761	69,301
Depreciation, depletion and amortization	\$	6,755	\$ 6,445	\$ 5,674	\$ 5,285	\$ 1,273	\$ 864	\$ 13,702	\$ 12,594
Capital expenditures		3,060	3,995	2,791	2,869	2,303	520	8,154	7,384

Nine months ended September 30		Composite Fibers		Airlaid Materials		Other and Unallocated		Total	
<i>Dollars in thousands</i>		2020	2019	2020	2019	2020	2019	2020	2019
Net sales	\$	387,267	\$ 389,002	\$ 293,949	\$ 307,699	\$ —	\$ —	\$ 681,216	\$ 696,701
Cost of products sold		319,403	322,152	243,526	262,256	11,171	1,155	574,100	585,563
Gross profit (loss)		67,864	66,850	50,423	45,443	(11,171)	(1,155)	107,116	111,138
SG&A		30,811	31,388	13,192	13,448	28,704	26,307	72,707	71,143
Gains on dispositions of plant, equipment and timberlands, net		—	—	—	—	(1,010)	(1,327)	(1,010)	(1,327)
Total operating income (loss)		37,053	35,462	37,231	31,995	(38,865)	(26,135)	35,419	41,322
Non-operating expense		—	—	—	—	(14,992)	(11,129)	(14,992)	(11,129)
Income (loss) before income taxes	\$	37,053	\$ 35,462	\$ 37,231	\$ 31,995	\$ (53,857)	\$ (37,264)	\$ 20,427	\$ 30,193
Supplementary Data									
Net tons sold (thousands)		100,024	99,446	103,068	103,125	—	—	203,092	202,571
Depreciation, depletion and amortization ⁽¹⁾	\$	19,652	\$ 19,720	\$ 16,598	\$ 15,832	\$ 7,060	\$ 2,562	\$ 43,310	\$ 38,114
Capital expenditures		9,121	8,699	6,606	7,882	4,438	1,436	20,165	18,017

(1) The amount presented in 2020 in the Other and unallocated column represents accelerated depreciation incurred in connection with the restructuring of our metallized operations.

Segments Results of individual operating segments 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 segments are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the segments. 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 segment are allocated primarily based on an estimated utilization of support area services or are included in “Other and Unallocated” in the table set forth above.

Management evaluates results of operations of the operating segments before 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 the segments 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 operating segments 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.

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 2019 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 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. risks associated with the impact of the COVID-19 pandemic including global and regional economic conditions, changes in demand for our products, interruptions in our global supply chain, ability to continue production by our facilities, credit conditions of our customers or suppliers, or potential legal actions that could arise due to our operations during the pandemic;
- ii. variations in demand for our products including the impact of unplanned market-related downtime, variations in product pricing, or product substitution;
- iii. the impact of competition, 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;
- iv. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- v. geopolitical matters, including any impact to our operations from events in Russia, Ukraine and Philippines;
- vi. our ability to develop new, high value-added products;
- vii. changes in the price or availability of raw materials we use, particularly woodpulp, pulp substitutes, synthetic pulp, and abaca fiber;
- viii. changes in energy-related prices and commodity raw materials with an energy component;
- ix. the impact of unplanned production interruption at our facilities or at any of our key suppliers;
- x. disruptions in production and/or increased costs due to labor disputes;
- xi. the gain or loss of significant customers and/or on-going viability of such customers;
- xii. the impact of war and terrorism;
- xiii. 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;
- xiv. enactment of adverse state, federal or foreign tax or other legislation or changes in government legislation, policy or regulation; and
- xv. our ability to finance, consummate and integrate acquisitions.

COVID-19 Pandemic On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic as the virus spread throughout the world. As the virus continued its rapid spread, a significant portion of the world’s economies were significantly impacted by government mandates that all “non-essential” businesses close and that residents “shelter-in-place” or practice “social distancing.” These actions have had, and are likely to have, a continuing significant adverse impact on a wide range of economies and industries throughout the world, including certain markets we serve. As disclosed in Item 1A – Risk Factors of our 2019 Annual Report on Form 10-K, we included a risk factor stating, “Our business and financial performance may be adversely affected by a weak global economic environment or downturns in the target markets that we serve. Adverse global economic conditions could impact our target markets resulting in decreased demand for our products. Our results could be adversely affected if economic conditions weaken.” The COVID-19 pandemic and the actions undertaken throughout the world in an attempt to contain the virus have had an unprecedented and significant adverse impact on global economies in terms of reduced GDP, increased unemployment, and insolvencies in a variety of industries and markets. As a result, we have experienced and may continue to experience weaker demand for certain of our products due to the effects of the pandemic.

Our financial performance and results of operations have been impacted by the weaker economic conditions related to the pandemic, as demand for tabletop products and wallcover products were significantly weaker particularly during the second quarter, although shipping volumes for both of these market segments increased significantly during the third quarter of 2020. The majority of

our other product portfolios is considered to be “essential or life-sustaining” and we continued to produce products used in the global response effort to the pandemic. We believe demand for certain of our products, such as Composite Fibers’ food & beverage filtration products and Airlaid Materials’ personal hygiene and wipes, will remain strong. To date, we have successfully maintained our global supply chain securing critical raw materials with minimal disruptions or incremental costs and the demand for substantially all products has been stable as our customers continued to serve critical products to end-user consumers.

Although we anticipate a decline in overall economic activity, we believe demand for the majority of our products will remain strong. As disclosed in Item 1A – Risk Factors to our 2019 Annual Report, “approximately \$68 million of our revenue in 2019, was earned from customers located in Ukraine, Russia and members of the Commonwealth of Independent States.” The large majority of our revenue from this region consists of wallcover base material. During the second quarter of 2020, our wallcover revenues were significantly impacted by temporary suspension of operations of many of our customers due to government orders related to the pandemic. Although our customers have resumed operations and demand for our wallcover products returned to more normalized levels, if the governmental authorities reimplement actions to fight any resurgence of COVID-19 in these regions, or if economic hardships continue, sales to some of our customers, such as wallpaper printers, may adversely impacted.

