

Burlington Coat Factory Investments Holdings, Inc.

Form 10-Q

June 18, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended May 4, 2013

OR

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

For the transition period from            to            .

Commission File Number 333-137916-110

# BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of

**20-4663833**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**1830 Route 130 North**

**Burlington, New Jersey**  
(Address of Principal Executive Offices)

**08016**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (609) 387-7800**

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

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

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

Large accelerated filer

Accelerated filer

Non-Accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of June 18, 2013, the registrant has 1,000 shares of common stock outstanding, all of which are owned by Burlington Coat Factory Holdings, LLC, the registrant's parent holding company, and are not publicly traded.

\* The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, but is not required to file such reports under such sections.



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**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(All amounts in thousands)**

	May 4, 2013	February 2, 2013	April 28, 2012
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 102,348	\$ 43,336	\$ 53,654
Restricted Cash and Cash Equivalents	34,800	34,800	34,800
Accounts Receivable, Net of Allowances for Doubtful Accounts	46,362	41,734	39,725
Merchandise Inventories	727,219	680,190	660,940
Deferred Tax Assets	9,337	6,133	23,317
Prepaid and Other Current Assets	74,103	66,052	43,327
Prepaid Income Taxes	7,002	7,218	18,319
Assets Held for Sale	191	191	521
<b>Total Current Assets</b>	<b>1,001,362</b>	<b>879,654</b>	<b>874,603</b>
Property and Equipment Net of Accumulated Depreciation	871,610	878,305	854,681
Tradenames	238,000	238,000	238,000
Favorable Leases Net of Accumulated Amortization	313,200	322,081	352,636
Goodwill	47,064	47,064	47,064
Other Assets	111,209	112,978	112,203
<b>Total Assets</b>	<b>\$ 2,582,445</b>	<b>\$ 2,478,082</b>	<b>\$ 2,479,187</b>
<b>LIABILITIES AND STOCKHOLDER S DEFICIT</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 630,660	\$ 500,406	\$ 471,122
Other Current Liabilities	217,544	238,865	217,806
Current Maturities of Long Term Debt	9,737	784	10,236
<b>Total Current Liabilities</b>	<b>857,941</b>	<b>740,055</b>	<b>699,164</b>
Long Term Debt	1,328,352	1,335,532	1,406,184
Other Liabilities	230,337	229,425	215,476
Deferred Tax Liabilities	251,167	253,339	271,690
Commitments and Contingencies (Notes 3, 4, 10 and 11)			
<b>Stockholder s Deficit:</b>			
Common Stock (Par Value \$0.01; 1,000 Shares Issued and Outstanding)			
Capital in Excess of Par Value	475,191	479,572	475,754
Accumulated Deficit	(560,543)	(559,841)	(589,081)
<b>Total Stockholder s Deficit</b>	<b>(85,352)</b>	<b>(80,269)</b>	<b>(113,327)</b>
<b>Total Liabilities and Stockholder s Deficit</b>	<b>\$ 2,582,445</b>	<b>\$ 2,478,082</b>	<b>\$ 2,479,187</b>

See Notes to Condensed Consolidated Financial Statements.

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**BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(Unaudited)

(All amounts in thousands)

	Three Months Ended	
	May 4, 2013	April 28, 2012
<b>REVENUES:</b>		
Net Sales	\$ 1,065,013	\$ 982,422
Other Revenue	7,976	7,534
<b>Total Revenue</b>	<b>1,072,989</b>	<b>989,956</b>
<b>COSTS AND EXPENSES:</b>		
Cost of Sales	667,653	619,885
Selling and Administrative Expenses	327,704	307,137
Costs Related to Debt Amendment	8,855	
Restructuring and Separation Costs (Note 4)	1,625	1,478
Depreciation and Amortization	43,992	39,925
Impairment Charges Long-Lived Assets	51	13
Other Income, Net	(2,548)	(2,304)
Interest Expense (Inclusive of Gain (Loss) on Interest Rate Cap Agreements)	26,589	29,479
<b>Total Costs and Expenses</b>	<b>1,073,921</b>	<b>995,613</b>
<b>Loss Before Income Tax Benefit</b>	<b>(932)</b>	<b>(5,657)</b>
Income Tax Benefit	(230)	(1,717)
<b>Net Loss</b>	<b>\$ (702)</b>	<b>\$ (3,940)</b>
<b>Total Comprehensive Loss</b>	<b>\$ (702)</b>	<b>\$ (3,940)</b>

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(All amounts in thousands)**

	<b>Three Months Ended</b>	
	<b>May 4, 2013</b>	<b>April 28, 2012</b>
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (702)	\$ (3,940)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	43,992	39,925
Impairment Charges Long-Lived Assets	51	13
Amortization of Debt Issuance Costs	1,520	1,464
Accretion of Senior Notes	488	415
Interest Rate Cap Agreement Adjustment to Market	60	(132)
Provision for Losses on Accounts Receivable	34	20
Deferred Income Tax Benefit	(5,376)	(5,446)
Loss on Retirement of Fixed Assets	(39)	139
Excess Tax Benefit from Stock Based Compensation	(64)	(402)
Non-Cash Stock Based Compensation Expense	510	791
Non-Cash Rent Expense	(3,284)	(3,019)
Changes in Assets and Liabilities:		
Accounts Receivable	(6,508)	(7,609)
Merchandise Inventories	(47,029)	21,319
Prepaid and Other Current Assets	(7,835)	(264)
Accounts Payable	130,254	194,837
Other Current Liabilities and Income Tax Payable	(18,732)	3,001
Deferred Rent Incentives	7,386	11,967
Other Long Term Assets and Long Term Liabilities	654	(8,323)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 95,380</b>	<b>\$ 244,756</b>
<b>INVESTING ACTIVITIES</b>		
Cash Paid for Property and Equipment	(29,764)	(28,137)
Proceeds (Expenses) From Sale of Property and Equipment and Assets Held for Sale	114	(119)
Lease Acquisition Costs		(86)
<b>Net Cash Used in Investing Activities</b>	<b>\$ (29,650)</b>	<b>\$ (28,342)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from Long Term Debt ABL Line of Credit	155,000	55,200
Principal Payments on Long Term Debt ABL Line of Credit	(155,000)	(245,200)
Principal Payments on Long Term Debt Term Loan		(6,955)
Payment of Dividends	(4,955)	(1,686)
Repayment of Capital Lease Obligations	(253)	(164)
Stock Option Exercise and Related Tax Benefits	64	394
Debt Issuance Costs	(1,574)	(13)
<b>Net Cash Used in Financing Activities</b>	<b>\$ (6,718)</b>	<b>\$ (198,424)</b>
Increase in Cash and Cash Equivalents	59,012	17,990
Cash and Cash Equivalents at Beginning of Period	43,336	35,664
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 102,348</b>	<b>\$ 53,654</b>



**Supplemental Disclosure of Cash Flow Information**

Interest Paid	\$ 35,797	\$ 39,144
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Net Income Tax Payments	\$ 1,150	\$ 21
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**Non-Cash Investing Activities:**

Accrued Purchases of Property and Equipment	\$ 10,427	\$ 8,268
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Acquisition of Capital Lease	\$ 1,538	\$
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See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****May 4, 2013****(UNAUDITED)****1. Summary of Significant Accounting Policies***Basis of Presentation*

These unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all of its subsidiaries (Company or Holdings). Holdings has no operations and its only asset is all of the stock of Burlington Coat Factory Warehouse Corporation. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries (BCFWC), which are reflected in the financial statements of Holdings. The Condensed Consolidated Financial Statements are unaudited, but in the opinion of management reflect all adjustments (which are of a normal and recurring nature) necessary for the fair presentation of the results of operations for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013 (Fiscal 2012 10-K). The balance sheet at February 2, 2013 presented herein has been derived from the audited Consolidated Financial Statements contained in the Fiscal 2012 10-K. Because the Company's business is seasonal in nature, the operating results for the three month period ended May 4, 2013 are not necessarily indicative of results for the fiscal year ending February 1, 2014 (Fiscal 2013).

Accounting policies followed by the Company are described in Note 1 to the audited Consolidated Financial Statements contained in the Fiscal 2012 10-K.

On February 28, 2013, the FASB issued Account Standards Update No. 2013-04, *Joint and Several Obligations*, (ASU 2013-04). In accordance with ASU 2013-04, an entity is required to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. Required disclosures include a description of the joint and several arrangement and the total outstanding amount of the obligation for all joint parties. ASU 2013-04 is effective for all annual and interim periods in fiscal years beginning after December 15, 2013. However, early adoption is permitted. The Company has elected not to early adopt in the current fiscal year and does not expect ASU 2013-04, once adopted, to have a material impact on the Company's financial position or results of operations.

There were no other new accounting standards that had a material impact on the Company's Condensed Consolidated Financial Statements during the three month period ended May 4, 2013 and there were no new accounting standards or pronouncements that were issued but not yet effective as of May 4, 2013 that the Company expects to have a material impact on its financial position or results of operations upon becoming effective.

**2. Stockholder's Deficit**

Activity for the three month periods ended May 4, 2013 and April 28, 2012 in the Company's common stock, capital in excess of par value, accumulated deficit, and total stockholder's deficit are summarized below:

	<i>(in thousands)</i>			
	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Total
<b>Balance at February 2, 2013</b>	\$	\$ 479,572	\$ (559,841)	\$ (80,269)
Net Loss			(702)	(702)
Stock Options Exercised and Related Tax Benefits		64		64
Stock Based Compensation		510		510

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Dividends		(4,955)		(4,955)
<b>Balance at May 4, 2013</b>	\$	\$ 475,191	\$ (560,543)	\$ (85,352)
<b>Balance at January 28, 2012</b>	\$	\$ 474,569	\$ (585,514)	\$ (110,945)
Net Loss			(3,940)	(3,940)
Stock Options Exercised and Related Tax Benefits		394		394
Stock Based Compensation		791		791
Dividend Forfeitures			373	373
<b>Balance at April 28, 2012</b>	\$	\$ 475,754	\$ (589,081)	\$ (113,327)

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Long term debt consists of:

	May 4, 2013	(in thousands) February 2, 2013	April 28, 2012
\$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.3%) plus 4.3%, matures on February 23, 2017.	\$ 863,572	\$ 863,084	\$ 942,583
\$450,000 Senior Notes, 10%, due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from August 15, 2013 to February 15, 2019.	450,000	450,000	450,000
\$600,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires September 2, 2016.			
Capital Lease Obligations	24,517	23,232	23,837
<b>Total debt</b>	<b>1,338,089</b>	<b>1,336,316</b>	<b>1,416,420</b>
Less: current maturities	(9,737)	(784)	(10,236)
<b>Long-term debt, net of current maturities</b>	<b>\$ 1,328,352</b>	<b>\$ 1,335,532</b>	<b>\$ 1,406,184</b>

*\$1 Billion Senior Secured Term Loan Facility (Term Loan Facility)*

On February 15, 2013, BCFWC entered into Amendment No. 2 to its Term Loan Credit Agreement (Second Amendment). The Second Amendment creates a restricted payments basket of \$25 million (which includes retained excess cash flow, in an amount not to exceed 50% of BCFWC's consolidated net income (as defined in the existing Notes) and permits BCFWC to use the available amount to make restricted payments since the second quarter of Fiscal 2011), in each case so long as certain conditions are satisfied. In connection with this amendment, the Company incurred a \$1.6 million amendment fee that was capitalized and included in the line item Other Assets on the Company's Condensed Consolidated Balance Sheet. Additionally, the Company incurred \$8.9 million of additional fees, inclusive of an \$8.6 million fee payable to Bain Capital, for various consulting and advisory services. These fees were included in the line item Costs Related to Debt Amendment on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss.

The Term Loan Credit Agreement contains financial, affirmative and negative covenants and requires that BCFWC, exclusive of subsidiaries (referred to herein as BCFW), among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount and maintain a consolidated interest coverage ratio of at least a certain amount. The consolidated leverage ratio compares our total debt to Adjusted EBITDA (as defined in the Term Loan Credit Agreement) for the trailing twelve months, and such ratios may not exceed 6.25 to 1 through November 2, 2013; 5.50 to 1 through November 1, 2014; 5.00 to 1 through October 31, 2015; and 4.75 to 1 at January 30, 2016 and thereafter. The consolidated interest coverage ratio compares our consolidated interest expense to Adjusted EBITDA for the trailing twelve months, and such ratios must exceed 1.85 to 1 through November 2, 2013; 2.00 to 1 through October 31, 2015; and 2.10 to 1 at January 30, 2016 and thereafter. The consolidated leverage ratio and interest coverage ratio for the three months ended May 4, 2013 were 3.7 and 3.5, respectively.

Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA starts with consolidated net income/loss for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income/loss, (ii) the provision/benefit for taxes, (iii) interest expense, net, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period. Adjusted EBITDA is used to calculate the consolidated leverage ratio. Adjusted EBITDA provides management, including the Company's chief operating decision maker, with helpful information with respect to its operations such as its ability to meet its future debt service, fund its capital expenditures and working capital requirements, and comply with various covenants in each indenture governing its outstanding notes and the credit agreements governing its senior secured credit facilities which are material to its financial condition and financial statements.

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The interest rates for the Term Loan Facility are based on: (i) for LIBO rate loans for any interest period, at a rate per annum equal to (a) the greater of (x) the LIBO rate, as determined by the Term Loan Facility Administrative Agent, for such interest period

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multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (y) 1.50% (the Term Loan Adjusted LIBO Rate), plus an applicable margin; and (ii) for prime rate loans, a rate per annum equal to the highest of (a) the variable annual rate of interest then announced by JPMorgan Chase Bank, N.A. at its head office as its prime rate, (b) the federal funds rate in effect on such date plus 0.50% per annum, and (c) the Term Loan Adjusted LIBO Rate for the applicable class of term loans for one-month plus 1.00%, plus, in each case, an applicable margin. The interest rate on the Term Loan Facility was 5.5% as of May 4, 2013.

In conjunction with the Second Amendment, on February 20, 2013, Burlington Holdings, LLC (Indirect Parent), the indirect parent company of Holdings, and Burlington Holdings Finance, Inc., the wholly-owned subsidiary of Indirect Parent (collectively the Issuers), completed the offering of \$350 million aggregate principal amount of Senior Notes due 2018 (2018 Notes) at an issue price of 98.00%. The 2018 Notes are senior unsecured obligations of the Issuers, and the Issuers are not obligors or guarantors under BCFWC's existing senior secured credit facilities or indenture. As none of the Issuers' subsidiaries, are obligors or guarantors under the 2018 Notes, the debt is recorded on the Issuers' financial statements only and is not included in the Company's financial statements.

