

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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

July 27, 2021 (May 13, 2021)

Glatfelter Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction  
of incorporation)

001-03560  
(Commission  
File Number)

23-0628360  
(I.R.S. Employer  
Identification No.)

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

28209  
(Zip Code)

Registrant's telephone number, including area code:

704 885-2555

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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.

## EXPLANATORY NOTE

On May 14, 2021, Glatfelter Corporation (the “Company”) filed a Current Report on Form 8-K (the “Initial Form 8-K”) to report the completion of the acquisition (the “Acquisition”) of all of the outstanding equity interests in Georgia-Pacific Mt. Holly LLC (“Mt. Holly”) pursuant to a Share Purchase Agreement, dated January 5, 2021, between the Company and GPPC Equity Holdings LLC. The Initial Form 8-K stated that the historical financial statements of the Mt. Holly business and pro forma financial information related to the Acquisition would be filed, as permitted under Items 9.01(a) and 9.01(b), by an amendment to the Initial Form 8-K.

This amendment to the Initial Form 8-K on Form 8-K/A amends and supplements the Initial Form 8-K to include the financial statements of the Mt. Holly business and pro forma financial information as described in Items 9.01(a) and 9.01(b). No other amendments are being made to the Initial Form 8-K. This Current Report on Form 8-K/A should be read in conjunction with the Initial Form 8-K, which provides a more complete description of the Acquisition.

The pro forma financial information included in this Form 8-K/A has been presented for informational purposes only, are based on various adjustments and assumptions and is not necessarily indicative of what the Company’s consolidated statement of operations or consolidated statement of financial condition would have been had the Acquisition and other adjustments been completed as of the dates indicated or will be for any future periods.

### Item 9.01 Financial Statements and Exhibits.

#### (a) Financial Statements of Business Acquired.

The audited combined financial statements of Georgia-Pacific Mt. Holly LLC as of and for the year ended December 31, 2020 are filed herewith as Exhibit 99.1 and are incorporated in their entirety herein by reference.

The unaudited combined financial statements of Georgia-Pacific Mt. Holly LLC as of and for the three months ended March 31, 2021 are filed herewith as Exhibit 99.2 and are incorporated in their entirety herein by reference.

#### (b) Pro Forma Financial Information.

Unaudited pro forma financial information for the year ended December 31, 2020 and as of and for the three months ended March 31, 2021, are attached hereto as Exhibit 99.3 and are incorporated in their entirety herein by reference.

#### (d) Exhibits

The following exhibits are filed herewith:

- 23.1 [Consent of Grant Thornton LLP, independent certified public accountants.](#)
- 99.1 [Audited combined financial statements of Georgia-Pacific Mt. Holly LLC as of and for the year ended December 31, 2020.](#)
- 99.2 [Unaudited combined financial statements of Georgia-Pacific Mt. Holly LLC as of and for the three months ended March 31, 2021.](#)
- 99.3 [Unaudited condensed combined pro forma financial information for the year ended December 31, 2020 and as of and for the three months ended March 31, 2021.](#)
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document).

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Glatfelter Corporation

July 27, 2021

By: /s/ Jill L. Urey

Name: Jill L. Urey  
Title: Vice President, Deputy General Counsel and  
Corporate Secretary

Consent of Independent Certified Public Accountants

We have issued our report dated June 28, 2021, with respect to the combined financial statements of Georgia-Pacific Mt. Holly LLC as of and for the year ended December 31, 2020 included in the Form 8-K/A of Glatfelter Corporation. We consent to the incorporation by reference of said report in the Registration Statements of Glatfelter Corporation on Form S-8 (File No. 33-62331, File No. 333-217883, File No. 333-26587, File No. 333-160310, File No. 333-124485, File No. 333-188910) and on Form S-3 (File No. 333-265819).

/s/ Grant Thornton LLP

Atlanta, Georgia  
July 27, 2021

**Georgia-Pacific Mt. Holly LLC**  
**(A Business of Georgia-Pacific LLC)**  
Combined Financial Statements  
For the Year Ended December 31, 2020

**Georgia-Pacific Mt. Holly LLC**  
(A Business of Georgia-Pacific LLC)

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Managers  
Georgia-Pacific Mt. Holly LLC

We have audited the accompanying combined financial statements of Georgia-Pacific Mt. Holly LLC (as defined in Note 1), which comprise the combined balance sheet as of December 31, 2020, and the related combined statement of operations, statement of equity, statement of cash flows, and the related notes to the financial statements.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Georgia-Pacific Mt. Holly LLC as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Atlanta, Georgia  
June 28, 2021

**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Balance Sheet  
As of December 31, 2020  
(Dollars in thousands)

	<b>Notes</b>	<b>2020</b>
<b>ASSETS</b>		
Current assets:		
Accounts receivable, net	2	\$ 11,197
Inventories	3	7,479
Other current assets	4	2,157
Total current assets		20,833
Property, plant and equipment, net	5	94,456
Goodwill	6	20,057
Total assets		\$ 135,346
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	8	\$ 5,485
Other current liabilities		1,467
Total current liabilities		6,952
Other liabilities		156
Deferred income taxes		13,903
Total liabilities		21,011
Parent company net investment		114,335
Total liabilities and Parent company net investment		\$ 135,346

The accompanying notes are an integral part of the combined financial statements.



**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Statement of Operations  
For the Year Ended December 31, 2020  
(Dollars in thousands)

	<b>Notes</b>	<b>2020</b>
Sales and operating revenues	9	\$ <b>101,169</b>
Costs and operating expenses		
Cost of sales	10	75,236
Selling, general and administrative	1, 8	9,879
Depreciation	5	5,261
Loss on sale of assets		545
Total costs and operating expenses		<b>90,921</b>
Income from operations		<b>10,248</b>
Other expense, net		<b>(123)</b>
Income before taxes		<b>10,125</b>
Income tax expense	7	<b>3,061</b>
Net income		<b>\$ 7,064</b>

The accompanying notes are an integral part of the combined financial statements.

**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Statement of Equity  
For the Year Ended December 31, 2020  
(Dollars in thousands)

	<u>2020</u>
<b>January 1, 2020</b>	<b>\$ 116,637</b>
Net income	7,064
Net transfer to Parent	<b>(9,366)</b>
<b>December 31, 2020</b>	<b><u>\$ 114,335</u></b>

The accompanying notes are an integral part of the combined financial statements.

**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Statement of Cash Flow  
For the Year Ended December 31, 2020  
(Dollars in thousands)

	<b>2020</b>
Cash flows from operating activities	
Net income	\$ 7,064
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	5,261
Deferred tax provision	770
Other	544
Net change in operating assets and liabilities	
Accounts receivable	69
Inventories	2,370
Accounts payable	(325)
Other working capital	334
Change in other assets and other liabilities	(3,316)
Net cash provided by operating activities	12,771
Cash flows from investing activities	
Capital expenditures	(3,405)
Net cash used in investing activities	(3,405)
Cash flows from financing activities	
Net transfers to Parent Company	(9,366)
Net cash used in financing activities	(9,366)
Net change in cash and cash equivalents	—
Cash and cash equivalents, beginning of year	—
Cash and cash equivalents, end of year	\$ —
 <b>Supplemental disclosure of cash flow information:</b>	
Income tax paid	\$ 2,005

The accompanying notes are an integral part of the combined financial statements.

## **GEORGIA-PACIFIC MT. HOLLY LLC**

(A Business of Georgia-Pacific LLC)

### Notes to Combined Financial Statements

#### **NOTE 1. FORMATION AND BASIS OF PRESENTATION**

Georgia-Pacific Mt. Holly LLC (the "Business" or "Mt. Holly") is a wholly-owned business of Georgia-Pacific LLC, a Delaware limited liability company ("Georgia-Pacific", "GP" or the "Parent"). The Parent is a wholly-owned subsidiary of Koch Industries, Inc. ("Koch" or "KII").