The health and safety of our employees and their families are a top priority, and we remain committed to taking all the necessary measures to protect them. We have instituted appropriate new safety, hygiene and communication protocols throughout our facilities to ensure we maintain our ability to produce product. Accordingly, we continue to proactively work to identify and mitigate risks to safeguard the continuity of our business. We believe we are well positioned from a liquidity and leverage perspective following the successful restructuring and cost optimization initiatives in 2019 and 2020 and the debt refinancing in 2019. As a result, we believe we are able to supply our customers high-quality engineered materials necessary to manufacture a variety of essential and life-sustaining consumer staples including wipes, health and hygiene products, and food and beverage items during this challenging time.

RESULTS OF OPERATIONS

Introduction We manufacture a wide array of engineered materials and report our results along two segments:

- *Composite Fibers* with revenue from the sale of single-serve tea and coffee filtration products, wallcovering base materials, composite laminates, technical specialties including substrates for electrical applications, and metallized products; and
- *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.

The former Specialty Papers business’ results of operations and financial condition are reported as discontinued operations. Following is a discussion and analysis primarily of the financial results of operations and financial condition of our continuing operations.

Nine months ended September 30, 2020 versus the nine months ended September 30, 2019

Overview For the first nine months of 2020, we reported income from continuing operations of \$11.7 million, or \$0.26 per share compared with \$19.5 million and \$0.44 per diluted share in the year earlier period. The following table sets forth summarized consolidated results of operations:

<i>In thousands, except per share</i>	Nine months ended September 30	
	2020	2019
Net sales	\$ 681,216	\$ 696,701
Gross profit	107,116	111,138
Operating income	35,419	41,322
Continuing operations		
Income	11,652	19,539
Earnings per share	0.26	0.44
Discontinued operations		
Income (loss) from discontinued operations	(135)	3,802
Earnings per share	—	0.09
Net income	11,517	23,341
Earnings per share	\$ 0.26	\$ 0.53

The reported results reflect the cost of strategic initiatives and other items identified below and excluded to derive “adjusted earnings.” These factors cost an aggregate of \$16.1 million, net of taxes, in 2020 compared with similar items of \$5.9 million in the same period of 2019. Operating income for our segments, Composite Fibers and Airlaid Materials, increased by \$1.6 million and \$5.2 million, respectively. Although growth in aggregate shipping volumes was limited due to the COVID-19 pandemic, the segments’ results benefited from a favorable mix of products sold, efficient operations and disciplined cost control. In addition, interest expense, net declined \$2.6 million reflecting the benefits of our debt refinancing in 2019.

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 from continuing operations for the first nine months of 2020 were \$27.7 million, or \$0.62 per diluted share compared with \$25.5 million, or \$0.57 per diluted share, for the same period a year ago. Adjusted earnings consists of net income determined in accordance with GAAP adjusted to exclude the impact of the following:

Restructuring charge – Metallized operations. This adjustment represents the charges incurred in connection with the decision to restructure a portion of the Composite Fibers segment, primarily consisting of the consolidation of our metallizing operation from Gernsbach, Germany to Caerphilly, U.K.. For the nine months ended September 30, 2020, the adjustment includes a non-cash charge of \$5.0 million associated with accelerated depreciation and the write-off of inventory and spare parts in addition to cash severance costs totaling \$6.1 million.

Cost optimization actions. These adjustments reflect charges incurred in connection with initiatives to optimize the cost structure of the Company including costs related to the organizational change to a functional operating model. The costs are primarily related to executive separation, other headcount reductions, professional fees, asset write-offs and certain contract termination costs. These adjustments, which have occurred at various times in the past, are irregular in timing and relate to specific identified programs to reduce or optimize the cost structure of a particular operating segment or the corporate function.

Corporate headquarters relocation. These adjustments reflect costs incurred in connection with the strategic relocation of the Company’s corporate headquarters to Charlotte, NC. The costs are primarily related to employee relocation costs and exit costs at the previous corporate headquarters.

Pension settlement expenses, net. This adjustment reflects expenses incurred in connection with the termination of our qualified pension plan in 2019 and the reversion of excess pension plan assets to us in the second quarter of 2020. In the fourth quarter of 2019, we incurred a \$75.3 million pension settlement charge in connection with the termination of the plan. Since the pension plan was fully funded, the settlement of the pension obligations did not require the use of cash, but instead was accomplished with plan assets. In connection with the reversion of excess pension plan assets in the second quarter of 2020, we incurred pension settlement expenses related to excise taxes, net of post settlement adjustments and certain related professional fees.

COVID-19 incremental costs. This adjustment represents incremental cash costs incurred directly related to the COVID 19 pandemic such as mill employee incentive compensation, enhanced hygiene protocols, safety and supplies and professional fees primarily associated with the CARES Act benefit.

Asset Impairment Charge. This adjustment represents a non-cash charge recorded in the second quarter of 2020 to reduce the carrying amount of a trade name intangible asset of the Dresden wallcover business due to the impact of the COVID-19 pandemic on the underlying forecasted revenue stream.

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.

Debt refinancing costs. Represents a charge to write-off unamortized debt issuance costs in connection with the redemption of the Company’s \$250 million, 5.375% Notes.

Strategic initiatives. These adjustments primarily reflect professional and legal fees incurred directly related to evaluating and executing certain strategic initiatives including costs associated with acquisitions and the related integration.

Fox River environmental matter. This adjustment excludes a gain for a decrease in the Company’s overall reserve for the Fox River matter primarily due to the resolution of the litigation in the first quarter of 2019.

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 results.

Coronavirus Aid, Relief, and Economic Security (CARES) Act 2020. This adjustment reflects the tax benefit recognized as a result of the March 27, 2020 change in U.S. tax law which, among others, allowing net operating losses to be carried back five years.