Interest is payable on the Senior Notes on each February 15 and August 15, commencing August 15, 2013. The first interest payment on the 2018 Notes will be payable in cash. For each interest period thereafter, the Issuers will be required to pay interest on the 2018 Notes entirely in cash, unless certain conditions are satisfied, in which case the Issuers will be entitled to pay, to the extent described in the indenture governing the 2018 Notes, interest on the 2018 Notes by increasing the principal amount of the 2018 Notes or by issuing new notes (such increase being referred to herein as PIK interest). Cash interest on the 2018 Notes will accrue at the rate of 9.00% per annum. PIK interest on the 2018 Notes will accrue at the rate of 9.75% per annum. The Company intends to pay Indirect Parent a semi annual dividend in order for Indirect Parent to make payment on the semi annual cash interest.

In February 2013, the Issuers used the net proceeds from the offering of the 2018 Notes to pay a special cash dividend of approximately \$336 million, in the aggregate, to Indirect Parent's sole member, Burlington Holdings, Inc., which in turn distributed the proceeds to its stockholders. BCFWC paid a dividend to the Issuers of \$5.0 million in order to pay certain fees in connection with the issuance of the 2018 Notes, inclusive of a \$3.5 million fee to Bain Capital for various consulting and advisory services.

### *ABL Line of Credit*

At May 4, 2013, the Company had \$484.8 million available under the ABL Line of Credit and no outstanding borrowings. The maximum borrowings under the facility during the three month period ended May 4, 2013 amounted to \$125.0 million. Average borrowings during the three month period ended May 4, 2013 amounted to \$24.5 million, at an average interest rate of 2.0%. There was no outstanding balance under the ABL Line of Credit at February 2, 2013.

At April 28, 2012, the Company had \$472.4 million available under the ABL Line of Credit and no outstanding borrowings. The maximum borrowings under the facility during the three month period ended April 28, 2012 amounted to \$213.7 million. Average borrowings during the three month period ended April 28, 2012 amounted to \$80.8 million at average interest rates of 2.2%.

The Term Loan Facility, ABL Line of Credit and 10% Senior Notes due 2019 (Notes) are fully, jointly, severally, unconditionally, and irrevocably guaranteed by all of the Company's subsidiaries. The ABL Line of Credit is collateralized by a first lien on the Company's inventory and receivables and a second lien on the Company's real estate and property and equipment. The Term Loan Facility is collateralized by a first lien on the Company's real estate, favorable leases, and machinery and equipment and a second lien on the Company's inventory and receivables.

As of May 4, 2013, the Company was in compliance with all of its debt covenants. The agreements regarding the ABL Line of Credit and the Term Loan Facility, as well as the indenture governing the Notes, contain covenants that, among other things, limit the Company's ability, and the ability of the Company's restricted subsidiaries, to pay dividends on, redeem or repurchase capital stock; make investments; incur additional indebtedness or issue preferred stock; create liens; permit dividends or other restricted payments by the Company's subsidiaries; sell all or substantially all of the Company's assets or consolidate or merge with or into other companies; and engage in transactions with affiliates.

The Company had \$24.9 million in deferred financing fees, net of accumulated amortization, as of both May 4, 2013 and February 2, 2013 and \$30.1 million as of April 28, 2012, related to its debt instruments recorded in the line item Other Assets on the Company's Condensed Consolidated Balance Sheets. The Company incurred new deferred financing fees of \$1.5 million as a result of the Second Amendment as discussed above. Amortization of deferred financing fees amounted to \$1.5 million and \$1.4 million for the three month periods ended May 4, 2013 and April 28, 2012, respectively, and is included in the line item Interest Expense in the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss.

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On May 17, 2013, the Company entered into Amendment No. 3 (Third Amendment) to the Term Loan Credit Agreement in order to, among other things, reduce the interest rates applicable to the Company's Term Loan Facility. Refer to Note 11 to the Company's Condensed Consolidated Financial Statements entitled "Subsequent Events" for further details of the amendment.

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The Company accounts for restructuring and separation costs in accordance with ASC Topic No. 420, *Exit or Disposal Cost Obligations* (Topic No. 420). In an effort to improve workflow efficiencies and realign certain responsibilities, the Company effected a reorganization of certain positions within its field and corporate locations. During the three months ended May 4, 2013, severance charges were \$1.6 million and were recorded in the line item *Restructuring and Separation Costs* in the Company's Condensed Consolidated Statement of Operations and Comprehensive Loss.

In comparison, severance charges for the three months ended April 28, 2012 were \$1.5 million. Severance charges for the three months ended April 28, 2012 were also the result of the Company's efforts to improve workflow efficiencies and realign certain responsibilities, which effected the reorganization of certain positions within its stores and corporate locations.

The table below summarizes the charges and payments related to the Company's restructuring and separation costs, which are included in the line items *Other Current Liabilities* in the Company's Condensed Consolidated Balance Sheet as of May 4, 2013 and April 28, 2012:

		<i>(in thousands)</i>				
		February 2, 2013	Charges	Cash Payments	Other	May 4, 2013
Severance	Restructuring	\$	\$ 758	\$ (127)	\$	\$ 631
Severance	Separation Cost		597	867	(420)	1,044
<b>Total</b>			<b>\$ 597</b>	<b>\$ 1,625</b>	<b>\$ (547)</b>	<b>\$ 1,675</b>

		<i>(in thousands)</i>				
		January 28, 2012	Charges	Cash Payments	Other	April 28, 2012
Severance	Restructuring	\$	\$ 400	\$ (216)	\$	\$ 184
Severance	Separation Cost		979	1,078	(718)	1,339
<b>Total</b>			<b>\$ 979</b>	<b>\$ 1,478</b>	<b>\$ (934)</b>	<b>\$ 1,523</b>

**5. Fair Value Measurements**

The Company accounts for fair value measurements in accordance with ASC Topic No. 820, *Fair Value Measurements and Disclosures*, (Topic No. 820) which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurements. Topic No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price), and classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Pricing inputs that are unobservable for the assets and liabilities and include situations where there is little, if any, market activity for the assets and liabilities.

The inputs into the determination of fair value require significant management judgment or estimation.

*Financial Assets*



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The Company's financial assets as of May 4, 2013 included cash equivalents, interest rate cap agreements and a note receivable. The Company's financial liabilities are discussed below. The carrying value of cash equivalents approximates fair value due to its short-term nature. The fair values of the interest rate cap agreements are determined using quotes that are based on models whose inputs are observable LIBOR forward interest rate curves. To comply with the provisions of Topic No. 820, the Company incorporates credit valuation adjustments to appropriately reflect both the Company's non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of the Company's interest rate cap agreements for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. As a result, the Company has determined that the inputs used to value this investment fall within Level 2 of the fair value hierarchy.

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Although the Company has determined that the majority of the inputs used to value its interest rate cap agreements fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's interest rate cap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. As of May 4, 2013, the Company recorded credit valuation adjustments of \$0.1 million to the overall valuation of the Company's interest rate cap agreements. The credit valuation adjustment is not considered significant to the valuation of each of the individual interest rate cap agreements and as a result, the Company has determined that its interest rate cap agreement valuations in their entirety are classified as Level 2 within the fair value hierarchy.

The fair value of the note receivable is based on a discounted cash flow analysis whose inputs are unobservable, and therefore it falls within Level 3 of the fair value hierarchy.

The fair values of the Company's financial assets and the hierarchy of the level of inputs are summarized below:

	<i>(in thousands)</i>		
	Fair Value Measurements at		
	May 4, 2013	February 2, 2013	April 28, 2012
<b>Assets:</b>			
Level 1			
Cash equivalents (including restricted cash)	\$ 34,985	\$ 34,972	\$ 34,932
Level 2			
Interest rate cap agreements (a)	\$ 9	\$ 69	\$ 246
Level 3			
Note Receivable (b)	\$ 385	\$ 385	\$ 758

- (a) Included in Other Assets within the Company's Condensed Consolidated Balance Sheets (refer to Note 6 of the Company's Condensed Consolidated Financial Statements, entitled Derivative Instruments and Hedging Activities, for further discussion regarding the Company's interest rate cap agreements).
- (b) Included in Prepaid and Other Current Assets and Other Assets on the Company's Condensed Consolidated Balance Sheets. The change in fair value of the Company's Level 3 note receivable from April 28, 2012 to May 4, 2013 is related to the Company receiving a partial payment in the amount of \$0.5 million.

### Financial Liabilities

The fair value of the Company's debt as of May 4, 2013, February 2, 2013 and April 28, 2012 is noted in the table below:

	<i>(in thousands)</i>					
	May 4, 2013		February 2, 2013		April 28, 2012	
	Carrying Amount (b)	Fair Value (b)	Carrying Amount (b)	Fair Value (b)	Carrying Amount (b)	Fair Value (b)
\$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.3%) plus 4.3%, matures on February 23, 2017.	\$ 863,572	\$ 876,526	\$ 863,084	\$ 874,232	\$ 942,583	\$ 951,208
\$450,000 Senior Notes, 10% due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from August 15, 2013 to February 15, 2019.	450,000	504,563	450,000	489,938	450,000	479,813
\$600,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires September 2, 2016.						
(a)						
Total debt	\$ 1,313,572	\$ 1,381,089	\$ 1,313,084	\$ 1,364,170	\$ 1,392,583	\$ 1,431,021

- (a) The carrying value of the ABL Line of Credit approximates its fair value due to its short term nature (borrowings are typically done in increments of 30 days or less) and its variable interest rate.
- (b) Capital lease obligations are excluded from the table above.

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As of May 4, 2013, the fair value of the Company's debt, exclusive of capital leases, was \$1,381.1 million compared to the carrying value of \$1,313.6 million. The fair values presented herein are based on pertinent information available to management as of the respective period end dates. The estimated fair values of the Company's debt are classified as Level 2 in the fair value hierarchy. Although management is not aware of any factors that could significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these Condensed Consolidated Financial Statements since May 4, 2013, and current estimates of fair value may differ from amounts presented herein.

**6. Derivative Instruments and Hedging Activities**

As of May 4, 2013, February 2, 2013 and April 28, 2012, the Company was party to two outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable-rate debt.

The Company accounts for derivatives and hedging activities in accordance with ASC Topic No. 815 *Derivatives and Hedging* (Topic No. 815). The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in interest rates. The Company's senior secured credit facilities contain floating rate obligations and are subject to interest rate fluctuations. The Company uses interest rate cap agreements, which are designated as economic hedges, to manage interest rate risk associated with the Company's variable-rate borrowings and to minimize the negative impact of interest rate fluctuations on its earnings and cash flows, thus reducing the Company's exposure to variability in expected future cash flows attributable to the changes in LIBOR rates.

Topic No. 815 requires recognition of all derivative instruments as either assets or liabilities at fair value in the statement of financial position. Interest rate cap agreements are recorded at a fair value and adjusted to market on a quarterly basis. Gains or losses associated with the interest rate cap agreements are recorded in the line item *Interest Expense* on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss and in the line item *Interest Rate Cap Contract Adjustment to Market* on the Company's Condensed Consolidated Statements of Cash Flows. The Company's two interest rate cap agreements each have a notional principal amount of \$450 million, a cap rate of 7.0% and terminate on May 31, 2015.

<i>(in thousands)</i>						
<b>Fair Values of Derivative Instruments</b>						
<b>Asset Derivatives</b>						
	May 4, 2013		February 2, 2013		April 28, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives Not Designated as Hedging Instruments</b>						
<b>Under Topic No. 815</b>						
Interest Rate Cap Agreements	Other Assets	\$ 9	Other Assets	\$ 69	Other Assets	\$ 246

  

<b>Liability Derivatives</b>						
	May 4, 2013		February 2, 2013		April 28, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives Not Designated as Hedging Instruments</b>						
<b>Under Topic No. 815</b>						
Interest Rate Cap Agreements	Other Liabilities	\$		4,274		4,337
						3,546

- (1) On April 30, 2013, we acquired Dresden Papier GmbH, the results of which are included prospectively from the acquisition date, including \$101.8 million of net sales and \$18.3 million of operating income.
- (2) During 2012, we recorded after-tax charges totaling \$4.8 million related to the write-off of unamortized deferred issuance costs and the early redemption premium in connection with the refinancing of \$200 million of bonds. In addition, net income includes a \$4.0 million benefit from the conversion of alternative fuel mixture credits for cellulosic biofuel production credits.
- (3) During 2011, we recorded after-tax charges totaling \$6.1 million related to the write-off of unamortized deferred issuance costs and original issue discount and the redemption premium in connection with the early redemption of \$100 million of bonds.

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- (4) The information set forth above for 2010 includes the financial information for Concert Industries Corp. prospectively from the February 12, 2010 acquisition date.
- (5) During 2010, net income included a \$23.2 million tax benefit from cellulosic biofuel production credits.
- (6) During 2009, we recognized \$107.8 million of alternative fuel mixture credits, all of which were recorded as a reduction to cost of products sold.

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**ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements** This Annual Report on Form 10-K 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-K are forward looking. We use words such as anticipates, believes, expects, future, intends and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from such expectations. The following discussion includes forward-looking statements regarding expectations of, among others, non-cash pension expense, environmental costs, capital expenditures and liquidity, all of which are inherently difficult to predict. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. Accordingly, we identify the following important factors, among others, which could cause our results to differ from any results that might be projected, forecasted or estimated in any such forward-looking statements:

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

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

xv. our ability to finance, consummate and integrate acquisitions;

**Introduction** We manufacture a wide array of specialty papers and fiber-based engineered materials and we manage our company along three business units:

*Composite Fibers* with revenue from the sale of single-serve coffee and tea filtration papers, non-woven wall covering, metallized papers, composite laminates, and other technical specialty papers;

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

*Specialty Papers* with revenue from the sale of carbonless papers, forms, book publishing, envelope & converting papers, and fiber-based engineered products.

**Table of Contents****RESULTS OF OPERATIONS****2013 versus 2012**

**Overview** The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	Year ended December 31	
	2013	2012
Net sales	\$ 1,722,615	\$ 1,577,788
Gross profit	218,660	213,649
Operating income	86,519	101,874
Net income	67,158	59,379
Earnings per diluted share	1.52	1.36

Net income increased 13.1% in the year over year comparison and totaled \$67.2 million in 2013, or \$1.52 per diluted share. In 2012 net income was \$59.4 million, or \$1.36 per diluted share. The year over year comparison reflects benefits from a significant acquisition in 2013, solid performance from our two growth businesses and a favorable tax rate.

Effective April 30, 2013, we completed the acquisition of Dresden Papier GmbH ( Dresden ) for \$211 million, net of cash acquired. Our reported results for 2013 include \$101.8 million of net sales and \$18.3 million of operating income from Dresden representing its results prospectively from the acquisition date. Such results are reported as part of the Composite Fibers business unit.