##### *Description of the Business*

The Business is part of the non-wovens industry and manufactures airlaid substrate used in everyday applications like wipers, baby wipes, napkins, and medical applications. The products are composed of fluff pulp, synthetic fibers, latex binders, and natural binders combined in a web using air instead of water.

The non-wovens industry refers to a manufacturing process where fibers are laid on top of one another or integrated with a method other than using a fiber loom. Non-wovens can be broken down into two major segments: disposable and durable products.

The Business consists of a nonwovens manufacturing facility located in Mt. Holly, North Carolina and research and development pilot center located in Memphis, Tennessee.

On January 5, 2021, Georgia-Pacific entered into a binding Share Purchase Agreement with Glatfelter Corporation which contemplates the purchase of substantially all of the assets used in Georgia-Pacific's non-wovens business, including the manufacturing assets, research and development assets, and business employees. The research and development pilot center in Memphis have been purchased and the buildings have been leased from GP Cellulose to Glatfelter Corporation.

##### *Basis of Presentation and Combination*

The accompanying combined financial statements of the Business are presented in accordance with United States ("US") generally accepted accounting principles ("GAAP"). The Business is an integrated business of the Parent and is not a stand-alone entity. The accompanying combined financial statements have been derived from historical accounting records of the Parent. The historical operating results and cash flows of the Business may not be indicative of what they would have been had the Business been a stand-alone entity, nor are they necessarily indicative of what the operating results and cash flows may be in the future.

The Parent company net investment in the Business's operations is shown in lieu of stockholder's equity in the combined financial statements. The combined financial statements of the Business include all of the assets, liabilities, revenue, expenses, and cash flows of the Business, as well as expenses allocated deemed reasonable by management, to present the combined balance sheet, statement of operations, statement of changes in the Parent company net investment, and cash flows on a stand-alone basis. The combined financial statements only include assets and liabilities that are specifically identifiable or otherwise attributable to the Business.

Preparation of the combined financial statements included making certain adjustments necessary to reflect all costs of doing business to present the historical records on a basis as if the Business had been a separate stand-alone entity. As a result, the combined statement of operations includes allocations of certain corporate costs from the Parent incurred on its behalf, as well as division costs from the Consumer Products division within the Parent. Direct costs that are specifically identifiable to the Business have been fully reflected in the combined statement of operations and include,

but are not limited to, sales and marketing, business and operation management, research and development, transportation and customer service. The remaining corporate-level and division-level costs are being allocated to the Business using a number of allocation metrics including headcount, estimated percentage of time utilized by the Business, capital employed and others. Corporate costs include finance and accounting, human resources, information technology, compliance, procurement, general counsel, and other costs. Division-level costs include general and administrative, operations, engineering, finance and accounting, human resources, information technology and other costs. The Business believes the methodologies applied for the allocation of these costs are reasonable.

The preparation of the combined financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and related footnotes. Actual results could differ from those estimates.

The Business's employees participate in defined contribution plans and defined benefit plans (the "Plans") sponsored by the Parent. These Plans have been accounted for by the Business as multi-employer plans as discussed in Note 8.

All significant intercompany accounts and transactions within the Business have been eliminated in the accompanying combined financial statements.

The Parent uses a centralized approach to cash management and financing its operations. Accordingly, cash, cash equivalents, debt, and related interest expense resulting from transactions with the Parent have not been reflected in the combined financial statements, as such transactions between the Parent and the Business are accounted for through the Parent company net investment account. See Note 8 for further discussion.

Transactions between the Parent and the Business are deemed to have been settled immediately through the Parent company net investment account. Specifically, all charges and allocations of cost for the facilities, functions, and services performed by the Parent have been deemed paid by the Business to the Parent, in cash, in the period in which the cost was recorded in the combined statement of operations. The Business reflects all intercompany transactions with the Parent as being settled at the time of the transaction in the combined statement of cash flows.

### ***Accounting Policies***

Significant accounting policies are discussed throughout the notes to the combined financial statements.

### ***Recent Accounting Pronouncements***

#### ***Adopted Pronouncements***

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistency in application and simplification by clarifying and amending existing guidance. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The standard is effective for the Business beginning in 2022, with early adoption permitted. The Business early adopted this standard in 2020.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*, which addresses the accounting for implementation costs for hosting arrangements that are service contracts. The Business early adopted this standard in 2020. The guidance did not have a material impact on the combined financial statements.

### *Pronouncements Not Yet Adopted*

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)* which provides temporary, optional guidance to ease the potential burden in accounting for reference rate reform as the London Interbank Offered Rate ("LIBOR") will no longer be published. The standard is available for the Business in 2020 through 2022. The Business is currently evaluating the impact of adopting this standard.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to provide more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by reporting entities. The update replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected losses and requires consideration of a broader range of reasonable and supportable information to inform credit losses estimates. The guidance is effective for years beginning after December 15, 2021. Early adoption is not permitted. The Business is currently evaluating the impact of adopting this standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability of leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and lease liability for all leases with terms longer than twelve months. The standard will be effective for the Business beginning after December 15, 2021 and must be applied using a modified retrospective approach, with certain practical expedients available. Early adoption is permitted. The Business is still in the process of evaluating the impact of this new accounting guidance and is unable to reasonably determine the effect of implementing this guidance on the results of operations or cash flows at present.

### **NOTE 2. ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net was \$11,197 thousand as of December 31, 2020.

The Business believes that the carrying amounts of accounts receivable approximate fair value due to their short-term maturities.

An allowance for doubtful accounts is established based on the Business's collection experience and its assessment of the collectability of specific accounts. The Business evaluates the collectability of accounts based on a combination of factors. The allowance is adjusted when the Business becomes aware of changes in a specific customer's ability to meet its financial obligations or as a result of changes in the overall aging of accounts receivable. Accounts receivable are charged off against the allowance for doubtful accounts when it is probable that the receivable will not be recovered. No allowance existed at December 31, 2020.

### ***Concentration of Credit Risk***

The Business's top five external customers, excluding non-Business Parent facilities, accounted for 82% of sales in 2020. Two of these top customers individually accounted for 47% and 19% of sales in 2020. If any one of the Business's significant customers reduces, delays, or cancels substantial orders for any reason, the Business's results of operations could be negatively affected, particularly for the period in which the delay or cancellation occurs.

### **NOTE 3. INVENTORIES**

Inventories are valued at the lower of cost or market ("LCM") and are summarized as follows as of December 31 (in thousands):

	<b>2020</b>
Finished goods	\$ 3,254
Raw materials	4,225
Total inventories	<u>\$ 7,479</u>

### ***Inventory Valuation***

Inventory values include the costs of materials, labor, and manufacturing overhead. The last-in, first-out ("LIFO") method was used to determine the cost of substantially all inventories as of December 31, 2020. The cost of other inventories are determined using the first-in, first-out method or weighted-average cost.

### **NOTE 4. STOREROOM SUPPLIES**

Storeroom supplies represent equipment spare parts used at the Business's manufacturing locations. These supplies are valued using weighted-average cost and are expensed when consumed. Storeroom supplies are classified as current assets, as they exist for usage in current operations. Total storeroom supplies included in "Other current assets" in the accompanying combined balance sheet as of December 31, 2020 were \$1,867 thousand.

### **NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

Major classes of property, plant, and equipment consisted of the following as of December 31 (in thousands):

	<b>Estimated Useful Life</b>	<b>2020</b>
	(in years)	
Machinery and equipment	3 – 15	\$ 81,823
Buildings	20 – 30	38,629
Construction in progress		7,977
Property, plant and equipment, at cost		<u>128,429</u>
Accumulated depreciation		<u>(33,973)</u>
Property, plant and equipment, net		<u><u>\$ 94,456</u></u>

Replacements of major units of equipment are capitalized, and the replaced properties are retired.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. For the year ended December 31, 2020 depreciation expense was \$5,261 thousand.