Adjusted earnings and adjusted earnings per 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 nine months ended September 30, 2020 and 2019:

	Nine months ended September 30			
	2020		2019	
<i>In thousands, except per share</i>	Amount	EPS	Amount	EPS
Net income	\$ 11,517	\$ 0.26	\$ 23,341	\$ 0.53
Exclude: Loss (income) from discontinued operations	135	—	(3,802)	(0.09)
Income from continuing operations	11,652	0.26	19,539	0.44
Adjustments (<i>pre-tax</i>)				
Restructuring charge - Metallized operations	11,111		—	
Cost optimization actions	4,367		7,643	
Corporate headquarters relocation	610		—	
Pension settlement expenses, net	6,792		—	
COVID 19 - incremental costs	1,766		—	
Asset impairment charge	900		—	
Airlaid capacity expansion costs	—		1,014	
Debt refinancing	—		992	
Strategic initiatives	843		249	
Fox River environmental matter	—		(2,509)	
Timberland sales and related costs	(1,013)		(1,114)	
Total adjustments (<i>pre-tax</i>)	25,376		6,275	
Income taxes ⁽¹⁾	(4,257)		(348)	
CARES Act of 2020 tax benefit ⁽²⁾	(5,023)		—	
Total after-tax adjustments	16,096	0.36	5,927	0.13
Adjusted earnings	\$ 27,748	\$ 0.62	\$ 25,466	\$ 0.57

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

(2) Tax benefit recorded in connection with passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES") related to provisions that modified the "net operating loss" provisions of previous law to allow certain losses to be carried back five years.

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

Segment Financial Performance

Nine months ended September 30

<i>Dollars in thousands</i>	Composite Fibers		Airlaid Materials		Other and Unallocated		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net sales	\$ 387,267	\$ 389,002	\$ 293,949	\$ 307,699	\$ —	\$ —	\$ 681,216	\$ 696,701
Cost of products sold	319,403	322,152	243,526	262,256	11,171	1,155	574,100	585,563
Gross profit (loss)	67,864	66,850	50,423	45,443	(11,171)	(1,155)	107,116	111,138
SG&A	30,811	31,388	13,192	13,448	28,704	26,307	72,707	71,143
Gains on dispositions of plant, equipment and timberlands, net	—	—	—	—	(1,010)	(1,327)	(1,010)	(1,327)
Total operating income (loss)	37,053	35,462	37,231	31,995	(38,865)	(26,135)	35,419	41,322
Non-operating expense	—	—	—	—	(14,992)	(11,129)	(14,992)	(11,129)
Income (loss) before income taxes	\$ 37,053	\$ 35,462	\$ 37,231	\$ 31,995	\$ (53,857)	\$ (37,264)	\$ 20,427	\$ 30,193
Supplementary Data								
Net tons sold (<i>thousands</i>)	100,024	99,446	103,068	103,125	—	—	203,092	202,571
Depreciation, depletion and amortization ⁽¹⁾	\$ 19,652	\$ 19,720	\$ 16,598	\$ 15,832	\$ 7,060	\$ 2,562	\$ 43,310	\$ 38,114
Capital expenditures	9,121	8,699	6,606	7,882	4,438	1,436	20,165	18,017

- (1) The amount presented in 2020 in the Other and unallocated column represents accelerated depreciation incurred in connection with the restructuring of the metallized operations.

Segments Results of individual operating segments 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 segments are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the segments. 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 segment are allocated primarily based on an estimated utilization of support area services or are included in “Other and Unallocated” in the table set forth above.

Management evaluates results of operations of the operating segments before 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 the segments 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 operating segments 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.

Sales and Costs of Products Sold

<i>In thousands</i>	Nine months ended September 30		
	2020	2019	Change
Net sales	\$ 681,216	\$ 696,701	\$ (15,485)
Costs of products sold	574,100	585,563	(11,463)
Gross profit	\$ 107,116	\$ 111,138	\$ (4,022)
Gross profit as a percent of Net sales	15.7%	16.0%	

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

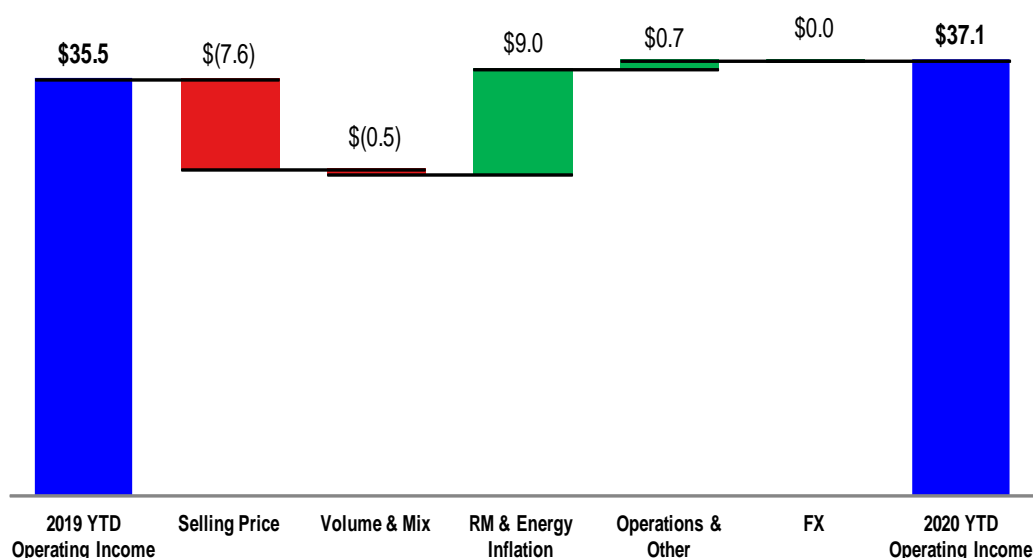
<i>Percent of Total</i>	Nine months ended September 30	
	2020	2019
Segment		
Composite Fibers	56.8%	55.8%
Airlaid Materials	43.2	44.2
Total	100.0%	100.0%

Net sales totaled \$681.2 million and \$696.7 million in the first nine months of 2020 and 2019, respectively. On a constant currency basis, Composite Fibers’ and Airlaid Material’s net sales decreased 0.5% and 4.5%, respectively.