Our growth-oriented fiber-based engineered materials businesses reported improved results evidenced by an \$29.8 million increase in operating income. However, total operating income from all of our business units increased \$2.2 million reflecting the impact of a lower contribution from Specialty Papers. Overall, total net sales increased \$144.8 million, or 9.2% and shipping volumes increased 6.2% in the year-over-year comparison.

Composite Fibers operating income increased to \$62.4 million from \$36.1 million in 2012 primarily due to the inclusion of Dresden, higher selling prices and an improved mix. Excluding Dresden, shipping volumes were essentially unchanged.

Advanced Airlaid Materials operating income increased to \$21.5 million compared with \$18.0 million in 2012 primarily due to increased shipping volumes.

Specialty Papers operating income declined to \$39.7 million from \$67.3 million in 2012. Although shipping volumes increased 1.4%, this unit's profitability was unfavorably impacted by operational disruptions and lower selling prices.

In addition to the impact of including Dresden, the consolidated results of operations for 2013 and 2012 include the following significant unusual items:

<i>In thousands, except per share</i>	After-tax Gain (loss)	Diluted EPS
<b>2013</b>		
Acquisition and integration costs	\$ (6,079)	\$ (0.14)
International legal entity restructuring costs	(630)	(0.01)
Alternative fuel mixture/ Cellulosic biofuel credits	10,316	0.23
Timberland sales and related costs	1,725	0.04
<b>2012</b>		
Early redemption of \$200 million bonds	\$ (4,784)	\$ (0.11)
Alternative fuel mixture/ Cellulosic biofuel credits	4,020	0.09
Timberland sales and related costs	5,388	0.12

The above items increased earnings by \$5.3 million, or \$0.12 per diluted share, in 2013. Comparatively, in 2012 earnings benefited by \$4.6 million or \$0.10 per diluted share from the items set forth above.





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**Business Units** Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. The costs incurred by support areas not directly aligned with the business unit are allocated primarily based on an estimated

utilization of support area services or are included in **Other and Unallocated** in the Business Unit Performance table.

Management evaluates results of operations of the business units before pension expense, certain corporate level costs, and the effects of certain gains or losses not considered to be related to the core business operations. Management believes that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption **Other and Unallocated**. 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.

**Business Unit Performance**

Year ended December 31

<i>In millions</i>	Composite Fibers		Advanced Airlaid Materials		Specialty Papers		Other and Unallocated		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Net sales	\$ 566.4	\$ 436.7	\$ 268.4	\$ 246.3	\$ 887.9	\$ 894.8	\$	\$	\$ 1,722.6
Energy and related sales, net					3.2	7.0			3.2	7.0
Total revenue	566.4	436.7	268.4	246.3	891.0	901.8			1,725.8	1,584.8
Cost of products sold	456.5	362.6	238.0	218.7	799.3	779.5	13.3	10.3	1,507.1	1,371.1
Gross profit (loss)	109.8	74.2	30.4	27.6	91.7	122.3	(13.3)	(10.4)	218.7	213.6
SG&A	47.4	38.1	8.9	9.6	52.0	55.0	25.5	18.9	133.9	121.6
Gains on dispositions of plant, equipment and timberlands, net							(1.7)	(9.8)	(1.7)	(9.8)
Total operating income (loss)	62.4	36.1	21.5	18.0	39.7	67.3	(37.1)	(19.5)	86.5	101.9
Non-operating expense							(17.3)	(22.9)	(17.3)	(22.9)
Income (loss) before income taxes	\$ 62.4	\$ 36.1	\$ 21.5	\$ 18.0	\$ 39.7	\$ 67.3	\$ (54.4)	\$ (42.4)	\$ 69.2	\$ 78.9
<b>Supplementary Data</b>										
Net tons sold ( <i>thousands</i> )	133.6	90.3	96.1	90.3	800.2	789.2			1,029.8	969.8
Depreciation, depletion and amortization	\$ 24.8	\$ 23.5	\$ 8.9	\$ 8.7	\$ 33.2	\$ 37.4	1.3		\$ 68.2	\$ 69.5
Capital expenditures	56.9	31.4	6.7	3.9	33.8	23.1	5.7	0.3	103.0	58.8

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

On April 30, 2013, we completed the acquisition of Dresden for \$211 million. Dresden's results are included prospectively from the acquisition date as part of the Composite Fibers business unit. For additional information related to this acquisition, refer to Note 3 Acquisition.

**Sales and Costs of Products Sold**

<i>In thousands</i>	Year ended December 31		
	2013	2012	Change
Net sales	\$ 1,722,615	\$ 1,577,788	\$ 144,827
Energy and related sales net	3,153	7,000	(3,847)

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Total revenues	1,725,768	1,584,788	140,980
Costs of products sold	1,507,108	1,371,139	135,969
Gross profit	\$ 218,660	\$ 213,649	\$ 5,011
Gross profit as a percent of Net sales	12.7%	13.5%	

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

<b>Business Unit</b>	<i>Percent of Total</i>	Year ended December 31	
		2013	2012
Composite Fibers		32.9%	27.7%
Advanced Airlaid Material		15.6	15.6
Specialty Papers		51.5	56.7
Total		100.0%	100.0%

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During 2013, our growth oriented businesses generated approximately 48.5%, or \$834.8 million, of our consolidated net sales compared with 43.3% in 2012, reflecting strategic initiatives to invest in growth businesses. Consolidated net sales for 2013 increased \$144.8 million, or 9.2%, in the comparison to 2012 and totaled \$1,722.6 million. The increase was primarily due to the Dresden acquisition and \$13.6 million from the favorable impact of foreign currencies. Lower selling prices, primarily in Specialty Papers, adversely affected the comparison by \$9.4 million. Shipping volumes increased 6.2% in the year over year comparison, or 1.8% excluding the Dresden acquisition.

In Composite Fibers, net sales were \$566.4 million, an increase of \$129.7 million, or 29.7%. The Dresden acquisition accounted for \$101.8 million of the increase. On an organic basis, shipping volumes were essentially unchanged with a favorable mix. Higher selling prices and the translation of foreign currencies benefited the comparison by \$2.9 million and \$8.7 million, respectively.

Composite Fibers operating income in 2013 increased \$26.3 million, of which Dresden represented \$18.3 million. The remaining increase was primarily due to improved mix of products and higher selling prices. Foreign currency translation favorably impacted operating income by \$0.6 million compared with the prior year.

In Advanced Airlaid Materials, net sales increased \$22.1 million, or 9.0%, in 2013 compared to 2012. The increase in net sales was due to a 6.4% increase in shipping volumes, a \$4.9 million benefit from favorable impact of foreign currency exchange partially offset by \$2.3 million of lower selling prices.

Operating income in this business unit increased \$3.5 million in 2013 compared to 2012 led by a \$5.7 million benefit from the increase in shipping volumes. The translation of foreign currencies favorably impacted operating income by \$2.2 million.

In the Specialty Papers business unit, net sales for 2013 decreased by \$6.9 million, or 0.8%, to \$887.9 million. The decrease was primarily due to \$10.0 million from lower selling prices partially offset by a 1.4% increase in shipping volumes.

Specialty Papers operating income in 2013 of \$39.7 million was \$27.6 million lower than 2012 primarily due to lower selling prices, operational interruptions that adversely affected pulp mill production and \$3.8 million from lower energy and related sales.

We sell excess power generated by the Spring Grove, PA facility. In addition, two of our facilities are registered generators of renewable energy credits ( RECs ). The following table summarizes this activity for 2013 and 2012:

<i>In thousands</i>	Year ended December 31		
	2013	2012	Change
Energy sales	\$ 8,189	\$ 5,284	\$ 2,905
Costs to produce	(6,784)	(4,187)	(2,597)
Net	1,405	1,097	308
Renewable energy credits	1,748	5,903	(4,155)
Total	\$ 3,153	\$ 7,000	\$ (3,847)

RECs represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste. We sell RECs into an emerging and somewhat illiquid market. The extent and value of future revenues from REC sales is dependent on many factors outside of management's control. Therefore, we may not be able to generate consistent amounts of sales of RECs in future periods.

**Pension Expense** The following table summarizes the amounts of pension expense recognized for 2013 compared to 2012:

<i>In thousands</i>	Year ended December 31		
	2013	2012	Change
Recorded as:			
Costs of products sold	\$ 12,368	\$ 9,148	\$ 3,220
SG&A expense	1,849	2,467	(618)
Total	\$ 14,217	\$ 11,615	\$ 2,602

The amount of pension expense recognized each year is dependent on various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets. Pension expense in 2014 is expected to be approximately \$6.2 million. The decrease is primarily due to higher discount rates and the impact of amortizing deferred actuarial gains from higher returns on assets in 2013.

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**Gain on Sales of Plant, Equipment and Timberlands, net** During the years ended December 31, 2013 and 2012, we completed the following sales of assets:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain
<b>2013</b>			
Timberlands	<b>876</b>	<b>\$ 1,445</b>	<b>\$ 1,410</b>
Other	<b>n/a</b>	<b>502</b>	<b>316</b>
Total		<b>\$ 1,947</b>	<b>\$ 1,726</b>
<b>2012</b>			
Timberlands	4,830	\$ 9,494	\$ 9,203
Other	n/a	778	612
Total		\$ 10,272	\$ 9,815

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In connection with each of the asset sales set forth above, we received cash proceeds.

**Other and Unallocated** The amount of net operating expenses not allocated to a business unit and reported as Other and Unallocated in our table of *Business Unit Performance*, excluding gains from sales of plant, equipment and timberlands, totaled \$38.8 million in 2013 compared with \$29.3 million in 2012. The increase is primarily due to acquisition and integration expenses, legal entity restructuring related costs and higher pension expense.

Non-operating income (expense) as presented in the Business Unit Performance table includes \$18.0 million and \$18.7 million of interest expense for 2013 and 2012, respectively. The amount reported for 2012 includes a \$1.9 million charge related to the write-off of unamortized issuance costs in connection with the refinancing of our long-term bonds. Excluding the 2012 write-off, interest expense increased \$1.2 million primarily reflecting the financing of the Dresden acquisition.

**Income taxes** In 2013, income tax expense totaled \$2.0 million on pre-tax income of \$69.2 million. The comparable amounts in 2012 were \$19.6 million and \$78.9 million, respectively. Tax expense in 2013 benefited from a greater proportion of earnings generated in lower tax foreign jurisdictions relative to the U.S. and by an aggregate of \$16.3 million from cellulosic biofuel production credits, research and development credits, reduction in reserves due to the lapse of statutes of limitation and changes in international statutory rates.

**Foreign Currency** We own and operate manufacturing facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency in Canada is the U.S. dollar, in Germany and France the Euro, in the UK it is the British Pound Sterling, and in the Philippines it is the Peso. During 2013, Euro functional currency operations generated approximately 31.0% of net sales and 29.1% of operating expenses and British Pound Sterling operations represented 6.2% of net sales and 5.8% of operating expenses. 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 operations results:

<i>In thousands</i>	Year ended December 31, 2013 Favorable (unfavorable)
Net sales	\$ 13,555
Costs of products sold	(9,723)
SG&A expenses	(987)
Income taxes and other	(84)
Net income	\$ 2,761

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2013 were the same as 2012. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

**2012 versus 2011**

**Overview** For the year ended December 31, 2012, net income was \$59.4 million, or \$1.36 per diluted share, compared with net income of \$42.7 million, or \$0.93 per diluted share, in 2011. The amounts reported for 2012 include after-tax charges totaling \$4.8 million incurred in connection with the refinancing of \$200 million fixed-rate bonds for a new \$250 million fixed-rate issuance, as well as a \$4.0 million benefit from the conversion of alternative fuel mixture credits for cellulosic biofuel production credits. Results for 2011 include after-tax charges totaling \$7.5 million for costs incurred to redeem \$100 million of fixed-rate bonds, acquisition and integration expenses and work force efficiency actions. Reported results for both years included after-tax gains of \$5.4 million and \$4.2 million in 2012 and 2011, respectively, from the sales of timberlands and, in 2011, the release of tax reserves related to prior timberland sales. Unfavorable foreign currency translations affected the comparison of reported results for 2012 with 2011 by \$5.7 million.

From an operating perspective, our businesses performed well during 2012 compared with 2011, evidenced by a \$9.9 million, or 8.9%, increase in operating income led by strong improvements from Specialty Papers and Advanced Airlaid Materials. Composite Fibers results were unfavorable in the comparison by \$4.7 million.

Our Composite Fibers business unit's operating income decreased to \$36.1 million from \$40.8 million in 2011. Volumes shipped decreased 3.2% compared to 2011 reflecting generally softer economic conditions in its market segments. Unfavorable foreign currency translations affected this unit's operating income by \$3.2 million.



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Advanced Airlaid Materials operating income increased \$4.6 million, or 34.3%, largely reflecting lower input costs and an increase in shipping volumes. Unfavorable foreign currency translations affected this unit's operating income by \$3.0 million.

Specialty Papers operating income totaled \$67.3 million and \$57.3 million for 2012 and 2011, respectively. Volumes shipped increased in the comparison to 2011 and this unit's profitability was further favorably impacted by higher selling prices and slightly lower input costs partially offset by higher spending for maintenance and other costs.

During 2012, we generated significant operating cash flow of \$112.8 million, and although lower than 2011, this was largely due to the year over year impact of receiving cash in 2011 compared with a net outflow of cash in 2012 related to cellulosic biofuel production and alternative fuel mixture credits.

The following table sets forth summarized consolidated results of operations:

	Year ended December 31	
<i>In thousands, except</i>	2012	2011
<i>per share</i>		
Net sales	\$ 1,577,788	\$ 1,603,154
Gross profit	213,649	206,193
Operating income	101,874	85,272
Net income	59,379	42,694
Earnings per diluted share	1.36	0.93

The consolidated results of operations for 2012 and 2011 include the following items not considered to be part of our core business operations:

<i>In thousands, except per share</i>	2012	After-tax Gain (loss)	Diluted EPS
Early redemption of \$200 million bonds		\$ (4,784)	\$ (0.11)
Conversion of alternative fuel mixture/Cellulosic biofuel credits		4,020	0.09
Timberland sales and related transaction costs		5,388	0.12
	2011		
Early redemption of \$100 million bonds		(6,065)	(0.13)
Charge for workforce efficiencies		(652)	(0.01)
Acquisition and integration costs		(792)	(0.02)
Timberland sales and related transaction costs		4,160	0.09

During 2012, the aggregate effect of the unusual items set forth above increased earnings by \$4.6 million, or \$0.10 per diluted share. In 2011, the items set forth above decreased earnings by \$3.3 million, or \$0.07 per diluted share.