Upon retirement or disposition of assets, cost and accumulated depreciation are removed from the related accounts and any gain or loss is included in "Loss on sale of assets" in the accompanying combined statement of operations.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing net book value to projected future undiscounted cash flows. If undiscounted net cash flows are less than the net book value, the recognized impairment is measured by the excess net book value over fair value. Fair values are based upon appraisals or estimates of discounted future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Business recorded no impairments of property, plant and equipment during the year ended December 31, 2020.

### **NOTE 6. GOODWILL**

The carrying amount of goodwill was \$20,057 thousand as of December 31, 2020. Goodwill pushed down from the Parent's acquisition of the Business was initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators are present. In assessing the recoverability of goodwill, the Business makes estimates and assumptions about sales, margins, working capital and capital expenditure levels, growth rates and discount rates based on the Business's forecasts, plans, economic projections, anticipated future cash flows and marketplace data. The business is cyclical, and therefore, the estimates of future

activities reflect estimates of the longer term business cycle. Actual results may differ materially from the estimates and assumptions made. Unexpected, significant or prolonged declines in operating results, the divestiture of a significant component, failure to execute on certain operating efficiencies or a prolonged downturn in the market could adversely impact future goodwill recoverability assessments and result in non-cash impairment charges.

When the fair value of the Business is less than the carrying amount, the Business may be required to reduce the amount of goodwill through a charge to earnings. Fair value is estimated primarily based on projected discounted cash flows. Based on the annual impairment review, no goodwill impairments were required in 2020.

## NOTE 7. INCOME TAXES

The Business's domestic operations are included in Koch's consolidated federal income tax return and consolidated returns of certain states. The Business records income tax provisions for these returns based on tax sharing agreements between the domestic operating entity and the Parent. Under the agreements, federal taxes are determined as though the domestic operations filed separate federal returns. State income taxes in jurisdictions where state returns are filed are calculated by applying the Business's state effective tax rate to the Business's separately identifiable taxable income from domestic operations. The domestic tax liability generated by the Business has been deemed to have been settled with the Parent in accordance with the tax sharing agreement.

Current and deferred income tax expense included in continuing operations consist of the following items for the years ended December 31 (in thousands):

	<b>2020</b>
Total current	\$ 2,291
Total deferred	770
Provision for income tax	<u>\$ 3,061</u>

Deferred income tax liabilities and assets at December 31 are as follows (in thousands):

	<b>2020</b>
Deferred tax liabilities	\$ (14,073)
Deferred tax asset	170
Less: valuation allowance	-
Net deferred tax liabilities	<u>\$ (13,903)</u>

Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates, applicable to future years, to differences between book and tax bases of existing assets and liabilities. Changes in valuation allowances are included in the Business's income tax provision in the period of change. In determining whether a valuation is warranted, the Business takes into account such factors as prior earnings history, expected future earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. The material items included in the net deferred income tax liability are driven by property, plant, and equipment.

As of December 31, 2020, the Business does not have any net operating losses, capital losses, or tax credit carryforwards.

For the year ended December 31, 2020, the effective tax rate is affected by recurring items, including a reduction for tax credits and an increase in earnings taxed in states. It is also affected by items that may occur in any given year, but not consistent from year to year.



The Business continues to recognize an estimate of potential interest and penalties related to liabilities for unrecognized tax benefits in the provisions for domestic and foreign income taxes. Interest and penalties recognized are not material to the Business's financial statements.

The Business is subject to income taxation in the United States. Unrecognized tax benefits (or tax contingency reserves) reflect the difference between positions taken or expected to be taken on income tax returns and the amounts recognized in the Financial Statements. Resolution of the related tax positions through negotiations with the relevant tax authorities or through litigation could take many years to complete. The timing of resolution on individual tax positions is difficult to predict since such timing is not entirely within the control of the Business. The Business records tax benefits for the largest amount more-likely-than-not to be sustained during an income tax audit. There are no reserves related to uncertain tax positions in the Business's financial statements.

The Business files tax returns in the U.S. federal jurisdiction and many state jurisdictions. Koch's U.S. federal income tax returns for years 2014 and prior have been audited and settled. The IRS is presently auditing Koch's 2015-2018 income tax years.

## **NOTE 8. RELATED-PARTY TRANSACTIONS**

Historically, the Business has been managed and operated in the normal course of business with other businesses of the Parent. Accordingly, certain shared costs have been allocated to the Business and reflected as expenses in the accompanying combined financial statements. Management of the Parent and the Business consider the allocation methodologies used to be reasonable and appropriate reflections of the historical Parent expense attributable to the Business for purposes of the combined financial statements; however, the expenses reflected in the combined financial statements may not be indicative of the actual expenses that would have been incurred during the period presented if the Business historically operated as a separate, standalone business. In addition, the expenses reflected in the combined financial statements may not be indicative of related expenses that will be incurred in the future by the Business.

### ***Cash Management and Financing***

The Business participates in the Parent's centralized cash management and financing programs. Disbursements are made through centralized accounts payable systems that are operated by the Parent. Cash receipts are transferred to centralized accounts, also maintained by the Parent. As cash is disbursed and received by the Parent, it is accounted for by the Business through the Parent company's net investment account. All obligations are financed by the Parent and financing decisions for wholly- and majority-owned operations are determined by central Parent treasury operations. As a result, all principal and interest not directly attributable to the Business remains with the Parent.

### ***Allocated Costs***

The allocated corporate- and division-level costs included in "Cost of sales" and "Selling, general, and administrative" in the accompanying combined statement of operations were \$11,146 thousand for the year ended December 31, 2020.

### ***Related-Party Transactions - Parent***

From time to time the Business purchases raw materials and sells products to various non-Business Parent facilities. Sales to non-Business Parent facilities in 2020 were \$4,120 thousand, and purchases were \$22,745 thousand. These sales and purchases are based on transfer prices in existence at the time and may or may not reflect the market value of the products, and are included in "Sales and operating revenue" and "Cost of sales" in the accompanying combined statement of operations.

The Business has a ground lease with the Parent for the land under its North Carolina facility. The rent expense was \$233 thousand in 2020 and is included in "Cost of sales" in the accompanying combined statement of operations.

### ***Related-Party Transactions - KII***

From time to time the Business purchases raw materials from various subsidiaries of KII. Purchases from KII and its subsidiaries in 2020 were \$369 thousand, and are included within "Cost of sales" in the accompanying combined statement of operations. Payables to KII were \$96 thousand at December 31, 2020, and are included in "Accounts payable" in the accompanying combined balance sheet.

### ***Workers Compensation***

The Parent has a high deductible workers' compensation insurance policy that limits its exposure to significant claims. Provisions for expected losses are recorded based on the Parent's estimates, on a discounted basis, of the aggregate known claims and estimated claims incurred but not reported. These estimates are based on the aggregate uninsured claims incurred using certain actuarial assumptions and loss development factors followed by the insurance industry and historical experience. The Parent and Business also have an extensive safety program in place to minimize its exposure to workers compensation losses.

The Parent purchases deductible-reimbursement insurance policies from Emerald Insurance Company, LLC, an affiliate and wholly-owned subsidiary of KII, to insure workers' compensation risk not covered by its third-party insurer. As the Business is not ultimately liable for these workers compensation claims, the accompanying combined balance sheet does not reflect any assets for policy reimbursement or liabilities for claims, only the expected losses and allocated costs of insurance are recognized. As discussed in Note 1, transactions between the Parent and the Business are deemed to have been settled immediately through the Parent company net investment account.

### ***Defined Benefit Pension Plans***

The Parent sponsors two U.S. noncontributory defined benefit pension plans in which employees of the Business participate: one covering salaried employees and the other covering hourly employees. Salaried employees and non-union hourly employees who are eligible for salaried benefits hired after January 1, 2006 do not participate in the salaried pension plan but receive additional benefits through the Parent's defined contribution plan (see section "*Defined Contribution Plans*" below). Salaried employees and non-union hourly employees who are eligible for salaried benefits hired before January 1, 2006 continue to accrue benefits under the salaried pension plan. Benefits under this plan primarily accumulate based upon compensation and age. Benefits under the noncontributory defined benefit pension plan for hourly employees primarily accumulate based upon years of service.