Composite Fibers’ net sales decreased \$1.7 million or 0.5%, compared to the first nine months of 2019, primarily due to \$7.6 million of lower average selling prices partially offset by a more favorable mix of products sold.

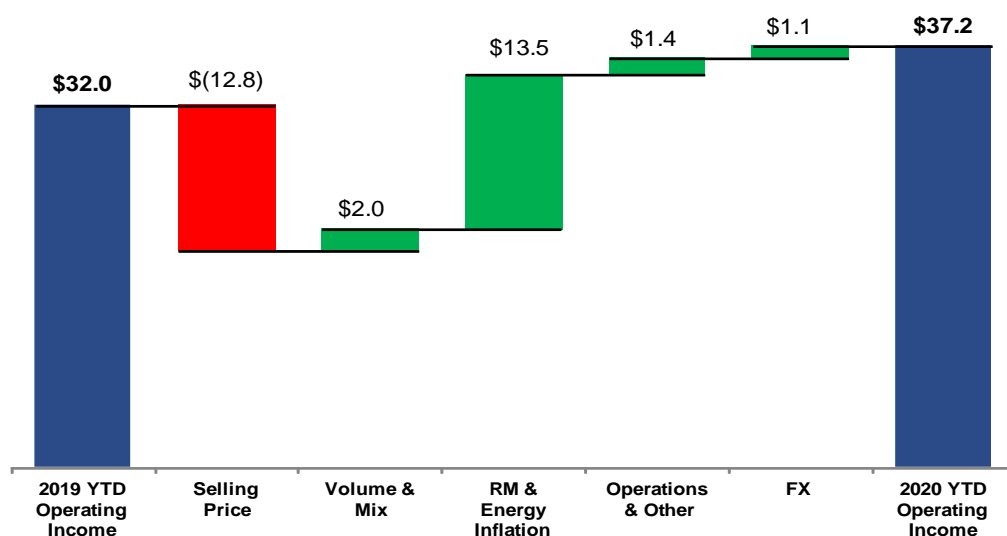
Composite Fibers’ operating income in the first nine months of 2020 totaled \$37.1 million and was \$1.6 million, or 4.5%, higher than the same period of 2019. The improved results were driven by a \$9.0 million benefit from lower prices for wood pulp and energy partially offset by lower selling prices in certain product categories. Improved operations contributed \$0.7 million reflecting the impact of cost control initiatives.

The primary drivers of the change in Composite Fibers' operating income are summarized in the following chart:



Airlaid Materials' net sales decreased \$13.8 million, or 4.5%, in the year-over-year comparison driven by \$12.8 million of lower selling prices. Shipping volumes were essentially unchanged as strong shipments of home care, food pads and wipes products offset significantly lower tabletop products as restaurants globally were closed or operated at reduced capacity due to the pandemic. Lower selling prices primarily reflects contractual pass-through arrangements.

Airlaid Materials' operating income for the first nine months of 2020 totaled \$37.2 million, which was 16.4% higher than the comparable period a year ago. Higher shipping volumes contributed \$2.0 million of additional earnings while lower average selling prices due to raw material pass-through provisions were more than offset by lower raw material and energy prices, adding net \$0.7 million of profit. Operations were \$1.4 million favorable, mainly driven by efficient production and disciplined cost control. The primary drivers are summarized in the following chart:



Other and Unallocated The amount of "Other and Unallocated" operating expense in our table of Segment Financial Information totaled \$38.9 million in the first nine months of 2020 compared with \$26.1 million in the first nine months of 2019. Excluding the items identified to present "adjusted earnings," unallocated expenses for the comparison decreased \$0.4 million.

During the second quarter of 2020, we recorded non-cash asset impairment charges of \$0.9 million related to a trade name intangible asset acquired in connection with the 2013 Dresden acquisition. The charge was due to a change in the estimated fair value of the trade name, primarily driven by lower forecasted revenues associated with the business due to the COVID 19 pandemic and associated economic instability in Russian and Ukraine.

Income taxes During the first nine months of 2020, income from continuing operations totaled \$20.4 million and income tax expense totaled \$8.8 million. The income tax expense in the first nine months of 2020 includes the impact of nondeductible excise tax totaling \$8.2 million partially offset by a \$5.0 million benefit recorded in connection with passage of the CARES Act. This Act, which was signed into law on March 27, 2020, modified the “net operating loss” provisions of previous law to allow certain losses to be carried back five years. These amounts are excluded from net income when arriving at adjusted earnings. We are in the process of evaluating additional tax refund opportunities arising under CARES.

On adjusted pre-tax income of \$45.8 million, income tax expense was \$18.1 million in the first nine months of 2020. The comparable amounts in the same period of 2019 were \$36.5 million \$11.0 million, respectively. The effective tax rate on adjusted earnings was 39.5% in the first nine months of 2020.

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 €140 million. For the first nine months of 2020, the average currency exchange rate was 1.14 dollar/euro compared with 1.12 in the same period of 2019. 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.

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 nine months of 2020.

<i>In thousands</i>	Nine months ended September 30, 2020 Favorable (unfavorable)
Net sales	\$ 300
Costs of products sold	694
SG&A expenses	61
Income taxes and other	167
Net income	\$ 1,222

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2020 were the same as 2019. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

Discontinued Operations We completed the sale of our Specialty Papers business on October 31, 2018. Its results of operations are reported as discontinued operations for all periods presented. There was an immaterial amount of activity in results of discontinued operations for the first nine months of 2020. For the first nine months 2019, we reported income from discontinued operations of \$3.8 million primarily relating to adjustments for post-closing working capital, pension and the reversal of tax reserves associated with the closure of tax matters, and other items in connection with the sale of Specialty Papers.