**Business Unit Performance**

<i>In millions</i>	Year ended December 31									
	Composite Fibers		Advanced Airlaid Materials		Specialty Papers		Other and Unallocated		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net sales	\$ 436.7	\$ 476.0	\$ 246.3	\$ 252.0	\$ 894.8	\$ 875.1			\$ 1,577.8	\$ 1,603.2
Energy and related sales, net					7.0	9.3			7.0	9.3
Total revenue	436.7	476.0	246.3	252.0	901.8	884.4			1,584.8	1,612.5



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Cost of products sold	362.6	395.7	218.7	227.7	779.5	775.7	10.3	7.2	1,371.1	1,406.3
Gross profit (loss)	74.2	80.3	27.6	24.3	122.3	108.7	(10.4)	(7.2)	213.6	206.2
SG&A	38.1	39.5	9.6	10.9	55.0	51.4	18.9	23.0	121.6	124.9
Gains on dispositions of plant, equipment and timberlands							(9.8)	(4.0)	(9.8)	(4.0)
Total operating income (loss)	36.1	40.8	18.0	13.4	67.3	57.3	(19.5)	(26.2)	101.9	85.3
Non-operating expense							(22.9)	(34.4)	(22.9)	(34.4)
Income (loss) before income taxes	\$ 36.1	\$ 40.8	\$ 18.0	\$ 13.4	\$ 67.3	\$ 57.3	\$ (42.4)	\$ (60.7)	\$ 78.9	\$ 50.8
<b>Supplementary Data</b>										
Net tons sold	90.3	93.3	90.3	88.0	789.2	779.6			969.8	960.9
Depreciation, depletion and amortization	\$ 23.5	\$ 24.8	\$ 8.7	\$ 8.5	\$ 37.4	\$ 36.0			\$ 69.5	\$ 69.3
Capital expenditures	31.4	22.5	3.9	10.6	23.1	31.4	0.3		58.8	64.5

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

**Table of Contents****Sales and Costs of Products Sold**

<i>In thousands</i>	Year ended December 31		
	2012	2011	Change
Net sales	\$ 1,577,788	\$ 1,603,154	\$ (25,366)
Energy and related sales net	7,000	9,344	(2,344)
Total revenues	1,584,788	1,612,498	(27,710)
Costs of products sold	1,371,139	1,406,305	(35,166)
Gross profit	\$ 213,649	\$ 206,193	\$ 7,456
Gross profit as a percent of Net sales	13.5%	12.9%	

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

<b>Business Unit</b>	<i>Percent of Total</i>	Year ended December 31	
		2012	2011
Composite Fibers		27.7%	29.7%
Advanced Airlaid Material		15.6	15.7
Specialty Papers		56.7	54.6
Total		100.0%	100.0%

Net sales for 2012 decreased \$25.4 million, or 1.6%, in the comparison to 2011 and totaled \$1,577.8 million. The translation of foreign currencies unfavorably impacted net sales by \$35.8 million more than offsetting a \$3.5 million benefit from higher selling prices. Shipping volumes were up slightly as higher shipping volumes in both Specialty Papers and Advanced Airlaid Materials were partially offset by softer demand in Composite Fibers related to the weak European economy.

In Composite Fibers, net sales were \$436.7 million, a decrease of \$39.3 million, or 8.3%, primarily due to the translation of foreign currencies which unfavorably impacted the comparison by \$24.4 million. Average selling prices were essentially unchanged and total shipping volumes were lower in the comparison by approximately 3%.

Composite Fibers operating income in 2012 totaled \$36.1 million, a \$4.7 million decrease compared to 2011 primarily due to lower shipping volumes and a \$3.2 million unfavorable effect from foreign currency translation.

On October 14, 2012, a fire was sustained by our Sc er, France facility, one of several facilities within the Composite Fibers business unit. The fire damaged the electrical system primarily servicing one of two papermaking machines at the facility as well as certain mill infrastructure. All customer orders were fulfilled by shipping products on hand or by utilizing assets at the business unit's other facilities. The total cost of the fire in 2012 was \$3.9 million which was offset by expected insurance recoveries, net of deductibles.

In Advanced Airlaid Materials, net sales declined \$5.7 million in the comparison of 2012 to 2011. The decline in net sales was due to the \$11.5 million negative effect of foreign currency translation and a \$2.7 million impact of lower selling prices. These factors were partially offset by the benefit from a 2.6% increase in shipping volumes.

Operating income in this business unit increased \$4.6 million in 2012 compared to 2011 led by a \$8.3 million benefit from lower raw material and energy costs in addition to continuous improvement initiatives including supply chain efficiencies, waste reduction and improved throughput, and benefits from a new festooner. The translation of foreign currencies negatively impacted operating income by \$3.0 million.

In the Specialty Papers business unit, net sales for 2012 increased \$19.7 million, or 2.3%, to \$894.8 million. The increase was primarily due to a \$6.5 million benefit from higher selling prices and a 1.2% increase in shipping volumes.

Specialty Papers operating income in 2012 of \$67.3 million was \$10.0 million higher than 2011 reflecting the benefits from higher selling prices and shipping volumes, and a \$5.7 million benefit from lower raw material costs. These factors were partially offset by higher maintenance and other cost inflation as well as \$2.3 million of lower energy and related sales.

We sell excess power generated by the Spring Grove, PA facility. In addition, two of our facilities are registered generators of renewable energy credits ( RECs ). The following table summarizes this activity for 2012 and 2011:

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<i>In thousands</i>	Year ended December 31		Change
	2012	2011	
Energy sales	\$ 5,284	\$ 10,992	\$ (5,708)
Costs to produce	(4,187)	(9,319)	5,132
Net	1,097	1,673	(576)
Renewable energy credits	5,903	7,671	(1,768)
Total	\$ 7,000	\$ 9,344	\$ (2,344)

**Pension Expense** The following table summarizes the amounts of pension expense recognized for 2012 compared to 2011:

<i>In thousands</i>	Year ended December 31		Change
	2012	2011	
Recorded as:			
Costs of products sold	\$ 9,148	\$ 6,735	\$ 2,413
SG&A expense	2,467	3,645	(1,178)
Total	\$ 11,615	\$ 10,380	\$ 1,235

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The amount set forth above for pension expense recorded as selling, general and administrative ( SG&A ) expense in 2011 includes a \$2.0 million one-time pension settlement charge recorded in connection with the retirement of our former Chief Executive Officer.

The amount of pension expense recognized each year is dependent on various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets.

**Gain on Sales of Plant, Equipment and Timberlands, net** During the years ended December 31, 2012 and 2011, we completed the following sales of assets:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain
<b>2012</b>			
Timberlands	4,830	\$ 9,494	\$ 9,203
Other	n/a	778	612
Total		\$ 10,272	\$ 9,815
<b>2011</b>			
Timberlands	942	\$ 3,821	\$ 3,590
Other	n/a	670	360
Total		\$ 4,491	\$ 3,950

In connection with each of the asset sales set forth above, we received cash proceeds.

**Other and Unallocated** The amount of net operating expenses not allocated to a business unit and reported as Other and Unallocated in our table of Business Unit Performance, excluding gains from sales of plant, equipment and timberlands, totaled \$29.3 million in 2012 compared with \$30.2 million in 2011. The amount reported for 2011 includes the \$2.0 million one-time pension settlement charge discussed earlier. Excluding the one-time pension charge, net operating expenses not allocated to a business unit increased \$1.1 million primarily due to higher professional services fees and other cost inflation.

Non-operating income (expense) as presented in the Business Unit Performance table includes \$18.7 million of interest expense for 2012 and \$31.8 million for 2011. In connection with debt refinancing or redemption initiatives, the reported amounts include \$1.9 million and \$5.9 million in 2012 and 2011, respectively, related to the write-off of unamortized issuance costs and original issue discount.

Excluding these write-offs, interest expense declined to \$16.8 million in 2012 compared to \$25.9 million in 2011, primarily reflecting the 2011 redemption of \$100 million of 7.125% notes.

**Income taxes** In 2012, income tax expense totaled \$19.6 million on pre-tax income of \$78.9 million. The comparable amounts in 2011 were \$8.2 million and \$50.8 million, respectively. Tax expense in 2011 includes a net \$5.2 million income tax benefit realized in connection with the resolution of certain foreign tax audits, and expiration of statutes of limitation, partially offset by an increase in the valuation allowance on certain net operating loss carryforwards.

**Foreign Currency** We own and operate manufacturing facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency in Canada is the U.S. dollar, in Germany and France the Euro, in the UK it is the British Pound Sterling, and in the Philippines it is the Peso. During 2012, Euro functional currency operations generated approximately 25.3% of net sales and 24.2% of operating expenses and British Pound Sterling operations represented 7.5% of net sales and 7.6% of operating expenses. 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 operations results:

<i>In thousands</i>	Year ended December 31, 2012 Favorable (unfavorable)
Net sales	\$ (35,818)
Costs of products sold	26,828
SG&A expenses	2,813

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Income taxes and other		514
Net income	\$	(5,664)

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2012 were the same as 2011. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

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

<i>In thousands</i>	Year ended December 31	
	2013	2012
Cash and cash equivalents at beginning of period	\$ 97,679	\$ 38,277
Cash provided (used) by		
Operating activities	173,635	112,846
Investing activities	(312,436)	(48,705)
Financing activities	163,175	(5,489)
Effect of exchange rate changes on cash	829	750
Net cash provided	25,203	59,402
Cash and cash equivalents at end of period	\$ 122,882	\$ 97,679

At the end of the 2013, we had \$122.9 million in cash and cash equivalents held by both domestic and foreign subsidiaries. Although unremitted earnings of our foreign subsidiaries is deemed to be permanently reinvested, substantially all of the cash and cash equivalents is available for use domestically.

In addition to our cash and cash equivalents, as of December 31, 2013, \$211.3 million is available under our revolving credit agreement, which matures in November 2016.

Cash flow provided from operating activities increased in the year-over-year comparison by \$60.8 million primarily due to a reduction in cash used for working capital lower cash income tax payments and higher net income.

Net cash used by investing activities increased \$263.7 million in the comparison of 2013 to 2012. In 2013, we spent \$210.9 million to acquire Dresden. In addition, in 2013 capital expenditures totaled \$103.0 million, an increase of \$44.3 million primarily reflecting the investment completed in 2013 to expand capacity to serve Composite Fibers growth markets. Capital expenditures in 2014 are expected to be approximately \$80 million to \$90 million.

Net cash provided by financing activities totaled \$163.2 million in 2013 reflecting additional borrowings used to finance the Dresden acquisition.

In 2013 our Board of Directors authorized an 11% increase in our quarterly cash dividend. In 2013, we used \$17.0 million of cash for dividends on our common stock compared with \$15.6 million in 2012. In February 2014, we announced an additional 10% increase in our dividend. The 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 2012, as discussed below, we issued \$250.0 million of 5.375% bonds and used the proceeds to repay all amounts outstanding under our revolving credit agreement and to redeem \$200.0 million of 7.125% notes together with a redemption premium and consent fee of \$5.1 million.

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

<i>In thousands</i>	2013	2012
Revolving credit facility, due Nov. 2016	\$ 133,540	\$ 250,000
5.375% Notes, due Oct. 2020	250,000	250,000
2.05% Term Loan, due Mar. 2023	58,785	
Total long-term debt	442,325	250,000
Less current portion		
Long-term debt, net of current portion	\$ 442,325	\$ 250,000

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Our revolving credit facility contains a number of customary compliance covenants, the most restrictive of which is a maximum leverage ratio of 3.5x. As of December 31, 2013, the leverage ratio, as calculated in accordance with the definition in our credit agreement, was 2.2x, well within the limits set forth in our credit agreement. Based on our expectations of future results of operations and capital needs, we do not believe the debt covenants will impact our operations or limit our ability to undertake financings that may be necessary to meet our capital needs.

The 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity, or a default under the credit agreement, that accelerates the debt outstanding thereunder. As discussed above, as of December 31, 2013, we met all of the requirements of our debt covenants. The significant terms of the debt instruments are more fully discussed in Item 8 Financial Statements Note 16.

Cash used for common share repurchases totaled \$5.7 million in 2012, and \$48.0 million in 2011. The amount for 2012 includes \$1.2 million under a \$50 million

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program authorized in 2011. In May 2012, our Board of Directors authorized a second, two-year share repurchase program for up to \$25.0 million, exclusive of commissions, of our outstanding common stock. The following table summarizes share repurchases made under this program through December 31, 2013:

	shares	(thousands)
Authorized amount	n/a	\$ 25,000
Repurchases	291,120	(4,462)
Remaining authorization		\$ 20,538

We are subject to various federal, state and local laws and regulations intended to protect the environment as well as human health and safety. At various times, we have incurred significant costs to comply with these regulations and we could incur additional costs as new regulations are developed or regulatory priorities change. As a result of new air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT), we anticipate that we could incur material capital and operating costs. Recently issued rules will require process modifications and/or installation of air pollution controls on power boilers at two of our facilities. We are currently reviewing options available to comply with these rules to understand the effect they may have on our operations, such as reducing or curtailing boiler usage or modifying the types of boilers operated or fuel consumed. The cost of compliance is likely to be significant. Our current estimate to implement viable options could result in capital spending of between \$50 million to \$90 million depending on the solutions available to comply with the

regulations. However, the amount of capital spending ultimately incurred may differ, and the difference could be material, depending on the option chosen. In addition, the timing of any additional capital spending is uncertain, although we currently expect to incur the majority of expenditures generally between 2014 and 2016. Enactment of new environmental laws or regulations or changes in existing laws or regulations could significantly change our estimates.

In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 8 Financial Statements and Supplementary Data Note 22 for a summary of significant environmental matters.

We expect to meet all of our near and long-term cash needs from a combination of operating cash flow, cash and cash equivalents, and our existing credit facilities. However, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

**Off-Balance-Sheet Arrangements** As of December 31, 2013 and 2012, 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 and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 8 Financial Statements and Supplementary Data.