These plans are accounted for as multi-employer benefits plans in the accompanying combined financial statements and, accordingly, the combined balance sheet does not reflect any assets or liabilities related to these plans. The combined statement of operations includes expense allocations for these benefits. All funding requirements have been made by the Parent. As discussed in Note 1, transactions between the Parent and the Business are deemed to have been settled immediately through the Parent company net investment account.

Pension expense related to these plans for the year ended December 31, 2020 was \$48 thousand and is included in "Cost of Sales" in the accompanying combined statement of operations.

### ***Defined Contribution Plans***

Parent sponsors two qualified defined contribution plans to provide eligible employees with additional income upon retirement. Salaried employees and non-union hourly employees who are eligible for salaried benefits hired on or after January 1, 2006 receive an additional contribution to the salaried defined contribution plan instead of participating in the defined benefit pension plan. The Parent's contributions to the plans are based on employee contributions and compensation. Contributions for employees of the Business for the year ended December 31, 2020 were \$710 thousand. As these costs are directly attributable to the Business, they are not included in the allocations in this note.

## **NOTE 9. SALES AND OPERATING REVENUES**

### ***Revenue Recognition***

The Business recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied. The majority of the Business's revenue is recognized at a point in time when control of the related goods is transferred to the customer. Control is transferred at the point at which the customer has the ability to direct the use of or obtain substantially all of the remaining benefits from the good or service.

For sales transactions where the Business does not control the goods during shipment, revenue is recognized at the time of shipment when control has transferred and performance obligations have been satisfied. For sales transactions where the Business controls the goods during shipment, revenue is recognized upon delivery to the customer when control has transferred.

The Business sales contracts provide customers with goods and services in exchange for consideration specified under the contracts. Expected consideration (and therefore revenue) is allocated to goods based on standalone selling price and reflects reductions for allowances, rebates, volume discounts and other incentives. The Business considers the constraint on variable consideration when recognizing revenue and recognizes revenue based on the most likely amount. The Business records taxes collected from customers on behalf of government authorities, such as sales taxes, on a net basis.

Typical payment terms for product sales range from 30 to 90 days after the Business has satisfied its performance obligation.

## **NOTE 10. COST AND OPERATING EXPENSES**

Cost of sales consist primarily of raw materials, freight, manufacturing costs (fixed costs, variable costs, energy and utilities costs), and maintenance expenses. Fixed costs include operating employee wages, supplies, contracted services, and other miscellaneous costs necessary to operate and maintain the manufacturing facilities.

### ***Shipping and Handling Costs***

Shipping and handling costs are included within "Cost of sales" in the accompanying combined statement of operations.

### ***Research and Development Costs***

Research and development costs are expensed as incurred and are included within "Selling, general and administrative" in the accompanying combined statement of operations and totaled \$1,170 thousand in 2020.

## **NOTE 11. SUBSEQUENT EVENTS**

The Business has evaluated the events and transactions that occurred from January 1, 2021 to June 28, 2021, the date these financial statements were issued. No events occurred subsequent to the reporting date and the date these financial statements were issued that would materially impact the combined financial statements.

**Georgia-Pacific Mt. Holly LLC**  
**(A Business of Georgia-Pacific LLC)**  
Combined Financial Statements  
For the Three Months Ended March 31, 2021

**Georgia-Pacific Mt. Holly LLC**  
(A Business of Georgia-Pacific LLC)

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**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Balance Sheet  
As of March 31, 2021  
(Dollars in thousands)

	<b>Notes</b>		<b>March 31, 2021</b>
			<b>(unaudited)</b>
<b>ASSETS</b>			
Current assets:			
Accounts receivable, net	2	\$	11,474
Inventories	3		7,745
Other current assets	4		1,800
Total current assets			21,019
Property, plant and equipment, net	5		92,576
Goodwill	6		20,057
Total assets		\$	133,652
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable	8	\$	2,603
Other current liabilities			515
Total current liabilities			3,118
Other liabilities			69
Deferred income taxes			13,936
Total liabilities			17,123
Parent company net investment			116,529
Total liabilities and Parent company net investment		\$	133,652

The accompanying notes are an integral part of the combined financial statements.

**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Statement of Operations  
Three Months Ended March 31, 2021  
(Dollars in thousands)

	Notes	First Three Months 2021 (unaudited)
Sales and operating revenues	9	\$ 20,957
Costs and operating expenses		
Cost of sales	10	15,874
Selling, general and administrative	1, 8	2,077
Depreciation	5	1,341
Total costs and operating expenses		19,292
Income from operations		1,665
Income tax expense	7	408
Net income		\$ 1,257

The accompanying notes are an integral part of the combined financial statements.

**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Statement of Equity  
Three Months Ended March 31, 2021  
(Dollars in thousands)

	<u>March 31, 2021</u>	
	<b>(unaudited)</b>	
<b>January 1, 2021</b>	\$	<b>114,335</b>
Net income		<b>1,257</b>
Net transfer to Parent		<b>937</b>
<b>March 31, 2021</b>	\$	<b>116,529</b>

The accompanying notes are an integral part of the combined financial statements.



**GEORGIA-PACIFIC MT. HOLLY LLC**  
(A Business of Georgia-Pacific LLC)

Combined Statement of Cash Flow  
Three Months Ended March 31, 2021  
(Dollars in thousands)

	<b>First Three Months 2021</b> <hr/> <b>(unaudited)</b>
Cash flows from operating activities	
Net income	\$ 1,257
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,341
Deferred tax provision	73
Net change in operating assets and liabilities	
Accounts receivable	(277)
Inventories	(266)
Accounts payable	(2,881)
Other working capital	(595)
Change in other assets and other liabilities	(128)
Net cash used in operating activities	<u>(1,476)</u>
Cash flows from investing activities	
Capital expenditures	<u>539</u>
Net cash provided by investing activities	<u>539</u>
Cash flows from financing activities	
Net transfers from Parent Company	<u>937</u>
Net cash provided by financing activities	<u>937</u>
Net change in cash and cash equivalents	—
Cash and cash equivalents, beginning of year	—
Cash and cash equivalents, end of year	<u><u>\$ —</u></u>

The accompanying notes are an integral part of the combined financial statements.

## **GEORGIA-PACIFIC MT. HOLLY LLC**

(A Business of Georgia-Pacific LLC)

### Notes to Combined Financial Statements

#### **NOTE 1. FORMATION AND BASIS OF PRESENTATION**

Georgia-Pacific Mt. Holly LLC (the "Business" or "Mt. Holly") is a wholly-owned business of Georgia-Pacific LLC, a Delaware limited liability company ("Georgia-Pacific", "GP" or the "Parent"). The Parent is a wholly-owned subsidiary of Koch Industries, Inc. ("Koch" or "KII").

##### *Description of the Business*

The Business is part of the non-wovens industry and manufactures airlaid substrate used in everyday applications like wipers, baby wipes, napkins, and medical applications. The products are composed of fluff pulp, synthetic fibers, latex binders, and natural binders combined in a web using air instead of water.

The non-wovens industry refers to a manufacturing process where fibers are laid on top of one another or integrated with a method other than using a fiber loom. Non-wovens can be broken down into two major segments: disposable and durable products.

The Business consists of a nonwovens manufacturing facility located in Mt. Holly, North Carolina and research and development pilot center located in Memphis, Tennessee.

On January 5, 2021, Georgia-Pacific entered into a binding Share Purchase Agreement with Glatfelter Corporation which contemplates the purchase of substantially all of the assets used in Georgia-Pacific's non-wovens business, including the manufacturing assets, research and development assets, and business employees. The research and development pilot center in Memphis has been purchased and the buildings have been leased from GP Cellulose to Glatfelter Corporation. The sale of the non-wovens business to Glatfelter Corporate closed on May 13, 2021.