Three months ended September 30, 2020 versus the three months ended September 30, 2019

Overview For the third quarter of 2020, we reported income from continuing operations of \$6.5 million, or \$0.15 per share compared with \$8.6 million, or \$0.19 per share in the third quarter of 2019. On an adjusted basis earnings from continuing operations for the third quarter of 2020 was \$7.0 million, or \$0.16 per share compared with \$9.7 million, or \$0.22 per share, for the same period a year ago. The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	Three months ended September 30	
	2020	2019
Net sales	\$ 233,473	\$ 232,515
Gross profit	38,251	38,021
Operating income	14,029	14,535
Continuing operations		
Income	6,527	8,643
Earnings per share	0.15	0.19
Discontinued operations		
Income from discontinued operations	—	3,581
Earnings per share	—	0.09
Net income	6,527	12,224
Earnings per share	\$ 0.15	\$ 0.28

The following table sets forth the reconciliation of net income (loss) to adjusted earnings for the three months ended September 30, 2020 and 2019:

<i>In thousands, except per share</i>	Three months ended September 30			
	2020		2019	
	Amount	EPS	Amount	EPS
Net income	\$ 6,527	\$ 0.15	\$ 12,224	\$ 0.28
Exclude: Income from discontinued operations	—	—	(3,581)	(0.09)
Income from continuing operations	6,527	0.15	8,643	0.19
Adjustments (<i>pre-tax</i>)				
Restructuring charge - Metallized operations	57		—	
Cost optimization actions	1,270		1,736	
Corporate headquarters relocation	610		—	
Pension settlement expenses, net	389		—	
COVID 19 - incremental costs	586		—	
Strategic initiatives	843		—	
Timberland sales and related costs	(412)		(233)	
Total adjustments (pre-tax)	3,343		1,503	
Income taxes ⁽¹⁾	(375)		(415)	
CARES Act of 2020 tax benefit ⁽²⁾	(2,454)		—	
Total after-tax adjustments	514	0.01	1,088	0.02
Adjusted earnings	\$ 7,041	\$ 0.16	\$ 9,731	\$ 0.22

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

(2) Tax benefit recorded in connection with passage of CARES related to provisions that modified the “net operating loss” provisions of previous law to allow certain losses to be carried back five years.

Segment Financial Performance

Three months ended September 30

Dollars in thousands

	Composite Fibers		Airlaid Materials		Other and Unallocated		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net sales	\$ 132,419	\$ 127,704	\$ 101,054	\$ 104,811	\$ —	\$ —	\$ 233,473	\$ 232,515
Cost of products sold	112,031	106,024	83,699	88,442	(508)	28	195,222	194,494
Gross profit (loss)	20,388	21,680	17,355	16,369	508	(28)	38,251	38,021
SG&A	9,924	10,551	4,438	4,774	10,273	8,396	24,635	23,721
Gains on dispositions of plant, equipment and timberlands, net	—	—	—	—	(413)	(235)	(413)	(235)
Total operating income (loss)	10,464	11,129	12,917	11,595	(9,352)	(8,189)	14,029	14,535
Non-operating expense	—	—	—	—	(3,888)	(2,751)	(3,888)	(2,751)
Income (loss) before income taxes	\$ 10,464	\$ 11,129	\$ 12,917	\$ 11,595	\$ (13,240)	\$ (10,940)	\$ 10,141	\$ 11,784
Supplementary Data								
Net tons sold (thousands)	35,009	33,394	34,752	35,907	—	—	69,761	69,301
Depreciation, depletion and amortization	\$ 6,755	\$ 6,445	\$ 5,674	\$ 5,285	\$ 1,273	\$ 864	\$ 13,702	\$ 12,594
Capital expenditures	3,060	3,995	2,791	2,869	2,303	520	8,154	7,384

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

Sales and Costs of Products Sold

	Three months ended September 30		
In thousands	2020	2019	Change
Net sales	\$ 233,473	\$ 232,515	\$ 958
Costs of products sold	195,222	194,494	728
Gross profit	\$ 38,251	\$ 38,021	\$ 230
Gross profit as a percent of Net sales	16.4%	16.4%	

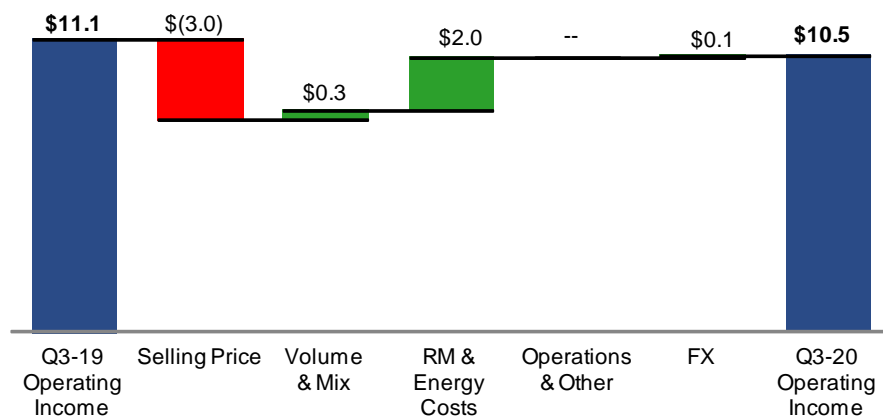
The following table sets forth the contribution to consolidated net sales by each segment:

	Three months ended September 30	
Percent of Total	2020	2019
Segment		
Composite Fibers	56.7%	54.9%
Airlaid Materials	43.3	45.1
Total	100.0%	100.0%

Net sales totaled \$233.5 million and \$232.5 million in the third quarters of 2020 and 2019, respectively. On a constant currency basis, Composite Fibers' and Airlaid Materials' net sales decreased by 0.5% and 6.4%, respectively.