**Contractual Obligations** The following table sets forth contractual obligations as of December 31, 2013:

<i>In millions</i>	Total	Payments Due During the Year Ended			
		2014	December 31, 2015 to 2016	2017 to 2018	2019 and beyond
Long-term debt <sup>(1)</sup>	\$ 546	\$ 17	\$ 180	\$ 43	\$ 306
Operating leases <sup>(2)</sup>	16	7	7	2	
Purchase obligations <sup>(3)</sup>	116	72	44		
Other long term obligations <sup>(4), (5)</sup>	78	9	17	14	38
<b>Total</b>	<b>\$ 756</b>	<b>\$ 105</b>	<b>\$ 248</b>	<b>\$ 59</b>	<b>\$ 344</b>



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- (1) Represents principal and interest payments due on long-term debt, the significant terms of which are discussed in Item 8 Financial Statements, Note 16, Long-term Debt. The amounts set forth above include expected interest payments of \$104.6 million over the term of the underlying debt instruments based contractual rates or current market rates in the case of variable rate instruments.
- (2) Represents rental agreements for various land, buildings, vehicles, and computer and office equipment.
- (3) Represents open purchase order commitments and other obligations, primarily for raw material, and forward purchases with minimum annual purchase obligations. In certain situations, prices are subject to variations based on market prices. In such situations, the information above is based on prices in effect at December 31, 2013.
- (4) Primarily represents expected benefits to be paid pursuant to retirement medical plans and nonqualified pension plans and the expected costs of asset retirement obligations.
- (5) Since we are unable to reasonably estimate the timing of ultimate payment, the amounts set forth above do not include any payments that may be made related to uncertain tax positions, including potential interest, accounted for in accordance with ASC 740-10-20. As discussed in more detail in Item 8 Financial Statements, Note 8, Income Taxes, such amounts totaled \$14.9 million at December 31, 2013.

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**Critical Accounting Policies and Estimates** The preceding discussion and analysis of our consolidated financial position and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, long-lived assets, pension and post-retirement obligations, environmental liabilities and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following represent the most significant and subjective estimates used in the preparation of our consolidated financial statements.

**Long-lived Assets** We evaluate the recoverability of our long-lived assets, including plant, equipment, timberlands, goodwill and other intangible assets periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Our evaluations include considerations of a variety of qualitative factors and analyses based on the cash flows generated by the underlying assets, profitability information, including estimated future operating results, trends or other determinants of fair value. If the value of an asset determined by these evaluations is less than its carrying amount, a loss is recognized for the difference between the fair value and the carrying value of the asset. Future adverse changes in market conditions or poor operating results of the related business may indicate an inability to recover the carrying value of the assets, thereby possibly requiring an impairment charge in the future.

**Pension and Other Post-Retirement Obligations** Accounting for defined-benefit pension plans, and any curtailments thereof, requires various assumptions, including, but not limited to, discount rates, expected long-term rates of return on plan assets, future compensation growth rates and mortality rates. Accounting for our retiree medical plans, and any curtailments thereof, also requires various assumptions, which include, but are not limited to, discount rates and annual rates of increase in the per capita costs of health care benefits.

The following chart summarizes the more significant assumption used in the actuarial valuation of our defined-benefit plans for each of the past three years:

	2013	2012	2011
<b>Pension plans</b>			
Weighted average discount rate for benefit expense	4.28%	5.09%	5.81%
for benefit obligation	5.20	4.28	5.09
Expected long-term rate of return on plan assets <sup>(1)</sup>	8.50	8.50	8.50
Rate of compensation increase	4.00	4.00	4.00
<b>Post-retirement medical</b>			
Weighted average discount rate for benefit expense	3.58	4.45	5.12
for benefit obligation	4.52	3.58	4.45
Health care cost trend rate assumed for next year	7.46	7.68	7.90
Ultimate cost trend rate	4.50	4.50	4.50
Year that the ultimate cost trend rate is reached	2028	2028	2028

(1) For 2014, the expected long-term rate of return on pension plan assets was reduced to 8.00%.

We evaluate these assumptions at least once each year or as facts and circumstances dictate and we make changes as conditions warrant. Changes to these assumptions will increase or decrease our reported net periodic benefit expense, which will result in changes to the recorded benefit plan assets and liabilities.

**Environmental Liabilities** We maintain accruals for losses associated with environmental obligations when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing legislation and remediation technologies. These accruals are adjusted periodically as assessment and remediation actions continue and/or further legal or technical information develops. Such undiscounted liabilities are exclusive of any insurance or other claims against third parties. Recoveries of environmental remediation costs from other parties, including insurance carriers, are recorded as assets when their receipt is assured beyond a reasonable doubt.

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**Income Taxes** We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our balance sheets, as well as operating loss and tax credit carry forwards. These deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when such amounts are expected to reverse or be utilized. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals

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of existing temporary differences and tax planning strategies. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against our deferred tax assets, which may result in a substantial increase in our effective tax rate and a material adverse impact on our reported results.

Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is less than certain. We and our subsidiaries are examined by various Federal,

State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Other significant accounting policies, not involving the same level of uncertainties as those discussed above, are nevertheless important to an understanding of the Consolidated Financial Statements. Refer to Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements for additional accounting policies.

**ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

<i>Dollars in thousands</i>	Year Ended December 31					At December 30, 2013	
	2014	2015	2016	2017	2018	Carrying Value	Fair Value
<b>Long-term debt</b>							
Average principal outstanding							
At fixed interest rates Bond	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 254,533
At fixed interest rates Term Loan	58,785	57,683	51,437	44,089	36,741	58,785	57,952
At variable interest rates	133,540	133,540	116,848			133,540	133,540
						\$ 442,325	\$ 446,025
<b>Weighted-average interest rate</b>							
On fixed rate debt Bond	5.375%	5.375%	5.375%	5.375%	5.375%		
On fixed rate debt Term Loan	2.05%	2.05%	2.05%	2.05%	2.05%		
On variable rate debt	1.93%	1.93%	1.93%	1.93%	1.93%		

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of December 31, 2013. 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 December 31, 2013, we had long-term debt outstanding of \$442.3 million, of which 30.2% is at variable interest rates. Variable-rate debt outstanding consists of borrowings under our revolving credit agreement that accrues interest based on one month LIBOR plus a margin. At December 31, 2013, the weighted-average interest rate paid on variable rate debt was approximately 1.93%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$1.3 million.

As part of our overall risk management practices, we enter into financial derivatives primarily designed to either i) hedge foreign currency risks associated with forecasted transactions cash flow hedges ; or ii) mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and foreign currency denominated receivables and payables foreign currency hedges. For a more complete discussion of this activity, refer to Item 8 Financial Statements and Supplementary Data Note 19.

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. During 2013, Euro functional currency operations generated approximately 31.0% of net sales and 29.1%

of operating expenses and British Pound Sterling operations represented 6.2% of net sales and 5.8% of operating expenses.

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**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of P. H. Glatfelter Company (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the chief executive and chief financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

As of December 31, 2013, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We excluded from our assessment, as permitted under the applicable SEC rules, regulations and related interpretations, the internal control over financial reporting of Dresden Papier GmbH, which was acquired on April 30, 2013, and whose assets constitute 17.8% of total assets, and which represented 5.9% of total net sales, of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Management has determined that the Company's internal control over financial reporting as of December 31, 2013, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial

statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorizations of management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

The Company's internal control over financial reporting as of December 31, 2013, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013.

The Company's management, including the chief executive officer and chief financial officer, does not expect that our internal control over financial reporting will prevent or detect all errors and all frauds. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of P. H. Glatfelter Company

We have audited the internal control over financial reporting of P. H. Glatfelter and subsidiaries (the Company) as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Dresden Papier GmbH. (Dresden), which was acquired on April 30, 2013 and whose assets constitute 17.8% of total assets, and which represented 5.9% of total net sales, of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Accordingly, our audit did not include the internal control over financial reporting at Dresden. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013 of the Company and our report dated March 3, 2014 expressed an unqualified opinion on those financial statements and financial statement schedule.

*DELOITTE & TOUCHE LLP*

Philadelphia, Pennsylvania

March 3, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of P. H. Glatfelter Company

We have audited the accompanying consolidated balance sheets of P. H. Glatfelter Company and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of P. H. Glatfelter Company and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

*DELOITTE & TOUCHE LLP*

Philadelphia, Pennsylvania

March 3, 2014



**Table of Contents****P. H. GLATFELTER COMPANY and SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

<i>In thousands, except per share</i>	Year ended December 31		
	2013	2012	2011
Net sales	\$ 1,722,615	\$ 1,577,788	\$ 1,603,154
Energy and related sales, net	3,153	7,000	9,344
Total revenues	1,725,768	1,584,788	1,612,498
Costs of products sold	1,507,108	1,371,139	1,406,305
Gross profit	218,660	213,649	206,193
Selling, general and administrative expenses	133,867	121,590	124,871
Gains on dispositions of plant, equipment and timberlands, net	(1,726)	(9,815)	(3,950)
Operating income	86,519	101,874	85,272
Non-operating income (expense)			
Interest expense	(17,965)	(18,694)	(31,794)
Interest income	310	460	666
Other, net	337	(4,699)	(3,299)
Total non-operating expense	(17,318)	(22,933)	(34,427)
Income before income taxes	69,201	78,941	50,845
Income tax provision	2,043	19,562	8,151
Net income	\$ 67,158	\$ 59,379	\$ 42,694
<b>Earnings per share</b>			
Basic	\$ 1.56	\$ 1.39	\$ 0.94
Diluted	1.52	1.36	0.93
<b>Cash dividends declared per common share</b>	<b>\$ 0.40</b>	<b>\$ 0.36</b>	<b>\$ 0.36</b>
<b>Weighted average shares outstanding</b>			
Basic	43,158	42,851	45,228
Diluted	44,299	43,672	45,794

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

**Table of Contents****P. H. GLATFELTER COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>In thousands</i>	Year ended December 31		
	2013	2012	2011
Net income	<b>\$ 67,158</b>	\$ 59,379	\$ 42,694
Foreign currency translation adjustments	<b>14,826</b>	11,358	(10,160)
Net change in:			
Deferred gains (losses) on cash flow hedges, net of taxes of \$178, \$638 and \$(464), respectively	<b>(517)</b>	(1,609)	1,185
Unrecognized retirement obligations, net of taxes of \$(45,118), \$3,914 and \$22,672, respectively	<b>74,300</b>	(6,974)	(36,519)
Other comprehensive income (loss)	<b>88,609</b>	2,775	(45,494)
Comprehensive income (loss)	<b>\$ 155,767</b>	\$ 62,154	\$ (2,800)

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

**Table of Contents****P. H. GLATFELTER COMPANY and SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

<i>In thousands</i>	December 31	
	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 122,882	\$ 97,679
Accounts receivable (less allowance for doubtful accounts:		
2013 \$2,725; 2012 \$2,858)	167,830	139,904
Inventories	236,310	222,366
Prepaid expenses and other current assets	59,560	58,909
Total current assets	586,582	518,858
Plant, equipment and timberlands, net	723,340	621,186
Goodwill	95,948	16,601
Intangible assets	96,081	8,301
Other assets	176,459	78,039
Total assets	\$ 1,678,410	\$ 1,242,985
<b>Liabilities and Shareholders Equity</b>		
Accounts payable	\$ 161,242	\$ 133,389
Dividends payable	4,363	3,905
Environmental liabilities	125	125
Other current liabilities	122,637	113,489
Total current liabilities	288,367	250,908
Long-term debt	442,325	250,000
Deferred income taxes	141,020	62,046
Other long-term liabilities	122,222	140,352
Total liabilities	993,934	703,306
Commitments and contingencies		
<b>Shareholders equity</b>		
Common stock, \$0.01 par value; authorized 120,000,000 shares issued 54,361,980 (including treasury shares:		
2013 11,234,039; 2012 11,578,028)	544	544
Capital in excess of par value	53,940	52,492
Retained earnings	869,329	819,593
Accumulated other comprehensive loss	(75,357)	(163,966)
	848,456	708,663
Less cost of common stock in treasury	(163,980)	(168,984)
Total shareholders equity	684,476	539,679
Total liabilities and shareholders equity	\$ 1,678,410	\$ 1,242,985

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

**Table of Contents****P.H. GLATFELTER COMPANY and SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>In thousands</i>	Year ended December 31		
	2013	2012	2011
<b>Operating activities</b>			
Net income	\$ 67,158	\$ 59,379	\$ 42,694
Adjustments to reconcile to net cash provided by operations:			
Depreciation, depletion and amortization	68,196	69,500	69,313
Amortization of debt issue costs and original issue discount	1,305	3,177	8,838
Pension expense, net of unfunded benefits paid	12,787	10,427	2,127
Deferred income tax benefit	(11,485)	(2,209)	333
Gains on dispositions of plant, equipment and timberlands, net	(1,726)	(9,815)	(3,950)
Share-based compensation	7,337	6,520	5,762
Change in operating assets and liabilities			
Accounts receivable	(777)	(3,379)	3,771
Inventories	2,704	(12,615)	(7,280)
Prepaid and other current assets	7,965	(14,952)	2,115
Accounts payable	24,822	6,953	13,606
Environmental liabilities	(510)	(151)	(57)
Accruals and other current liabilities	(6,708)	15,134	(2,516)
Cellulosic biofuel and alternative fuel mixture credits	9,848	(6,728)	17,833
Other	(7,281)	(8,395)	(12,282)
Net cash provided by operating activities	173,635	112,846	140,307
<b>Investing activities</b>			
Expenditures for purchases of plant, equipment and timberlands	(103,047)	(58,752)	(64,491)
Proceeds from disposals of plant, equipment and timberlands, net	1,947	10,272	4,491
Proceeds from timberland installment sale note receivable			43,170
Acquisition, net of cash acquired	(210,911)		
Other	(425)	(225)	
Net cash used by investing activities	(312,436)	(48,705)	(16,830)
<b>Financing activities</b>			
Proceeds from note offerings		250,000	
Repayments of note offerings		(205,131)	(103,563)
Net borrowings under (repayments of) revolving credit facility	126,139	(27,000)	27,000
Payments of borrowing costs	(419)	(4,748)	(1,672)
Repayment of term loans			(36,695)
Repayment of short term debt			(798)
Proceeds from term loan	56,091		
Repurchases of common stock		(5,675)	(48,033)
Payments of dividends	(16,965)	(15,608)	(16,611)
(Payments) proceeds from share-based compensation awards and other	(1,671)	2,673	232
Net cash provided (used) by financing activities	163,175	(5,489)	(180,140)
Effect of exchange rate changes on cash	829	750	(848)
Net increase (decrease) in cash and cash equivalents	25,203	59,402	(57,511)
Cash and cash equivalents at the beginning of period	97,679	38,277	95,788
Cash and cash equivalents at the end of period	\$ 122,882	\$ 97,679	\$ 38,277

**Supplemental cash flow information**

Cash paid for:			
Interest, net of amounts capitalized	\$ 17,231	\$ 14,400	\$ 24,191
Income taxes, net	15,588	44,657	(8,344)

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



Table of Contents**P. H. GLATFELTER COMPANY and SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****For the Years Ended December 31, 2013, 2012 and 2011**