##### *Basis of Presentation and Combination*

The accompanying combined financial statements of the Business are presented in accordance with United States ("US") generally accepted accounting principles ("GAAP"). The Business is an integrated business of the Parent and is not a stand-alone entity. The accompanying combined financial statements have been derived from historical accounting records of the Parent. The historical operating results and cash flows of the Business may not be indicative of what they would have been had the Business been a stand-alone entity, nor are they necessarily indicative of what the operating results and cash flows may be in the future.

The Parent company net investment in the Business's operations is shown in lieu of stockholder's equity in the combined financial statements. The combined financial statements of the Business include all of the assets, liabilities, revenue, expenses, and cash flows of the Business, as well as expenses allocated deemed reasonable by management, to present the combined balance sheets, statement of operations, statement of changes in the Parent company net investment, and cash flows on a stand-alone basis. The combined financial statements only include assets and liabilities that are specifically identifiable or otherwise attributable to the Business.

Preparation of the combined financial statements included making certain adjustments necessary to reflect all costs of doing business to present the historical records on a basis as if the Business had been a separate stand-alone entity. As a result, the combined statement of operations includes allocations of certain corporate costs from the Parent incurred on its behalf, as well as division costs from the Consumer Products division within the Parent. Direct costs that are specifically identifiable to the Business have been fully reflected in the combined statement of operations and include,

but are not limited to, sales and marketing, business and operation management, research and development, transportation and customer service. The remaining corporate-level and division-level costs are being allocated to the Business using a number of allocation metrics including headcount, estimated percentage of time utilized by the Business, capital employed and others. Corporate costs include finance and accounting, human resources, information technology, compliance, procurement, general counsel, and other costs. Division-level costs include general and administrative, operations, engineering, finance and accounting, human resources, information technology and other costs. The Business believes the methodologies applied for the allocation of these costs are reasonable.

The preparation of the combined financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and related footnotes. Actual results could differ from those estimates.

The Business's employees participate in defined contribution plans and defined benefit plans (the "Plans") sponsored by the Parent. These Plans have been accounted for by the Business as multi-employer plans as discussed in Note 8.

All significant intercompany accounts and transactions within the Business have been eliminated in the accompanying combined financial statements.

The Parent uses a centralized approach to cash management and financing its operations. Accordingly, cash, cash equivalents, debt, and related interest expense resulting from transactions with the Parent have not been reflected in the combined financial statements, as such transactions between the Parent and the Business are accounted for through the Parent company net investment account. See Note 8 for further discussion.

Transactions between the Parent and the Business are deemed to have been settled immediately through the Parent company net investment account. Specifically, all charges and allocations of cost for the facilities, functions, and services performed by the Parent have been deemed paid by the Business to the Parent, in cash, in the period in which the cost was recorded in the combined statement of operations. The Business reflects all intercompany transactions with the Parent as being settled at the time of the transaction in the combined statement of cash flows.

### ***Accounting Policies***

Significant accounting policies are discussed throughout the notes to the combined financial statements.

### ***Recent Accounting Pronouncements***

#### ***Adopted Pronouncements***

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistency in application and simplification by clarifying and amending existing guidance. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The standard is effective for the Business beginning in 2022, with early adoption permitted. The Business early adopted this standard in 2020.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*, which addresses the accounting for implementation costs for hosting arrangements that are service contracts. The Business early adopted this standard in 2020. The guidance did not have a material impact on the combined financial statements.

### *Pronouncements Not Yet Adopted*

In March 2021, the FASB issued ASU 2021-03, *Intangibles-Goodwill and Other (Topic 350)* which allows an entity within the scope of the guidance as a policy election, not to monitor for goodwill impairment triggering events during the reporting period and, instead, to evaluate the facts and circumstances as of the end of the reporting period to determine whether it is more likely than not that goodwill is impaired. The Business is still in the process of evaluating the impact of this new accounting guidance and is unable to reasonably determine the effect of implementing this guidance on the results of operations or cash flows at present.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)* which provides temporary, optional guidance to ease the potential burden in accounting for reference rate reform as the London Interbank Offered Rate ("LIBOR") will no longer be published. The standard is available for the Business in 2020 through 2022. The Business is currently evaluating the impact of adopting this standard.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to provide more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by reporting entities. The update replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected losses and requires consideration of a broader range of reasonable and supportable information to inform credit losses estimates. The guidance is effective for annual and interim reporting periods beginning after December 15, 2022. Early adoption is not permitted. The Business is currently evaluating the impact of adopting this standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability of leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and lease liability for all leases with terms longer than twelve months. The standard will be effective for the Business beginning after December 15, 2021 and must be applied using a modified retrospective approach, with certain practical expedients available. Early adoption is permitted. The Business is still in the process of evaluating the impact of this new accounting guidance and is unable to reasonably determine the effect of implementing this guidance on the results of operations or cash flows at present.

### **NOTE 2. ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net was \$11,474 thousand as of March 31, 2021.

The Business believes that the carrying amounts of accounts receivable approximate fair value due to their short-term maturities.

An allowance for doubtful accounts is established based on the Business's collection experience and its assessment of the collectability of specific accounts. The Business evaluates the collectability of accounts based on a combination of factors. The allowance is adjusted when the Business becomes aware of changes in a specific customer's ability to meet its financial obligations or as a result of changes in the overall aging of accounts receivable. Accounts receivable are charged off against the allowance for doubtful accounts when it is probable that the receivable will not be recovered. No allowance existed at March 31, 2021.

### ***Concentration of Credit Risk***

The Business's top five external customers, excluding non-Business Parent facilities, accounted for 76% of sales during the quarter ended March 31, 2021. Two of these top customers individually accounted for 55% and 11%, of sales for the quarter ended March 31, 2021. If any one of the Business's significant customers reduces, delays, or cancels substantial orders for any reason, the Business's results of operations could be negatively affected, particularly for the period in which the delay or cancellation occurs.

### NOTE 3. INVENTORIES

Inventories are valued at the lower of cost or market ("LCM") and are summarized as follows (in thousands):

	<u>March 31, 2021</u>	
	(unaudited)	
Finished goods	\$	3,628
Raw materials		4,117
Total inventories	\$	<u>7,745</u>

#### *Inventory Valuation*

Inventory values include the costs of materials, labor, and manufacturing overhead. The last-in, first-out ("LIFO") method was used to determine the cost of substantially all inventories as of March 31, 2021. The cost of other inventories is determined using the first-in, first-out method or weighted-average cost.

### NOTE 4. STOREROOM SUPPLIES

Storeroom supplies represent equipment spare parts used at the Business's manufacturing locations. These supplies are valued using weighted-average cost and are expensed when consumed. Storeroom supplies are classified as current assets, as they exist for usage in current operations. Total storeroom supplies included in "Other current assets" in the accompanying combined balance sheets as of March 31, 2021 of \$1,405.

### NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant, and equipment consisted of the following as of March 31 (in thousands):

	<u>Estimated Useful Life</u>	<u>March 31, 2021</u>
	(in years)	(unaudited)
Machinery and equipment	3 – 15	\$ 81,780
Buildings	20 – 30	38,629
Construction in progress		7,438
Property, plant and equipment, at cost		<u>127,847</u>
Accumulated depreciation		<u>(35,271)</u>
Property, plant and equipment, net		<u>\$ 92,576</u>

Replacements of major units of equipment are capitalized, and the replaced properties are retired.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. For the three months ended March 31, 2021, depreciation expense was \$1,341 thousand.

Upon retirement or disposition of assets, cost and accumulated depreciation are removed from the related accounts and any gain or loss is included in "Loss on sale of assets" in the combined statement of operations.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing net book value to projected future undiscounted cash flows. If undiscounted net cash flows are less than the net book value, the recognized impairment is measured by the excess net book value over fair value. Fair values are based upon appraisals or estimates of discounted future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Business recorded no impairments of property, plant and equipment during the quarter ended March 31, 2021.