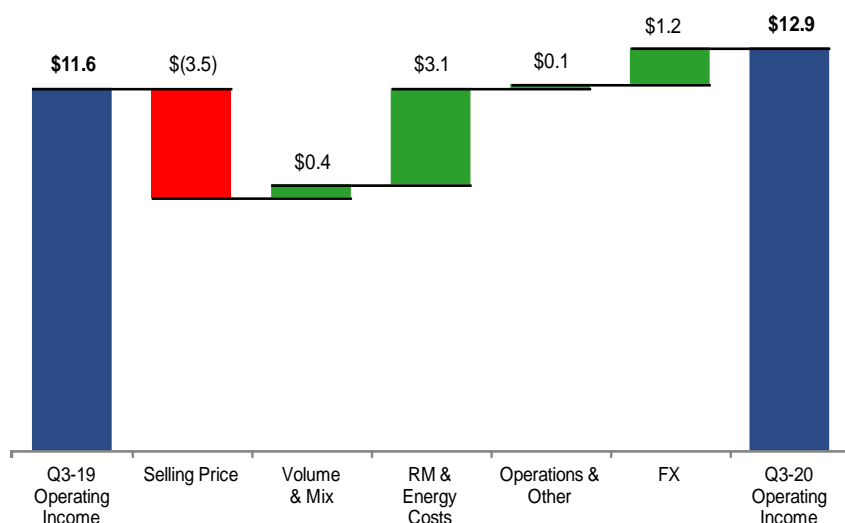
Composite Fibers' net sales increased \$4.7 million or 3.7%, compared to the year-ago quarter driven by higher shipments in the wallcover, technical specialty, and food and beverage product categories and favorable currency translation of \$5.3 million. These increases were partially offset by lower selling prices of \$3.0 million as well as lower metallized shipments following our exit of the more commoditized parts of this business at our Gernsbach, Germany facility earlier in 2020.

Composite Fibers' operating income of \$10.5 million was \$0.7 million lower, or approximately 6% unfavorable, compared to the third quarter of 2019. Higher shipping volumes in most product categories improved operating profit by \$0.3 million. A benefit of \$2.0 million from lower input prices, primarily wood pulp, was offset by a \$3.0 million impact from lower selling prices. Improved operations and strong cost control actions were offset by machine downtime previously planned to manage inventory. The primary drivers are summarized in the following chart:



Airlaid Materials' net sales decreased \$3.8 million in the year-over-year comparison. Shipping volumes for the segment were lower by 3.2% on a year-over-year basis due to continued softer demand for tabletop products as restaurants globally continued to operate at dramatically limited capacity. This shortfall in demand was mostly offset by strong orders for home care, feminine hygiene and wipes products. Selling prices were \$3.5 million lower due to contractual cost pass-through arrangements but mostly offset by favorable currency translation of \$2.9 million.

Airlaid Materials' third quarter 2020 operating income of \$12.9 million was \$1.3 million favorable, or approximately 11% higher, when compared to the third quarter of 2019. Improved sales mix favorably impacted results by \$0.4 million, while price declines due to contractual raw material pass-through provisions outpaced lower raw material and energy prices, reducing operating profit by a net \$0.4 million. Efficient operations complemented by disciplined cost control favorably impacted results by \$0.1 million and a more favorable foreign exchange environment benefited results by \$1.2 million. The primary drivers are summarized in the following chart:



Other and Unallocated The amount of "Other and Unallocated" operating expense in our table of Segment Financial Performance totaled \$9.4 million in the third quarter of 2020 compared with \$8.2 million in the third quarter of 2019. Excluding the items identified to present "adjusted earnings," unallocated expenses for the third quarter of 2020 decreased \$0.5 million compared to the third quarter of 2019 primarily.

Income Taxes In the third quarter of 2020, income from continuing operations totaled \$10.1 million and income tax expense totaled \$3.6 million. On adjusted pre-tax income of \$13.5 million, income tax expense was \$6.4 million in the third quarter of 2020. The comparable amounts in the same quarter of 2019 were \$13.3 million and \$3.6 million, respectively. The effective tax rate on adjusted earnings was 48% in the third quarter of 2020.

Foreign Currency For the three months ended September 30, 2020, the average currency exchange rate was 1.17 dollar/euro compared with 1.11 in the same period of 2019. 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 third quarter of 2020.

<i>In thousands</i>	Three months ended September 30, 2020	
	Favorable (unfavorable)	
Net sales	\$	8,219
Costs of products sold		(6,338)
SG&A expenses		(580)
Income taxes and other		(226)
Net income	\$	1,075

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2020 were the same as 2019. 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 requires significant expenditures for new or enhanced equipment, to support our research and development efforts, and to support our business strategy. In addition, we have mandatory debt service requirements of both principal and interest. The following table summarizes cash flow information for each of the periods presented:

<i>In thousands</i>	Nine months ended September 30	
	2020	2019
Cash, cash equivalents and restricted cash at the beginning of period	\$ 126,201	\$ 142,685
Cash used by		
Operating activities	24,539	15,594
Investing activities	(19,178)	(18,791)
Financing activities	(60,963)	(62,678)
Effect of exchange rate changes on cash	2,361	(1,794)
Change in cash and cash equivalents from discontinued operations	(1,108)	(17,970)
Net cash used	(54,349)	(85,639)
Cash, cash equivalents and restricted cash at the end of period	71,852	57,046
Less: restricted cash in Prepaid and other current assets	(2,000)	—
Less: restricted cash in Other assets	(10,611)	—
Cash and cash equivalents at the end of period	\$ 59,241	\$ 57,046

At September 30, 2020, we had \$59.2 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. Approximately 89% of our cash and cash equivalents is held by our foreign subsidiaries but could be repatriated without incurring a significant amount of additional taxes.