<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 January 1, 2011	\$ 544	\$ 48,145	\$ 749,453	\$ (121,247)	\$ (124,453)	\$ 552,442
Net income			42,694			42,694
Other comprehensive loss				(45,494)		(45,494)
Comprehensive loss						(2,800)
Tax effect on exercise of stock awards		90				90
Cash dividends declared (\$0.36 per share)			(16,322)			(16,322)
Share-based compensation expense		3,633				3,633
Repurchase of common shares					(48,904)	(48,904)
Delivery of treasury shares						
RSUs		(215)			215	
401 (k) plans		(141)			2,108	1,967
Director compensation		(13)			177	164
Employee stock options exercised net		(22)			156	134
Balance at December 31, 2011	544	51,477	775,825	(166,741)	(170,701)	490,404
Net income			59,379			59,379
Other comprehensive income				2,775		2,775
Comprehensive income						62,154
Tax effect on exercise of stock awards		631				631
Cash dividends declared (\$0.36 per share)			(15,611)			(15,611)
Share-based compensation expense		3,970				3,970
Repurchase of common shares					(5,675)	(5,675)
Delivery of treasury shares						
RSUs		(1,433)			1,096	(337)
401 (k) plans		234			2,212	2,446
Employee stock options exercised net		(2,387)			4,084	1,697
Balance at December 31, 2012	544	52,492	819,593	(163,966)	(168,984)	539,679
Net income			67,158			67,158
Other comprehensive income				88,609		88,609
Comprehensive income						155,767
Tax effect on exercise of stock awards		1,451				1,451
Cash dividends declared (\$0.40 per share)			(17,422)			(17,422)
Share-based compensation expense		4,473				4,473
Delivery of treasury shares						
RSUs		(1,763)			1,234	(529)
401 (k) plans		1,099			1,791	2,890
Employee stock options exercised net		(3,812)			1,979	(1,833)

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Balance at December 31, 2013	\$ 544	\$ 53,940	\$ 869,329	\$ (75,357)	\$ (163,980)	\$ 684,476
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*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents****P. H. GLATFELTER COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. ORGANIZATION**

P. H. Glatfelter Company and subsidiaries ( Glatfelter ) is a manufacturer of specialty papers and fiber-based engineered materials. Headquartered in York, Pennsylvania, our manufacturing facilities are located in Spring Grove, Pennsylvania; Chillicothe and Fremont, Ohio; Gatineau, Quebec, Canada; Lydney, England; Caerphilly, Wales; Gernsbach, Falkenhagen and Heidenau, Germany; Scaër, France; and the Philippines. Our products are marketed worldwide, either through wholesale paper merchants, brokers and agents, or directly to customers.

**2. ACCOUNTING POLICIES**

**Principles of Consolidation** The consolidated financial statements include the accounts of Glatfelter and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

**Accounting Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements are reasonable, based upon currently available facts and known circumstances, but recognizes that actual results may differ from those estimates and assumptions.

**Cash and Cash Equivalents** We classify all highly liquid instruments with an original maturity of three months or less at the time of purchase as cash equivalents.

**Inventories** Inventories are stated at the lower of cost or market. Raw materials, in-process and finished inventories of our U.S. manufacturing operations are valued using the last-in, first-out (LIFO) method, and the supplies inventories are valued principally using the average-cost method. Inventories at our foreign operations are valued using the average cost method.

**Plant, Equipment and Timberlands** For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

The range of estimated service lives used to calculate financial reporting depreciation for principal items of plant and equipment are as follows:

Buildings	10	45 Years
Machinery and equipment	7	35 Years
Other	4	40 Years

**Maintenance and Repairs** Maintenance and repairs costs are charged to income and major renewals and betterments are capitalized. At the time property is retired or sold, the net carrying value is eliminated and any resultant gain or loss is included in income.

**Valuation of Long-lived Assets, Intangible Assets and Goodwill** We evaluate long-lived assets for impairment when a specific event indicates that the carrying value of an asset may not be recoverable. Recoverability is assessed based on estimates of future cash flows expected to result from the use and eventual disposition of the asset. If the sum of expected undiscounted cash flows is less than the carrying value of the asset, the asset's fair value is estimated and an impairment loss is recognized for any deficiencies. Goodwill and non-amortizing tradename intangible assets are reviewed, on a discounted cash flow basis, during the third quarter of each year for impairment or more frequently if impairment indicators are present. Impairment losses, if any, are recognized for the amount by which the carrying value of the reporting unit exceeds its fair value. The carrying value of a reporting unit is defined using an enterprise premise which is generally determined by the difference between the unit's assets and operating liabilities.

**Asset Retirement Obligations** In accordance with the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) No. 410, *Asset Retirement and Environmental Obligations*, we accrue asset retirement obligations in the period in which obligations



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relating to future asset retirements are incurred and when a reasonable estimate of fair value can be determined. Under these standards, costs are to be accrued at estimated fair value, and a related long-lived asset is capitalized. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset for which the obligation exists. Upon settlement of the liability, we recognize a gain or loss for any difference between the settlement amount and the liability recorded.

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**Income Taxes** Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with FASB ASC 740 *Income Taxes* ( ASC 740 ). Under ASC 740, tax expense includes U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested. Tax credits and other incentives reduce tax expense in the year the credits are claimed. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported in deferred income taxes. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. We establish a valuation allowance for deferred tax assets for which realization is not more likely than not.

Income tax contingencies are accounted for in accordance with FASB ASC 740-10-20 *Income Taxes*. Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is less than certain. We and our subsidiaries are examined by various Federal, State, and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and record any necessary adjustments in the period in which the facts that give rise to a revision become known.

**Treasury Stock** Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the weighted-average cost basis.

**Foreign Currency Translation** Foreign currency translation gains and losses and the effect of exchange rate changes on transactions designated as hedges of net foreign investments are included as a component of other comprehensive income (loss). Transaction gains and losses are included in income in the period in which they occur.

**Revenue Recognition** We recognize revenue on product sales when the customer takes title and assumes the risks and rewards of ownership. Estimated costs for sales incentives, discounts and sales returns and allowances are recorded as sales deductions in the period in which the related revenue is recognized.

Revenue from energy sales is recognized when electricity is delivered to the customer. Certain costs associated with the production of electricity, such as fuel, labor, depreciation and maintenance are netted against energy sales for presentation on the Consolidated Statements of Income.

Revenue from renewable energy credits is recorded under the caption Energy and related sales in the Consolidated Statements of Income and is recognized when all risks, rights and rewards to the certificate are transferred to the counterparty.

**Environmental Liabilities** Accruals for losses associated with environmental obligations are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing legislation and remediation technologies. Costs related to environmental remediation are charged to expense. These accruals are adjusted periodically as assessment and remediation actions continue and/or further legal or technical information develops. Such undiscounted liabilities are exclusive of any insurance or other claims against third parties. Environmental costs are capitalized if the costs extend the life of the asset, increase its capacity and/or mitigate or prevent contamination from future operations. Recoveries of environmental remediation costs from other parties, including insurance carriers, are recorded as assets when their receipt is assured beyond a reasonable doubt.

**Earnings Per Share** Basic earnings per share is computed by dividing net income by the weighted-average common shares outstanding during the respective periods. Diluted earnings per share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method.

**Financial Derivatives and Hedging Activities** We use financial derivatives to manage exposure to changes in foreign currencies. In accordance with FASB ASC 815 *Derivatives and Hedging* ( ASC 815 ), we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

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**Cash Flow Hedges** The effective portion of the gain or loss on those derivative instruments designated and qualifying as a hedge of the exposure to variability in expected future cash flows related to forecasted transactions is deferred and reported as a component of accumulated other comprehensive income (loss). Deferred gains or losses are reclassified to our results of operations at the time the hedged forecasted transaction is recorded in our results of operations. The effectiveness of cash flow hedges is assessed at inception and quarterly thereafter. If the instrument becomes ineffective or it becomes probable that the originally forecasted transaction will not occur, the related change in fair value of the derivative instrument is also reclassified from accumulated other comprehensive income (loss) and recognized in earnings.

**Fair Value of Financial Instruments** Under the accounting for fair value measurements and disclosures, a fair value hierarchy was established that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Inputs that are both significant to the fair value measurement and unobservable.

**Recently Issued Accounting Pronouncements**

In February 2013, the FASB issued ASU 2013-02 *Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income* which will require new disclosures about items reclassified out of accumulated other comprehensive income. The new standard became effective for us beginning January 1, 2013. This standard did not have a material impact on us.

In July 2013, the FASB issued ASU 2013-11 (Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*), which provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available, in which case the unrecognized tax benefit should be presented in the financial statements as a liability. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. We believe that our implementation of this guidance will have no material impact on our consolidated financial statements.

**3. ACQUISITIONS**

On April 30, 2013, we completed the acquisition of all outstanding shares of Dresden Papier GmbH (Dresden) from Fortress Paper Ltd. for \$211 million, net of cash acquired. Dresden, based in Heidenau, Germany, is the leading global supplier of nonwoven wallpaper base materials, and is a major supplier to most of the world's largest wallpaper manufacturers. Dresden's revenues for the full year 2013 were \$158.6 million and it employed approximately 146 people at its state-of-the-art, 72,800 short-ton-capacity manufacturing facility. We financed the acquisition through a combination of cash on hand and borrowings under our Revolving Credit Facility.

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The acquisition of Dresden adds another industry-leading nonwovens product line to our Composite Fibers business, and broadens our relationship with leading producers of consumer and industrial products. This acquisition also provides additional operational leverage and growth opportunities for Glatfelter globally, particularly in large markets such as Russia and China, and other developing markets in eastern Europe and Asia.

Dresden now operates as part of our Composite Fibers business unit, which manufactures fiber-based products for growing global niche markets, including filtration papers for tea and single serve coffee applications, metallized papers, composite laminates, and technical specialties.

The share purchase agreement provides for, among other terms, indemnification provisions for claims that may arise, including among others, uncertain tax positions and other third party claims. The preliminary allocation of the purchase price to assets acquired and liabilities assumed is as follows:

In thousands	As originally presented	Cumulative adjustments	Adjusted
<b>Assets</b>			
Cash and cash equivalents	\$ 12,227	\$	\$ 12,227
Accounts receivable	23,870		23,870
Inventory	13,864		13,864
Prepaid and other current assets	6,674	1,386	8,060
Plant, equipment and timberlands	60,951		60,951
Intangible assets	87,596		87,596
Goodwill	76,256	(1,386)	74,870
Total assets	281,438		281,438
<b>Liabilities</b>			
Accounts payable	20,360	(107)	20,253
Deferred tax liabilities	36,120		36,120
Other long term liabilities	1,820	107	1,927
Total liabilities	58,300		58,300
Total	223,138		223,138
less cash acquired	(12,227)		(12,227)
Total purchase price	\$ 210,911	\$	\$ 210,911

The adjustments set forth above primarily relate to the recognition of additional indemnification receivable from the seller associated with certain tax matters. Such adjustments did not impact previously reported results of operations, earnings per share, or cash flows.

The preliminary purchase price allocation set forth above is based on all information available to us at the present time and is subject to change. In the event new information, primarily related to an on-going tax audit for periods prior to the acquisition, becomes available, the measurement of the amounts of an indemnification receivable reflected above under the caption Prepaid and other current assets may be affected.

For purposes of allocating the total purchase price, assets acquired and liabilities assumed are recorded at their estimated fair market value. The allocation set forth above is based on management's estimate of the fair value using valuation techniques such as discounted cash flow models, appraisals and similar methodologies. The amount allocated to intangible assets represents the estimated value of customer relationships, technological know-how and trade name.

Acquired property, plant and equipment are preliminarily being depreciated on a straight-line basis with estimated remaining lives ranging from 5 years to 30 years. Intangible assets are being amortized on a straight-line basis over an average estimated remaining life of 17 years reflecting the expected future value.

In connection with the Dresden acquisition we recorded \$74.9 million of goodwill and \$87.6 million of intangible assets. The goodwill arising from the acquisition largely relates to strategic benefits, product and market diversification, assembled workforce, and similar factors. For tax purposes, none of the goodwill is deductible. Intangible assets consist of \$9.8 million of non-amortizing tradename, and the remainder consists of technology and customer relationships.

Our results of operations include the results of Dresden prospectively since the acquisition was completed on April 30, 2013. All such results reported herein are included as part of the Composite Fibers business unit. Revenue and operating income of Dresden included in our consolidated results of operations for 2013 totaled \$101.8 million and \$18.3 million, respectively.

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The table below summarizes pro forma financial information as if the acquisition and related financing transaction occurred as of January 1, 2011:

In thousands, except per share	Year ended December 31		
	2013	2012	2011
<b><i>Pro forma</i></b>			
Net sales	\$ 1,779,434	\$ 1,727,538	\$ 1,749,342
Net income	80,381	79,075	56,789
Diluted earnings per share	1.82	1.81	1.24

During 2013, we incurred legal, professional and advisory costs directly related to the Dresden acquisition totaling \$3.2 million. For purposes of presenting the above pro forma financial information, such costs have been eliminated. All such costs are presented under the caption "Selling, general and administrative expenses" in the accompanying condensed consolidated statements of income. In addition, the pro forma financial information excludes \$1.1 million of charges to costs of products sold

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related to the write up of inventory to fair value and \$2.0 million of integration related costs. This unaudited pro forma financial information above is not necessarily indicative of what the operating results would have been had the acquisition been completed at the beginning of the respective period nor is it indicative of future results.

**4. ENERGY AND RELATED SALES, NET**

We sell excess power generated by the Spring Grove, PA facility. We also sell renewable energy credits generated by the Spring Grove, PA and Chillicothe, OH facilities representing sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste.