## **NOTE 6. GOODWILL**

The carrying amount of goodwill was \$20,057 thousand as of March 31, 2021. Goodwill pushed down from the Parent's acquisition of the Business was initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators are present. In assessing the recoverability of goodwill, the Business makes estimates and assumptions about sales, margins, working capital and capital expenditure levels, growth rates and discount rates based on the Business's forecasts, plans, economic projections, anticipated future cash flows and marketplace data. The business is cyclical, and therefore, the estimates of future activities reflect estimates of the longer term business cycle. Actual results may differ materially from the estimates and assumptions made. Unexpected, significant or prolonged declines in operating results, the divestiture of a significant component, failure to execute on certain operating efficiencies or a prolonged downturn in the market could adversely impact future goodwill recoverability assessments and result in non-cash impairment charges.

When the fair value of the Business is less than the carrying amount, the Business may be required to reduce the amount of goodwill through a charge to earnings. Fair value is estimated primarily based on projected discounted cash flows. No goodwill impairments were required in the quarter ended March 31, 2021.

## **NOTE 7. INCOME TAXES**

The income tax provision for the first quarter of 2021 reflects an effective tax rate of 23.66%, compared to an effective rate of 23.51% for the comparable period in the prior year. The increase in the effective rate is primarily due to higher pre-tax income for the first quarter of 2021. The effective tax rate in both periods are affected by recurring items, including tax credits and permanent tax adjustments. There were no significant changes to the Company's uncertain tax positions.

## **NOTE 8. RELATED-PARTY TRANSACTIONS**

Historically, the Business has been managed and operated in the normal course of business with other businesses of the Parent. Accordingly, certain shared costs have been allocated to the Business and reflected as expenses in the accompanying combined financial statements. Management of the Parent and the Business consider the allocation methodologies used to be reasonable and appropriate reflections of the historical Parent expense attributable to the Business for purposes of the combined financial statements; however, the expenses reflected in the combined financial statements may not be indicative of the actual expenses that would have been incurred during the period presented if the Business historically operated as a separate, standalone business. In addition, the expenses reflected in the combined financial statements may not be indicative of related expenses that will be incurred in the future by the Business.

### ***Cash Management and Financing***

The Business participates in the Parent's centralized cash management and financing programs. Disbursements are made through centralized accounts payable systems that are operated by the Parent. Cash receipts are transferred to centralized accounts, also maintained by the Parent. As cash is disbursed and received by the Parent, it is accounted for by the Business through the Parent company's net investment account. All obligations are financed by the Parent and financing decisions for wholly- and majority-owned operations are determined by central Parent treasury operations. As a result, all principal and interest not directly attributable to the Business remains with the Parent.

### ***Allocated Costs***

The allocated corporate and division-level costs included in "Cost of sales" and "Selling, general, and administrative" in the accompanying combined statement of operations were \$2,510 thousand for the three months ended March 31, 2021.

### ***Related-Party Transactions - Parent***

From time to time the Business purchases raw materials and sells products to various non-Business Parent facilities. Sales to non-Business Parent facilities for the three months ended March 31, 2021 was \$786 thousand. Purchases from non-Business Parent facilities was \$4,544 thousand for the three months ended March 31, 2021. These sales and purchases are based on transfer prices in existence at the time and may or may not reflect the market value of the products and are included in "Sales and operating revenue" and "Cost of sales" in the accompanying combined statement of operations.

The Business has a ground lease with the Parent for the land under its North Carolina facility. The rent expense was \$59 thousand as of March 31, 2021 and is included in "Cost of sales" in the accompanying combined statement of operations.

### ***Related-Party Transactions - KII***

From time to time the Business purchases raw materials from various subsidiaries of KII. Purchases from KII and its subsidiaries were immaterial as of March 31, 2021. These purchases are included within "Cost of sales" in the accompanying combined statement of operations. Payables to KII was \$81 thousand at March 31, 2021, and are included in "Accounts payable" in the accompanying combined balance sheet.

### ***Workers Compensation***

The Parent has a high deductible workers' compensation insurance policy that limits its exposure to significant claims. Provisions for expected losses are recorded based on the Parent's estimates, on a discounted basis, of the aggregate known claims and estimated claims incurred but not reported. These estimates are based on the aggregate uninsured claims incurred using certain actuarial assumptions and loss development factors followed by the insurance industry and historical experience. The Parent and Business also have an extensive safety program in place to minimize its exposure to workers compensation losses.

The Parent purchases deductible-reimbursement insurance policies from Emerald Insurance Company, LLC, an affiliate and wholly-owned subsidiary of KII, to insure workers' compensation risk not covered by its third-party insurer. As the Business is not ultimately liable for these workers compensation claims, the accompanying combined balance sheet does not reflect any assets for policy reimbursement or liabilities for claims, only the expected losses and allocated costs of insurance are recognized. As discussed in Note 1, transactions between the Parent and the Business are deemed to have been settled immediately through the Parent company net investment account.

### ***Defined Benefit Pension Plans***

The Parent sponsors two U.S. noncontributory defined benefit pension plans in which employees of the Business participate: one covering salaried employees and the other covering hourly employees. Salaried employees and non-union hourly employees who are eligible for salaried benefits hired after January 1, 2006 do not participate in the salaried pension plan but receive additional benefits through the Parent's defined contribution plan (see section "*Defined Contribution Plans*" below). Salaried employees and non-union hourly employees who are eligible for salaried benefits hired before January 1, 2006 continue to accrue benefits under the salaried pension plan. Benefits under this plan primarily accumulate based upon compensation and age. Benefits under the noncontributory defined benefit pension plan for hourly employees primarily accumulate based upon years of service.

These plans are accounted for as multi-employer benefits plans in the accompanying combined financial statements

and, accordingly, the combined balance sheet does not reflect any assets or liabilities related to these plans. Our combined statement of operations includes expense allocations for these benefits. All funding requirements have been made by the Parent. As discussed in Note 1, transactions between the Parent and the Business are deemed to have been settled immediately through the Parent company net investment account.

Pension expense related to these plans for the quarter ended March 31, 2021 was \$18 thousand.

### ***Defined Contribution Plans***

Parent sponsors two qualified defined contribution plans to provide eligible employees with additional income upon retirement. Salaried employees and non-union hourly employees who are eligible for salaried benefits hired on or after January 1, 2006 receive an additional contribution to the salaried defined contribution plan instead of participating in the defined benefit pension plan. The Parent's contributions to the plans are based on employee contributions and compensation. Contributions for employees of the Business for the three months ended March 31, 2021 was \$201 thousand. As these costs are directly attributable to the Business, they are not included in the allocations in this note.

## **NOTE 9. SALES AND OPERATING REVENUES**

### ***Revenue Recognition***

The Business recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied. The majority of the Business's revenue is recognized at a point in time when control of the related goods is transferred to the customer. Control is transferred at the point at which the customer has the ability to direct the use of or obtain substantially all of the remaining benefits from the good or service.

For sales transactions where the Business does not control the goods during shipment, revenue is recognized at the time of shipment when control has transferred, and performance obligations have been satisfied. For sales transactions where the Business controls the goods during shipment, revenue is recognized upon delivery to the customer when control has transferred.

The Business sales contracts provide customers with goods and services in exchange for consideration specified under the contracts. Expected consideration (and therefore revenue) is allocated to goods based on standalone selling price and reflects reductions for allowances, rebates, volume discounts and other incentives. The Business considers the constraint on variable consideration when recognizing revenue and recognizes revenue based on the most likely amount. The Business records taxes collected from customers on behalf of government authorities, such as sales taxes, on a net basis.

Typical payment terms for product sales range from 30 to 90 days after the Business has satisfied its performance obligation.