Cash provided by operating activities in the first nine months of 2020 totaled \$24.5 million compared with \$15.6 million in the same period a year ago. The improvement in operating cash flow reflects an \$8.8 million increase in earnings before interest, taxes, depreciation and amortization partially offset by increased working capital. The increase in the use of working capital for accounts payable was largely offset by a reduction in inventory. In addition, the benefit of lower cash paid for the Fox River matter in the period to period comparison was partially offset by cash used for restructuring activities, excise taxes on the pension asset reversion and strategic initiatives in 2020. Cash used for interest payments declined \$4.5 million in the year-over-year comparison reflecting savings from our debt refinancing in early 2019.

Net cash used by investing activities was essentially unchanged in the year-over-year comparison. Capital expenditures totaled \$20.2 million and \$18.0 million for the nine months ended September 30, 2020 and 2019, respectively, and are expected to be \$28 million to \$30 million for the full year 2020.

Net cash used by financing activities totaled \$61.0 million in the first nine months of 2020 compared with \$62.7 million in the same period of 2019. The decrease in cash used by financing activities primarily reflects the net impact of the use of \$6.1 million for term loan repayments, offset by lower repayment of borrowings under our revolving credit facility in the comparison and the use in 2019 of \$2.1 million of cash for debt issuance costs.

In the first quarter of 2019, we significantly changed our debt capital structure. On February 8, 2019, we entered into a new credit facility with a consortium of financial institutions. The new five-year facility (the “2019 Facility”) replaces our then existing revolving credit facility and consists of a \$400 million variable rate revolver and a €220 million, amortizing term loan. The other terms of the 2019 Facility are substantially similar to our previous revolving credit facility. On February 28, 2019, we redeemed all outstanding 5.375% Notes with proceeds from the new term loan.

The 2019 Facility contains a number of customary compliance covenants, the most restrictive of which is a maximum leverage ratio of 4.0x provided that such ratio increases to 4.5x during the period of four fiscal quarters immediately following a material acquisition. As of September 30, 2020, the leverage ratio, as calculated in accordance with the definition in our amended credit agreement, was 2.4x, within the limits set forth in our credit agreement. As part of our proactive management of potential risks presented by the COVID-19 pandemic we assessed our liquidity position in a number of more severe scenarios projecting potential implications of the economic crises. We believe the strength of our balance sheet and our production of engineered materials essential to the global response effort provides adequate financial flexibility in this challenging time. 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 following table sets forth our outstanding long-term indebtedness:

<i>In thousands</i>	September 30 2020	December 31 2019
Revolving credit facility, due Feb. 2024	\$ 62,052	\$ 84,255
Term loan, due Feb. 2024	241,478	240,969
2.40% Term Loan, due Jun. 2022	2,927	4,012
2.05% Term Loan, due Mar. 2023	15,623	19,487
1.30% Term Loan, due Jun. 2023	4,600	5,617
1.55% Term Loan, due Sep. 2025	7,174	7,915
Total long-term debt	333,854	362,255
Less current portion	(23,908)	(22,940)
Unamortized deferred issuance costs	(1,962)	(2,396)
Long-term debt, net of current portion	\$ 307,984	\$ 336,919

Financing activities include cash used for common stock dividends. In both the first nine months of 2020 and 2019, we used \$17.5 million and \$17.2million, respectively, of cash for dividends on our common stock. 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. In the second quarter of 2020, the Board approved a 3.8% increase in the quarterly dividend beginning August 2020.

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.

At September 30, 2020, we had ample liquidity consisting of \$59.2 million of cash on hand and \$135.7 million of capacity under our revolving credit facility. 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.

Off-Balance-Sheet Arrangements As of September 30, 2020 and December 31, 2019, 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.

CRITICAL ACCOUNTING ESTIMATE We perform assessments for potential impairment of the carrying value of goodwill for our reporting units and a non-amortizing tradename intangible asset related to the 2013 Dresden acquisition. During the second quarter of 2020, driven by lower forecasted revenue of wallcover material as a result of the COVID-19 pandemic and the associated economic instability in Russia and Ukraine, we recorded a non-cash impairment charge of \$0.9 million related to the Dresden trade name, reducing its non-amortizing intangible value to \$3.4 million.

As a result of our annual assessment of the carrying value of goodwill completed in the third quarter, we concluded the estimated fair value of each reporting unit's goodwill exceeded its carrying value. Although we determined that Composite Fibers' goodwill was not impaired, the estimated fair value of the Composite Fibers reporting unit exceeded its carrying value by less than 10%. Any prolonged or further downturns due to COVID-19 in our Composite Fibers' markets, particularly in wallcover materials, or other negative revisions to key assumptions such as our weighted average cost of capital, may require us to perform additional impairment analysis that could result in a non-cash goodwill impairment charge. As of September 30, 2020, we had approximately \$77 million of goodwill related to Composite Fibers.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

<i>In thousands, except percentages</i>	Year Ended December 31					September 30, 2020	
	2020	2021	2022	2023	2024	Carrying Value	Fair Value
Long-term debt							
Average principal outstanding							
At variable interest rates	\$ 298,700	\$ 290,651	\$ 277,772	\$ 264,893	\$ 51,690	\$ 303,530	\$ 303,530
At fixed interest rates – Term Loans	28,944	22,051	11,273	3,791	1,793	30,324	30,749
						<u>\$ 333,854</u>	<u>\$ 334,279</u>
Weighted-average interest rate							
On variable rate debt	1.50%	1.50%	1.50%	1.50%	1.50%		
On fixed rate debt – Term Loans	1.85%	1.82%	1.73%	1.58%	1.55%		
Interest rate swap							
Pay fixed/received variable (<i>notional</i>)	€ 180,000	€ 180,000	€ 180,000	—	—		
Rate paid	0.0395%	0.0395%	0.0395%	—	—		
Rate received	—	—	—	—	—		

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of September 30, 2020. 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 September 30, 2020, we had \$331.9 million of long-term debt, net of unamortized debt issuance costs, of which 91.5% was at variable interest rates. After giving effect to the interest rate swap agreement, approximately 27.4% of our debt was at variable interest rates. The fixed rate Term Loans and the variable rate debt are all euro-based borrowings and thus the value of which is also subject to currency risk. Variable-rate debt outstanding represents borrowings under our revolving credit agreement that accrues interest based on one-month EURIBOR, but in no event less than zero, plus the applicable margin. At September 30, 2020, the weighted average EURIBOR on our outstanding debt was (0.55)%. Accordingly, the interest rate paid was equal to the margin, or 1.50%. A hypothetical 100 basis point increase in the interest rate on variable rate debt would increase annual interest expense by \$0.4 million. In the event rates are lower, interest expense would be unchanged.