The following table summarizes this activity for each of the past three years:

<i>In thousands</i>	2013	2012	2011
Energy sales	\$ 8,189	\$ 5,284	\$ 10,992
Costs to produce	(6,784)	(4,187)	(9,319)
Net energy sales	1,405	1,097	1,673
Renewable energy credits	1,748	5,903	7,671
Total energy and related sales, net	\$ 3,153	\$ 7,000	\$ 9,344

**5. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS**

During 2013, 2012 and 2011, we completed the following sales of assets:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain
<b>2013</b>			
Timberlands	876	\$ 1,445	\$ 1,410
Other	n/a	502	316
Total		\$ 1,947	\$ 1,726
<b>2012</b>			
Timberlands	4,830	\$ 9,494	\$ 9,203
Other	n/a	778	612
Total		\$ 10,272	\$ 9,815
<b>2011</b>			
Timberlands	942	\$ 3,821	\$ 3,590
Other	n/a	670	360
Total		\$ 4,491	\$ 3,950

**6. EARNINGS PER SHARE**

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

<i>In thousands, except per share</i>	Year ended December 31		
	2013	2012	2011
Net income	\$ 67,158	\$ 59,379	\$ 42,694
Weighted average common shares outstanding used in basic EPS	43,158	42,851	45,228
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	1,141	821	566
Weighted average common shares outstanding and common share equivalents used in diluted EPS	44,299	43,672	45,794
Earnings per share			
Basic	\$ 1.56	\$ 1.39	\$ 0.94
Diluted	1.52	1.36	0.93

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

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	Year ended December 31		
	2013	2012	2011
Potential common shares	7	8	891

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**7. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table sets forth details of the changes in accumulated other comprehensive income (losses) for the three years ended December 31, 2013, 2012 and 2011.

in thousands	Currency Translation Adjustments	Unrealized		Pension Plans	Other postretirement benefit plans	Total
		on cash flow hedges	gain (loss)			
Balance at January 1, 2011	\$ (883)	\$		\$ (114,333)	\$ (6,031)	\$ (121,247)
Other comprehensive income before reclassifications (net of tax)	(10,160)	1,308		(48,452)	2,361	(54,943)
Amounts reclassified from accumulated other comprehensive income (net of tax)			(123)	9,783	(211)	9,449
Net current period other comprehensive income (loss)	(10,160)	1,185		(38,669)	2,150	(45,494)
Balance at December 31, 2011	(11,043)	1,185		(153,002)	(3,881)	(166,741)
Other comprehensive income before reclassifications (net of tax)	11,358	(39)		(18,657)	(244)	(7,582)
Amounts reclassified from accumulated other comprehensive income (net of tax)			(1,570)	12,099	(172)	10,357
Net current period other comprehensive income (loss)	11,358	(1,609)		(6,558)	(416)	2,775
Balance at December 31, 2012	315	(424)		(159,560)	(4,297)	(163,966)
Other comprehensive income before reclassifications (net of tax)	<b>14,826</b>	<b>(1,198)</b>		<b>54,906</b>	<b>4,187</b>	<b>72,721</b>
Amounts reclassified from accumulated other comprehensive income (net of tax)			<b>681</b>	<b>15,107</b>	<b>100</b>	<b>15,888</b>
Net current period other comprehensive income (loss)	<b>14,826</b>	<b>(517)</b>		<b>70,013</b>	<b>4,287</b>	<b>88,609</b>
Balance at December 31, 2013	\$ <b>15,141</b>	\$ <b>(941)</b>		\$ <b>(89,547)</b>	\$ <b>(10)</b>	\$ <b>(75,357)</b>

The following table sets forth the amounts reclassified from accumulated other comprehensive income (losses) for the years indicated.

In thousands	Year ended December 31			Line Item in Statements of Income
	2013	2012	2011	
<b>Description</b>				
<b>Cash flow hedges (Note 19)</b>				
(Gains) losses on cash flow hedges	\$ <b>945</b>	\$ (2,183)	\$ (174)	Costs of products sold
	<b>(264)</b>	613	51	Income tax provision
Net of tax	<b>681</b>	(1,570)	(123)	
<b>Retirement plan obligations (Note 10)</b>				
Amortization of deferred benefit pension plan items Prior service costs	<b>2,470</b>	2,025	2,113	Costs of products sold
	<b>649</b>	430	453	Selling, general and administrative
Actuarial losses	<b>16,399</b>	13,764	10,925	Costs of products sold
	<b>4,699</b>	3,256	2,342	Selling, general and administrative
	<b>24,217</b>	19,475	15,833	
	<b>(9,110)</b>	(7,376)	(6,050)	Income tax provision
Net of tax	<b>15,107</b>	12,099	9,783	
Amortization of deferred benefit other plan items Prior service costs	<b>(384)</b>	(760)	(1,005)	Costs of products sold
	<b>(96)</b>	(177)	(216)	Selling, general and administrative
Actuarial losses	<b>494</b>	511	725	Costs of products sold
	<b>147</b>	149	155	Selling, general and administrative
	<b>161</b>	(277)	(341)	
	<b>(61)</b>	105	130	Income tax provision
Net of tax	<b>100</b>	(172)	(211)	
Total reclassifications, net of tax	\$ <b>15,888</b>	\$ 10,357	\$ 9,449	





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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.

The provision for income taxes from operations consisted of the following:

<i>In thousands</i>	Year Ended December 31		
	2013	2012	2011
<b>Current taxes</b>			
Federal	\$ 625	\$ 8,869	\$ 6,943
State	(4,365)	3,386	(1,762)
Foreign	17,268	9,516	2,637
	<b>13,528</b>	<b>21,771</b>	<b>7,818</b>
<b>Deferred taxes and other</b>			
Federal	(10,973)	(5,456)	(3,908)
State	(474)	(920)	(286)
Foreign	(38)	4,167	4,527
	<b>(11,485)</b>	<b>(2,209)</b>	<b>333</b>
<b>Income tax provision</b>	<b>\$ 2,043</b>	<b>\$ 19,562</b>	<b>\$ 8,151</b>

The amounts set forth above for total deferred taxes and other included a deferred tax benefit of \$15.1 million, \$2.3 million and \$1.5 million in 2013, 2012 and 2011, respectively. Other taxes totaled an expense of \$3.6 million, \$0.1 million and \$1.8 million in 2013, 2012 and 2011, respectively, associated with the deferred tax impact of uncertain tax positions.

The following are the domestic and foreign components of pretax income from operations:

<i>In thousands</i>	Year Ended December 31		
	2013	2012	2011
United States	\$ (3,052)	\$ 24,525	\$ (991)
Foreign	72,253	54,416	51,836
<b>Total pretax income</b>	<b>\$ 69,201</b>	<b>\$ 78,941</b>	<b>\$ 50,845</b>

A reconciliation between the income tax provision, computed by applying the statutory federal income tax rate of 35% to income before income taxes, and the actual income tax provision is as follows:

	Year Ended December 31		
	2013	2012	2011
Federal income tax provision at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	0.5	1.3	0.7
Foreign income tax rate differential	(5.4)	(3.9)	(6.8)
Change in statutory tax rates	(0.6)	(0.8)	0.9
Tax credits	(4.4)	(0.5)	(2.0)
Change in unrecognized tax benefits, net	(22.7)	0.4	(11.6)
Cellulosic biofuel credit, net of incremental state tax and manufacturing deduction benefit		(6.1)	
Valuation allowance			3.2
Other	0.6	(0.6)	(3.4)
<b>Provision for income taxes</b>	<b>3.0%</b>	<b>24.8%</b>	<b>16.0%</b>

The sources of deferred income taxes were as follows at December 31:

	2013	2012
<i>In thousands</i>		

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	Current Asset (Liability)	Non current Asset (Liability)	Current Asset (Liability)	Non current Asset (Liability)
Reserves	\$ 5,001	\$ 7,919	\$ 6,871	\$ 8,095
Compensation	3,111	5,000	3,332	5,034
Post-retirement benefits	1,070	19,819	1,285	22,642
Property		(98,889)		(92,144)
Intangible Assets		(28,918)		(1,603)
Pension	802	(51,148)	508	(14,681)
Inventories	1,491		1,447	
Other	893	2,377	204	2,578
Tax carryforwards	10,322	16,922	5,218	43,409
Subtotal	22,690	(126,918)	18,865	(26,670)
Valuation allowance	(1,255)	(4,905)	(3,233)	(27,266)
Total	\$ 21,435	\$ (131,823)	\$ 15,632	\$ (53,936)

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Current and non-current deferred tax assets and liabilities are included in the following balance sheet captions:

<i>In thousands</i>	December 31	
	2013	2012
Prepaid expenses and other current assets	\$ 21,447	\$ 16,319
Other long term assets	9,197	8,110
Other current liabilities	12	687
Deferred income taxes	141,020	62,046

At December 31, 2013 we had state and foreign tax net operating loss ( NOL ) carryforwards of \$92.1 million and \$32.7 million, respectively. These NOL carryforwards are available to offset future taxable income, if any. The state NOL carryforwards expire between 2014 and 2033; certain foreign NOL carryforwards expire between 2014 and 2033.

The state and foreign NOL carryforwards on the income tax returns filed included unrecognized tax benefits taken in prior years. The NOLs for which a deferred tax asset is recognized for financial statement purposes in accordance with ASC 740 are presented net of these unrecognized tax benefits.

In addition, we had various state tax credit carryforwards totaling \$0.4 million, which expire between 2014 and 2027, and foreign investment tax credits of \$3.8 million which expire between 2019 and 2033.

As of December 31, 2013 and 2012, we had a valuation allowance of \$6.2 million and \$30.5 million, respectively, against net deferred tax assets, primarily due to uncertainty regarding the ability to utilize state and foreign tax NOL carryforwards and certain deferred foreign tax credits. The change in the valuation allowance was primarily due to the expiration of fully reserved NOLs.

Tax credits and other incentives reduce tax expense in the year the credits are claimed. We recorded tax credits of \$3.0 million, \$0.4 million and \$1.0 million in 2013, 2012 and 2011, respectively, related to research and development credits and the fuels tax credits.

At December 31, 2013 and 2012, unremitted earnings of subsidiaries outside the United States deemed to be permanently reinvested totaled \$288.8 million and \$236.3 million, respectively. Because the unremitted earnings of subsidiaries are deemed to be permanently reinvested as of December 31, 2013 and because we have no need for or plans to repatriate such earnings, no deferred tax liability has been recognized in our consolidated financial statements. It is not practicable to

determine the amount of additional taxes that have not been provided.

As of December 31, 2013, 2012 and 2011, we had \$14.9 million, \$30.4 million and \$29.7 million of gross unrecognized tax benefits, respectively. As of December 31, 2013, if such benefits were to be recognized, approximately \$14.9 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

<i>In millions</i>	2013	2012	2011
Balance at January 1	\$ 30.4	\$ 29.7	\$ 38.7
Increases in tax positions for prior years	0.2	1.4	0.8
Decreases in tax positions for prior years	(4.9)	(1.0)	(7.5)
Acquisition related:			
Purchase Accounting <sup>(1)</sup>	1.3		
Increases in tax positions for current year	1.7	1.9	1.1
Settlements		(0.4)	(0.1)
Lapse in statutes of limitation	(13.8)	(1.2)	(3.3)
Balance at December 31	\$ 14.9	\$ 30.4	\$ 29.7

(1)

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in connection with acquisition accounting for the Dresden transaction, we recorded a \$1.3 million reserve for an uncertain tax position and at the same time recorded a receivable from the seller due to an indemnification agreement.

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 tax years that remain subject to examination by major jurisdiction:

Jurisdiction	Open Tax Years		Examination in progress	
	Examinations not yet initiated			
United States				
Federal	2010	2013		N/A
State	2009	2013		N/A
Canada <sup>(1)</sup>	2010	2013	2007, 2009	
Germany <sup>(1)</sup>	2012	2013	2007	2012
France	2010, 2013		2011	2012
United Kingdom	2010	2013		N/A
Philippines	2012	2013	2010	2011

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these

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reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration 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 \$5.4 million. Substantially all of this range relates to tax positions taken in the U.S. and in Germany.

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

<i>In millions</i>	As of or for the year ended		
	December 31,	2012	2011
	<b>2013</b>		
Accrued interest payable	\$ 0.6	\$ 1.4	\$ 1.7
Interest expense (income)	(0.8)	(0.3)	(2.1)
Penalties			

**9. 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. In May 2013, our shareholders approved an increase of 1,030,000 in the number shares authorized to be issued under the LTIP.

As of December 31, 2013, there were 2,179,443 shares of common stock available for future issuance under the LTIP.

Since the approval of the LTIP, we have issued to eligible participants restricted stock units, performance share awards and stock only stock appreciation rights (SOSARs).

**Restricted Stock Units (RSUs) and Performance Share Awards (PSAs)** Awards of RSUs and PSAs are made under our LTIP. The vesting of RSUs is generally based on the passage of time, generally on a graded scale over a three, four, and five-year period. Beginning in March of 2011, PSAs were issued annually to members of senior management and each respective grant cliff vests each December 31, assuming the achievement of predetermined, three-year cumulative performance targets. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than targeted depending on actual financial performance. For both RSUs and PSAs, the grant date fair value of the awards, which is equal to the closing price per common share on the date of the award, is used to determine the amount of expense to be recognized over the applicable service period. Settlement of RSUs and PSAs will be made in shares of our common stock currently held in treasury.

The following table summarizes RSU and PSA activity during the past three years:

<i>Units</i>	2013	2012	2011
Balance January 1,	847,679	788,088	579,801
Granted	315,196	209,021	251,031
Forfeited	(47,831)	(52,800)	(28,254)
Shares delivered	(113,230)	(96,630)	(14,490)
Balance December 31,	1,001,814	847,679	788,088

<i>Dollars in thousands</i>	2013	2012	2011
Compensation expense	\$ 2,882	\$ 2,576	\$ 2,069

The amount granted in 2013, 2012 and 2011 includes 183,910, 161,083 and 98,187 PSAs, respectively, exclusive of reinvested dividends. The performance period for the 2011 PSAs concluded on December 31, 2013 and, based on actual performance relative to target, approximately 78% of the award were issued to participants in 2014. The weighted average grant date fair value per unit for awards in 2013, 2012 and 2011 was \$22.34, \$15.49, and \$12.47, respectively. As of December 31, 2013, unrecognized compensation expense for outstanding RSUs and PSAs

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totaled \$7.1 million. The weighted average remaining period over which the expense will be recognized is 2.9 years.

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**Stock Only Stock Appreciation Rights** The following table sets forth information related to outstanding SOSARS:

SOSARS	2013		2012		2011	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at January 1,	2,121,454	\$ 12.93	2,298,288	\$ 12.35	2,061,877	\$ 12.28
Granted	368,687	18.51	364,114	15.58	345,290	12.56
Exercised	(435,562)	12.63	(500,074)	12.06		
Canceled / forfeited	(77,446)	16.28	(40,874)	14.31	(108,879)	11.82
Outstanding at December 31,	1,977,133	13.91	2,121,454	12.93	2,298,288	12.35
Exercisable at December 31,	1,330,816	12.58	1,469,537	12.30	1,554,852	12.45
Vested and expected to vest	1,863,244		2,055,599		2,076,341	

**SOSAR Grants**

Weighted average grant date fair value per share	\$ 5.74	\$ 4.94	\$ 4.09
Aggregate grant date fair value (in thousands)	\$ 2,103	\$ 1,797	\$ 1,412
<b>Black-Scholes assumptions</b>			
Dividend yield	2.16%	2.31%	2.87%
Risk free rate of return	1.01%	1.02%	2.55%
Volatility	39.58%	41.48%	41.91%
Expected life	6 yrs	6 yrs	6 yrs
Compensation expense (in thousands)	\$ 1,591	\$ 1,448	\$ 1,564

Under terms of the SOSAR, the recipients received the right to receive 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. As of December 31, 2013, the intrinsic value of SOSARs vested and expected to vest totaled \$25.8 million. The remaining weighted average contractual life of outstanding SOSARs was 6.5 years as of December 31, 2013.