## **NOTE 10. COST AND OPERATING EXPENSES**

Cost of sales consist primarily of raw materials, freight, manufacturing costs (fixed costs, variable costs, energy and utilities costs), and maintenance expenses. Fixed costs include operating employee wages, supplies, contracted services, and other miscellaneous costs necessary to operate and maintain the manufacturing facilities.

### ***Shipping and Handling Costs***

Shipping and handling costs are included within "Cost of sales" in the accompanying combined statement of operations.



### ***Research and Development Costs***

Research and development costs are expensed as incurred and are included within "Selling, general and administrative" in the accompanying combined statement of operations and totaled \$246 thousand as of March 31, 2021.

### **NOTE 11. SUBSEQUENT EVENTS**

The Business has evaluated the events and transactions that occurred from April 1, 2021 to June 8, 2021, the date these financial statements were issued. No events occurred subsequent to the reporting date and the date these financial statements were issued that would materially impact the combined financial statements.

## Unaudited Pro forma Condensed Combined Financial Information

The unaudited pro forma condensed combined financial information presented herein gives effect to the following transactions, which we refer to as the “Transactions”:

- 1) the acquisition by Glatfelter Corporation (the “Company”), of the outstanding equity interests of Georgia-Pacific Mt. Holly LLC, (the “G-P U.S. Nonwovens Business”) pursuant to the previously announced Share Purchase Agreement, dated January 5, 2021 (the “Purchase Agreement”), between the Company and GPPC Equity Holdings LLC which we refer to as the “Acquisition”; and
- 2) our incurrence of additional indebtedness under our existing revolving credit facility and our application of the borrowings plus cash on hand to fund the Acquisition.

The Acquisition includes the G-P U.S. Nonwovens Business, which operates an airlaid manufacturing operation, located in Mount Holly, North Carolina, that produces high-quality airlaid products focused on wipes and tabletop materials and a nonwovens product development operation located in Memphis, Tennessee. The Acquisition includes approximately 140 people employed at both facilities.

The unaudited pro forma condensed combined statements of income for the year ended December 31, 2020 and for the three month period ended March 31, 2021, give effect to the Transactions as if they occurred on January 1 of the respective period presented. The unaudited pro forma condensed combined balance sheet data as of March 31, 2021 gives effect to the Transactions as if they had occurred on March 31, 2021.

The Acquisition is accounted for using the acquisition method of accounting in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 805, “*Business Combinations*” (“FASB ASC 805”). Under the acquisition method of accounting, the total purchase price for the Acquisition is allocated to the assets acquired and liabilities assumed based upon estimates of fair value. The unaudited pro forma adjustments reflected herein are based upon preliminary available information and assumptions that we believe are reasonable under the circumstances and which are described in the accompanying notes. These preliminary estimates may change upon finalization of appraisals and valuation studies. Therefore, the final allocations may differ materially from the estimates used to prepare these pro forma combined financial statements.

You should read the unaudited pro forma combined financial statements in conjunction with our audited consolidated financial statements on in our Annual Report on Form 10-K for the year ended December 31, 2020, our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2021 included in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021, the audited financial statements of the G-P U.S. Nonwovens Business for the year ended December 31, 2020 filed as Exhibit 99.1 to the Current Report on Form 8-K/A and the unaudited combined financial statements for the three months ended March 31, 2021 filed as Exhibit 99.2 to the Current Report on Form 8-K/A.

The unaudited pro forma condensed combined financial information is presented for illustrative and informative purposes only and is not intended to represent or be indicative of what our results of operations and financial position would have been had the Transactions actually occurred on the dates indicated, and it is neither representative of nor projects our results of operations for any future period or our financial condition at any future date. In addition, the unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that we may achieve as a result of the acquisition of the G-P U.S. Nonwovens Business, the costs to integrate the operations of the G-P U.S. Nonwovens Business or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements. The presentation of certain items in the G-P U.S. Nonwovens Business historical financial statements have been conformed to our presentation for purposes of the unaudited pro forma condensed combined financial information.

**Unaudited Pro Forma Condensed Combined Statement of Income  
For the Year Ended December 31, 2020**

<i>In thousands, except per share</i>	Historical		Transaction Accounting Adjustments	Glatfelter Pro Forma Combined
	Glatfelter	G-P U.S. Nonwovens Business <sup>(1)</sup>		
Net sales	\$ 916,498	\$ 101,169	\$ —	\$ 1,017,667
Costs of products sold	768,629	80,497	1,087 <sup>(2)</sup>	850,213
Gross profit	147,869	20,672	(1,087)	167,454
Selling, general and administrative expenses	100,045	9,879	1,818 <sup>(3)</sup>	111,742
Gains on dispositions of plant, equipment and timberlands, net	(1,332)	545	—	(787)
Operating income	49,156	10,248	(2,905)	56,499
Non-operating income (expense)				
Interest expense	(7,022)	—	(2,162) <sup>(4)</sup>	(9,184)
Interest income	399	—	—	399
Pension settlement	(6,154)	—	—	(6,154)
Other, net	(4,020)	(123)	—	(4,143)
Total non-operating expense	(16,797)	(123)	(2,162)	(19,082)
Income (loss) before income taxes	32,359	10,125	(5,067)	37,417
Income tax provision (benefit)	11,576	3,061	(1,267) <sup>(5)</sup>	13,370
Income (loss) from continuing operations	<u>\$ 20,783</u>	<u>\$ 7,064</u>	<u>\$ (3,800)</u>	<u>\$ 24,047</u>
<b>Earnings per share</b>				
Basic	\$ 0.47			\$ 0.54
Diluted	0.47			0.54

- (1) Represents the G-P U.S. Nonwovens Business financial information adjusted to conform the presentation to that of Glatfelter.
- (2) Represents the following:
  - a. A \$957 thousand increase in depreciation expense due to the difference in the bases of depreciable assets together with a change in the estimated lives resulting from the application of the FASB ASC 805 to account for the Acquisition; and
  - b. Lease expense of \$130 thousand due to the application of FASB ASC No. 842, “Leases” (“FASB ASC 842”), to account for the lease of a building in connection the Acquisition.
- (3) Represents amortization expense totaling \$1,818 thousand resulting from the application of FASB ASC 805 to account for the Acquisition.
- (4) Represents additional interest expense as a result of incremental borrowings under our existing revolving credit facility in connection with the Acquisition. The assumed interest rate is 1.35%. A change of 0.125% in the assumed interest rate for the borrowings under our existing revolving credit facility would have an incremental effect on our annual interest expense of \$200 thousand.
- (5) Represents the tax effect of the pro forma adjustments based on the effective tax rates of the jurisdiction in which the transactions would have taken place.

The amounts set forth above for Glatfelter’s historical financial information include one-time costs totaling \$1,567 thousand that are directly related to the Acquisition and are not expected to recur in future periods beyond the closing of the Acquisition. These costs primarily include legal, accounting and related costs associated with the Acquisition. The following table sets forth the certain Glatfelter Pro Forma Combined information adjusted to exclude these one-time costs:

<i>in thousands</i>		per diluted share
Income (loss) from continuing operations	\$ 24,047	\$ 0.54
Add back one-time costs, net of tax	1,175	0.03
Adjusted Glatfelter Pro Forma Combined	<u>\$ 25,222</u>	<u>\$ 0.57</u>