We entered into a €180 million notional value floating-to-fixed interest rate swap agreement with certain financial institutions. Under the terms of the swap, we will pay a fixed interest rate of 0.0395% on €180 million of the underlying variable rate term loan. We will receive the greater of 0.00% or EURIBOR.

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 17.

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 €140 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 September 30, 2020, 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 September 30, 2020, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II

ITEM 1A. RISK FACTORS

The following additional risk factor relating to COVID-19 should be read in conjunction with the risk factors set forth under “Item 1A. Risk Factors” (“Item 1A”) in our 2019 Annual Report on Form 10-K (“2019 Form 10-K”). The developments described in this additional risk factor have heightened, or in some cases developed since the filing of our 2019 Form 10-K, certain of the risks disclosed in Item 1A. Except as described herein, there have been no material changes with respect to the risk factors disclosed in our 2019 Form 10-K.

The risks described below and in our 2019 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may occur or become material in the future and adversely affect our business, reputation, financial condition or results of operations. Therefore, historical operating results, financial and business performance, events and trends are often not a reliable indicator of future operating results, financial and business performance, events or trends.

The COVID-19 pandemic outbreak could impact our ability to operate our facilities in an economical manner or could adversely impact demand for our products, which could have a material adverse effect on our operations and business.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic as the virus spread throughout the world. As the virus continued its rapid spread, a significant portion of the world’s economies was significantly impacted, and will continue to be so, by government mandates that all “non-essential” businesses close and that residents “shelter-in-place” or practice “social distancing.” The actions undertaken across the globe in an attempt to contain the spread of the virus have had an unprecedented and significant adverse impact on global economies in terms of reduced GDP, increased unemployment, and insolvencies in a variety of industries and markets.

In the event economic activity continues to be adversely impacted, or the impact intensifies, due to the spread of COVID-19 or due to actions to control the spread, we could be forced to curtail operations due to reduced customer demand, compliance with government mandates or the inability to adequately staff production facilities due to a widespread or sustained outbreak of COVID-19 at one or more of our facilities. In addition, our global supply chain could be disrupted, demand for our products, or the prices the products are sold, could be adversely impacted if economic conditions in the target markets that we serve remain weak or weaken further. We also could face potential legal actions that could arise due to our operations during the pandemic.

In addition, the COVID-19 pandemic’s impact on various economies throughout the world could lead to financial instabilities or insolvencies of some of our customers or the customers they in turn serve which could impact our ability to sell our products.

As we cannot predict the duration or scope of the COVID-19 pandemic, in the event the spread continues or the government actions intensify, our results of operations and/or financial position could be adversely impacted.

ITEM 6. EXHIBITS

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

- 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 Samuel L. Hillard, Senior Vice President and Chief Financial Officer of Glatfelter, 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, filed herewith.](#)
- 32.2 [Certification of Samuel L. Hillard, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, filed herewith.](#)
- 101.INS Inline XBRL Instance Document - – the instance document does not appear in the Interactive Data file because its iXBRL tags are embedded within the Inline XBRL document, filed herewith.
- 101.SCH XBRL Taxonomy Extension Schema, filed herewith.
- 101.CAL XBRL Extension Calculation Linkbase, filed herewith.
- 101.DEF XBRL Extension Definition Linkbase, filed herewith.
- 101.LAB XBRL Extension Label Linkbase, filed herewith.
- 101.PRE XBRL Extension Presentation Linkbase, filed herewith.
- 104 The cover page of this Quarterly Report on Form 10-Q has been formatted in Inline XBRL.

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.

Glatfelter Corporation
(Registrant)

November 9, 2020

By /s/ David C. Elder
David C. Elder
Vice President, Finance and Chief
Accounting Officer
(Principal Accounting Officer)

CERTIFICATION PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Dante C. Parrini certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of Glatfelter Corporation and subsidiaries (“Glatfelter”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. Glatfelter’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of Glatfelter’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in Glatfelter’s internal control over financial reporting that occurred during Glatfelter’s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter’s internal control over financial reporting.
5. Glatfelter’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter’s auditors and the audit committee of Glatfelter’s board of directors (or persons performing similar functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter’s internal control over financial reporting.

November 9, 2020

By /s/ Dante C. Parrini
Dante C. Parrini
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Samuel L. Hillard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of Glatfelter Corporation and subsidiaries (“Glatfelter”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. Glatfelter’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of Glatfelter’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in Glatfelter’s internal control over financial reporting that occurred during Glatfelter’s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter’s internal control over financial reporting.
5. Glatfelter’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter’s auditors and the audit committee of Glatfelter’s board of directors (or persons performing similar functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter’s internal control over financial reporting.

November 9, 2020

By /s/ Samuel L. Hillard
Samuel L. Hillard
Senior Vice President and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, of Glatfelter Corporation and subsidiaries (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dante C. Parrini, Chairman and Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Glatfelter and will be retained by Glatfelter and furnished to the Securities and Exchange Commission or its staff upon request.

November 9, 2020

By /s/ Dante C. Parrini
Dante C. Parrini
Chairman and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, of Glatfelter Corporation and subsidiaries (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Samuel L. Hillard, Senior Vice President and Chief Financial Officer, certify to the best of my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Glatfelter and will be retained by Glatfelter and furnished to the Securities and Exchange Commission or its staff upon request.

November 9, 2020

By /s/ Samuel L. Hillard
Samuel L. Hillard
Senior Vice President and
Chief Financial Officer