**Unaudited Pro Forma Condensed Combined Statement of Income  
For the Three Months Ended March 31, 2021**

<i>In thousands, except per share</i>	Historical			Transaction Accounting Adjustments	Glatfelter Pro Forma Combined
	Glatfelter	G-P U.S. Nonwovens Business <sup>(1)</sup>			
Net sales	\$ 225,674	\$ 20,957	\$ —		\$ 246,631
Costs of products sold	186,378	17,215	247	(2)	203,840
Gross profit	39,296	3,742	(247)		42,791
Selling, general and administrative expenses	22,827	2,077	455	(3)	25,359
Gains on dispositions of plant, equipment and timberlands, net	(850)	—	—		(850)
Operating income	17,319	1,665	(702)		18,282
Non-operating income (expense)					
Interest expense	(1,531)	—	(540)	(4)	(2,071)
Interest income	20	—	—		20
Other, net	(224)	—	—		(224)
Total non-operating expense	(1,735)	—	(540)		(2,275)
Income (loss) before income taxes	15,584	1,665	(1,242)		16,007
Income tax provision (benefit)	7,190	408	(311)	(5)	7,287
Income (loss) from continuing operations	<u>\$ 8,394</u>	<u>\$ 1,257</u>	<u>\$ (931)</u>		<u>\$ 8,720</u>
<b>Earnings per share</b>					
Basic	\$ 0.19				\$ 0.20
Diluted	0.19				0.19

- (1) Represents the G-P U.S. Nonwovens Business historical financial information adjusted to conform the presentation to that of Glatfelter.
- (2) Represents the following:
  - a. A \$214 thousand increase in depreciation expense due to the difference in the bases of depreciable assets together with a change in the estimated lives resulting from the application of the FASB 805 to account for the Acquisition; and
  - b. Lease expense of \$33 thousand due to the application of FASB ASC 842 to account for the lease of a building in connection the Acquisition.
- (3) Represents amortization expense totaling \$455 thousand resulting from the application of FASB ASC 805 to account for the Acquisition.
- (4) Represents additional interest expense as a result of incremental borrowings under our existing revolving credit facility in connection with the Acquisition. The assumed interest rate is 1.35%. A change of 0.125% in the assumed interest rate for the borrowings under our existing revolving credit facility would have an incremental effect on our annual interest expense of \$200 thousand.
- (5) Represents the tax effect of the pro forma adjustments based on the effective tax rates of the jurisdiction in which the transactions would have taken place.

The amounts set forth above for Glatfelter's historical financial information include one-time costs totaling \$603 thousand that are directly related to the Acquisition and are not expected to recur in future periods beyond the closing of the Acquisition. These costs primarily include legal, accounting and related costs associated with the Acquisition. The following table sets forth the certain Glatfelter Pro Forma Combined information adjusted to exclude these one-time costs:

<i>in thousands</i>		per diluted share
Income (loss) from continuing operations	\$ 8,720	\$ 0.19
Add back one-time costs, net of tax	452	0.01
Adjusted Glatfelter Pro Forma Combined	<u>\$ 9,172</u>	<u>\$ 0.20</u>

**Unaudited Pro Forma Condensed Combined Balance Sheet  
as of March 31, 2021**

<i>In thousands</i>	<b>Historical Glatfelter</b>	<b>G-P U.S. Nonwovens Business <sup>(1)</sup></b>	<b>Transaction Accounting Adjustments</b>	<b>Glatfelter Pro Forma Combined</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 87,366	\$ —	\$ (10,733) <sup>(2)</sup>	\$ 76,633
Accounts receivable, net	126,507	11,474	—	137,981
Inventories	203,333	9,150	500 <sup>(3)</sup>	212,983
Prepaid expenses and other current assets	45,844	395	—	46,239
Total current assets	463,050	21,019	(10,233)	473,836
Plant, equipment and timberlands, net	523,428	92,576	7,922 <sup>(3)</sup>	623,926
Goodwill	157,341	20,057	11,846 <sup>(3)</sup>	189,244
Intangible assets, net	76,182	—	20,000 <sup>(3)</sup>	96,182
Other assets	47,878	—	8,041 <sup>(3)</sup>	55,919
Total assets	<u>\$ 1,267,879</u>	<u>\$ 133,652</u>	<u>\$ 37,576</u>	<u>\$ 1,439,107</u>
<b>Liabilities and Shareholders' Equity</b>				
Current portion of long-term debt	\$ 23,942	\$ —	\$ —	\$ 23,942
Short-term debt	11,725	—	—	11,725
Accounts payable	115,456	2,603	—	118,059
Dividends payable	6,001	—	—	6,001
Environmental liabilities	3,600	—	—	3,600
Other current liabilities	75,005	515	353 <sup>(3)</sup>	75,873
Total current liabilities	235,729	3,118	353	239,200
Long-term debt	271,079	—	160,000 <sup>(5)</sup>	431,079
Deferred income taxes	75,387	13,936	(13,936) <sup>(3)</sup>	75,387
Other long-term liabilities	114,623	69	7,688 <sup>(3)</sup>	122,380
Total liabilities	696,818	17,123	154,105	868,046
Commitments and contingencies	—	—	—	—
<b>Shareholders' equity</b>				
Common stock	544	—	—	544
Capital in excess of par value	62,576	116,529	(116,529) <sup>(4)</sup>	62,576
Retained earnings	725,756	—	—	725,756
Accumulated other comprehensive loss	(68,493)	—	—	(68,493)
	720,383	116,529	(116,529)	720,383
Less cost of common stock in treasury	(149,322)	—	—	(149,322)
Total shareholders' equity	571,061	116,529	(116,529)	571,061
Total liabilities and shareholders' equity	<u>\$ 1,267,879</u>	<u>\$ 133,652</u>	<u>\$ 37,576</u>	<u>\$ 1,439,107</u>

(1) Represents the G-P U.S. Nonwovens Business historical financial information adjusted to conform to the presentation to that of Glatfelter.

- (2) Reflects the use of \$10,993 thousand of Glatfelter’s cash on hand to partially fund the Acquisition.
- (3) The pro forma adjustments reflect the Acquisition and allocation of the purchase price adjustments as follows:

Purchase price	\$	170,733
Less book value of net assets acquired		(116,529)
Purchase price in excess of book value of net assets acquired	<u>\$</u>	<u>54,204</u>

The following sets forth the preliminary allocation of the purchase price in excess of the book value of net assets acquired assuming the Acquisition occurred as of March 31, 2021:

Inventory	\$	500
Property, plant and equipment		7,922
Intangible assets - customer relationships		20,000
Goodwill		11,846
Other assets		<u>8,041</u>
Total assets		48,309
Other current liabilities		353
Deferred income taxes		(13,936)
Other long-term liabilities		<u>7,688</u>
Total liabilities		(5,895)
Total preliminary purchase price allocation	<u>\$</u>	<u>54,204</u>

The Acquisition agreement provides for a purchase price of \$175 million, subject to an adjustment based on the closing date working capital of the G-P U.S. Nonwovens Business, an amount of which has not yet been agreed. The preliminary purchase price allocation set forth above is based on a preliminary working capital adjustment of \$4.0 million.

We are in the process of completing valuations necessary to account for the Acquisition in accordance with the acquisition method of accounting set forth in FASB ASC 805 including independent appraisals. In calculating the pro forma adjustments, the purchase price has been allocated on a preliminary basis. Therefore, the purchase price allocation is subject to change, and such changes could be material. The preliminary allocation of the purchase price set forth in the unaudited pro forma condensed combined balance sheet assumes the excess of book value will be allocated as set forth above, an assumption we believe is reasonable based on information presently available to us. The allocation shown above includes an allocation to identified intangible assets consisting of customer relationships. In addition, for purposes of the pro forma financial information set forth above, the book value of net assets acquired is as of March 31, 2021. Any change in the amount of net assets acquired from the amount presented above will affect the amount of goodwill recognized.

For purposes of presenting depreciation and amortization expense in the unaudited pro forma condensed combined statement of income, fixed assets and intangible assets are assumed to have an average remaining useful life of 16 years and 11 years, respectively. Expense is recognized on a straight-line basis.

The amount presented as “Other Assets”, “Other current liabilities” and “Other long-term liabilities” reflects the application of FASB ASC 842 to record the net present value of lease obligations and the corresponding right of use assets related to operating leases.

- (4) Reflects the elimination of the equity of the G-P U.S. Nonwovens Business in accordance with FASB ASC 805.
- (5) Reflects additional borrowings under Glatfelter’s existing revolving credit facility to partially fund the Acquisition.