Our LTIP also permits the issuance of nonqualified stock options; however, we have not issued any options since 2004. As of December 31, 2013, 10,000 stock options were outstanding with a weighted average exercise price of \$11.29 per share. All options expire on the earlier of termination or, in some instances, a defined period subsequent to termination of employment, or ten years from the date of grant. The exercise price represents the quoted market price of Glatfelter common stock on the date of grant, or the average quoted market prices of Glatfelter common stock on the first day before and after the date of grant for which quoted market price information was available if such information was not available on the date of grant. As of December 31, 2013, the intrinsic value of outstanding stock options totaled \$0.2 million.

**10. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS**

We provide non-contributory retirement benefits under both funded and unfunded plans to all U.S. employees and to certain non-U.S. employees. Participation in benefits under the plans are based upon the employees' date of hire and the covered group in which that employee falls. U.S. benefits are based on either a unit-benefit formula for bargained hourly employees, or a final average pay formula or cash balance formula for salaried employees. Non-U.S. benefits are based, in the case of certain plans, on average salary and years of service and, in the case of other plans, on a fixed amount for each year of service. U.S. plan provisions and funding meet the requirements of the Employee Retirement Income Security Act of 1974. We use a December 31-measurement date for all of our defined benefit plans.

We also provide certain health care benefits to eligible U.S.-based retired employees and exclude all salaried employees hired after January 1, 2008. These benefits include a comprehensive medical plan for retirees prior to age 65 and fixed supplemental premium payments to certain retirees over age 65 to help defray the costs of Medicare. Claims are paid as reported.



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<i>In millions</i>	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
<b>Change in Benefit Obligation</b>				
Balance at beginning of year	\$ 528.4	\$ 470.2	\$ 63.0	\$ 56.8
Service cost	11.6	11.3	2.9	2.8
Interest cost	21.8	23.0	2.1	2.4
Plan amendments		5.5		
Participant contributions			1.4	1.4
Actuarial (gain)/loss	(43.6)	46.7	(10.5)	4.2
Benefits paid	(30.5)	(28.3)	(4.1)	(4.6)
Balance at end of year	\$ 487.7	\$ 528.4	\$ 54.8	\$ 63.0
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year	\$ 545.7	\$ 498.2	\$	\$ 5.3
Actual return on plan assets	84.2	68.1		0.6
Total contributions	1.8	1.8	4.1	4.6
Benefits paid	(30.5)	(28.3)	(4.1)	(4.6)
Intra plan transfers		5.9		(5.9)
Fair value of plan assets at end of year	601.2	545.7		
Funded status at end of year	\$ 113.5	\$ 17.3	\$ (54.8)	\$ (63.0)

The amount set forth for intra plan transfers represents assets contributed to the pension plan from a post-retirement medical plan sub-account previously established pursuant to Section 420 of the Internal Revenue Code. Benefits due under the post-retirement medical plan continue to be paid for by us.

Amounts recognized in the consolidated balance sheets consist of the following as of December 31:

<i>In millions</i>	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Other long-term assets	\$ 148.9	\$ 53.7	\$	\$
Current liabilities	(2.3)	(2.0)	(4.0)	(4.2)
Other long-term liabilities	(33.1)	(34.4)	(50.8)	(58.8)
Net amount recognized	\$ 113.5	\$ 17.3	\$ (54.8)	\$ (63.0)

The components of amounts recognized as Accumulated other comprehensive income consist of the following on a pre-tax basis:

<i>In millions</i>	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Prior service cost/(credit)	\$ 14.8	\$ 17.9	\$ (1.4)	\$ (1.9)
Net actuarial loss	131.9	237.6	1.4	12.6

The accumulated benefit obligation for all defined benefit pension plans was \$471.1 million and \$507.4 million at December 31, 2013 and 2012, respectively.

The weighted-average assumptions used in computing the benefit obligations above were as follows:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Discount rate benefit obligation	5.20%	4.28%	4.52%	3.58%
Future compensation growth rate	4.00	4.00		

The discount rates set forth above were estimated based on the modeling of expected cash flows for each of our benefit plans and selecting a portfolio of high-quality debt instruments with maturities matching the respective cash flows of each plan. The resulting discount rates as of December 31, 2013 ranged from 3.60% to 5.36% for pension plans and from 3.95% to 4.64% for other benefit plans.

Information for pension plans with an accumulated benefit obligation in excess of plan assets was as follows:

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<i>In millions</i>	<b>2013</b>	2012
Projected benefit obligation	<b>\$ 35.4</b>	\$ 36.4
Accumulated benefit obligation	<b>31.6</b>	32.0
Fair value of plan assets		

Net periodic benefit cost includes the following components:

<i>In millions</i>	Year Ended December 31		
	2013	2012	2011
<b>Pension Benefits</b>			
Service cost	<b>\$ 11.6</b>	\$ 11.3	\$ 10.3
Interest cost	<b>21.8</b>	23.0	24.2
Expected return on plan assets	<b>(43.4)</b>	(42.2)	(42.0)
Amortization of prior service cost	<b>3.1</b>	2.5	2.6
Amortization of actuarial loss	<b>21.1</b>	17.0	13.3
One-time settlement charge			2.0
Total net periodic benefit cost	<b>\$ 14.2</b>	\$ 11.6	\$ 10.4
<b>Other Benefits</b>			
Service cost	<b>\$ 2.9</b>	\$ 2.8	\$ 2.9
Interest cost	<b>2.1</b>	2.4	2.8
Expected return on plan assets		(0.5)	(0.5)
Amortization of prior service cost/(credit)	<b>(0.5)</b>	(0.9)	(1.2)
Amortization of actuarial loss	<b>0.6</b>	0.7	0.9
Total net periodic benefit cost	<b>\$ 5.1</b>	\$ 4.5	\$ 4.9

In connection with the December 31, 2010 retirement of our former chief executive officer and the lump-sum distribution in July 2011 of accrued pension benefits due to him, we recorded a \$2.0 million one-time pension settlement charge in 2011.

The prior service cost and actuarial net loss for our defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into our results of operations as a component of net periodic benefit cost over the next fiscal year are \$2.9 million and \$11.9 million, respectively. The comparable amounts of expected amortization for other benefit plans are a credit of \$0.3 million and expense of \$0.5 million, respectively.

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Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) were as follows:

<i>In millions</i>	Year Ended December 31	
	2013	2012
<b>Pension Benefits</b>		
Actuarial (gain) loss	\$ (84.7)	\$ 20.6
Prior service cost		5.5
Amortization of prior service cost	(3.1)	(2.5)
Amortization of actuarial losses	(21.1)	(17.0)
Total recognized in other comprehensive (income) loss	(108.9)	6.6
Total recognized in net periodic benefit cost and other comprehensive (income) loss	\$ (94.7)	\$ 18.2
<b>Other Benefits</b>		
Actuarial (gain) loss	\$ (10.5)	\$ 4.0
Amortization of prior service cost	0.5	0.9
Amortization of actuarial losses	(0.6)	(0.7)
Total recognized in other comprehensive (income) loss	(10.6)	4.2
Total recognized in net periodic benefit cost and other comprehensive (income) loss	\$ (5.5)	\$ 8.7

The weighted-average assumptions used in computing the net periodic benefit (income) cost information above were as follows:

	Year Ended December 31		
	2013	2012	2011
<b>Pension Benefits</b>			
Discount rate benefit expense	4.28%	5.09%	5.81%
Future compensation growth rate	4.00	4.00	4.00
Expected long-term rate of return on plan assets	8.50	8.50	8.50
<b>Other Benefits</b>			
Discount rate benefit expense	3.58%	4.45%	5.12%
Expected long-term rate of return on plan assets		8.50	8.50

To develop the expected long-term rate of return assumption, we considered the historical returns and the future expected returns for each asset class, as well as the target asset allocation of the pension portfolio.

Assumed health care cost trend rates used to determine benefit obligations at December 31 were as follows:

	2013	2012
Health care cost trend rate assumed for next year	7.46%	7.68%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50	4.50
Year that the rate reaches the ultimate rate	2028	2028

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

<i>In millions</i>	One Percentage Point	
	Increase	Decrease
Effect on:		

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Post-retirement benefit obligation	\$ 4.5	\$ (4.0)
Total of service and interest cost components	0.6	(0.5)

**Plan Assets** All pension plan assets in the U.S. are invested through a single master trust fund. The strategic asset allocation for this trust fund is selected by management, reflecting the results of comprehensive asset and liability modeling. The general principles guiding U.S. pension asset investment policies are those embodied in the Employee Retirement Income Security Act of 1974 (ERISA). These principles include discharging our investment responsibilities for the exclusive benefit of plan participants and in accordance with the prudent expert standard and other ERISA rules and regulations. We establish strategic asset allocation percentage targets and appropriate benchmarks for significant asset classes with the aim of achieving a prudent balance between return and risk.

Investments and decisions will be made solely in the interest of the Plan's participants and beneficiaries, and for the exclusive purpose of providing benefits accrued thereunder. The primary goal of the Plan is to ensure the solvency of the Plan over time and thereby meet its distribution objectives. Plan assets will be diversified. All investments in the Plan will be made in accordance with ERISA and other applicable statutes.

Risk is minimized by diversification by asset class, by style of each manager and by sector and industry limits when applicable. The target allocation during 2013 for the Plan assets are:

Domestic Equity	
Large cap	<b>39%</b>
Small and mid cap	<b>13</b>
International equity	<b>13</b>
Real Estate Investment Trusts (REIT)	<b>5</b>
Fixed income, cash and cash equivalents	<b>30</b>

Diversification is achieved by:

- i. placing restrictions on the percentage of equity investments in any one company, percentage of investment in any one industry, limiting the amount of assets placed with any one manager; and
- ii. setting targets for duration of fixed income securities, maintaining a certain level of credit quality, and limiting the amount of investment in a single security and in non-investment grade paper.

A formal asset allocation review is done periodically to ensure that the Plan has an appropriate asset allocation based on the Plan's projected benefit obligations. The target return for each equity and fixed income manager will be one that places the manager's performance in the top 40% of its peers and on a gross basis, exceeds that of

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the manager's respective benchmark index. The target return for cash and cash equivalents is a return that at least equals that of the 90-day T-bills.

The Investment Policy statement lists specific categories of securities or activities that are prohibited including options, futures, commodities, hedge funds, limited partnerships, and our stock.

The table below presents the fair values of our benefit plan assets by level within the fair value hierarchy, as described in Note 2:

<i>In millions</i>	Fair Value Measurements at December 31, 2013			
	Total	Level 1	Level 2	Level 3
Domestic equity				
Large cap	\$ 204.6	\$ 204.6	\$	\$
Small and mid cap	68.1	68.1		
International equity	114.3	73.7	40.6	
REIT	25.9	25.9		
Fixed income	171.6	40.4	131.2	
Cash and equivalents	16.7		16.7	
Total	\$ 601.2	\$ 412.7	\$ 188.5	\$

<i>In millions</i>	Fair Value Measurements at December 31, 2012			
	Total	Level 1	Level 2	Level 3
Domestic equity				
Large cap	\$169.6	\$169.6	\$	\$
Small and mid cap	65.7	65.7		
Other	1.1	0.8	0.3	
International equity	100.3	61.9	38.4	
REIT	25.4	25.4		
Fixed income	164.9	27.2	137.7	
Cash and equivalents	18.7		18.7	
Total	\$ 545.7	\$ 350.6	\$ 195.1	\$

**Cash Flow** We were not required to make contributions to our qualified pension plan in 2013 nor do we expect to make any to this plan in 2014. Benefit payments expected to be made in 2014 under our non-qualified pension plans and other benefit plans are summarized below:

<i>In thousands</i>	
Nonqualified pension plans	\$ 2,257
Other benefit plans	4,032

The following benefit payments under all pension and other benefit plans, and giving effect to expected future service, as appropriate, are expected to be paid:

<i>In thousands</i>	Pension Benefits	Other Benefits
2014	\$ 33,920	\$ 4,032
2015	33,961	4,006
2016	34,060	4,287
2017	34,265	4,736
2018	33,928	4,994
2019 through 2023	179,439	27,542

**Defined Contribution Plans** We maintain 401(k) plans for certain hourly and salaried employees. Employees may contribute up to 50% of their earnings, subject to certain restrictions. We will match a portion of the employee's contribution, subject to certain limitations, in the form of shares of Glatfelter common stock out of treasury. The expense associated with our 401(k) match was \$1.9 million, \$1.7 million and \$1.3 million in 2013, 2012 and 2011, respectively.

**11. INVENTORIES**

Inventories, net of reserves were as follows:

<i>In thousands</i>	December 31	
	2013	2012
Raw materials	\$ 59,440	\$ 61,084
In-process and finished	109,578	102,331
Supplies	67,292	58,951
Total	\$ 236,310	\$ 222,366

We value all of our U.S. inventories, excluding supplies, on the LIFO method. If we had valued these inventories using the first-in, first-out method, inventories would have been \$24.5 million and \$22.4 million higher than reported at December 31, 2013 and 2012, respectively.

**12. PLANT, EQUIPMENT AND TIMBERLANDS**

Plant, equipment and timberlands at December 31 were as follows:

<i>In thousands</i>	2013	2012
Land and buildings	\$ 206,891	\$ 194,541
Machinery and equipment	1,279,264	1,158,245
Furniture, fixtures, and other	159,674	122,425
Accumulated depreciation	(976,645)	(915,777)
	669,184	559,434
Construction in progress	47,271	52,782
Asset retirement obligation, net	4,748	6,374
Timberlands, less depletion	2,137	2,596
Total	\$ 723,340	\$ 621,186

As of December 31, 2013 and 2012 we had \$11.9 million and \$21.7 million, respectively, of accrued capital expenditures.

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The following table sets forth information with respect to goodwill and other intangible assets:

<i>In thousands</i>	December 31	
	2013	2012
Goodwill Composite Fibers	\$ 95,948	\$ 16,601
Specialty Papers		
Customer relationships	\$ 6,155	\$ 6,155
Composite Fibers		
Tradename	10,325	
Technology and related	46,038	4,365
Customer relationships and related	42,251	1,872
Advanced Airlaid Materials		
Technology and related	1,623	1,579
Customer relationships and related	3,445	3,300
Total intangibles	109,837	17,271
Accumulated amortization	(13,756)	(8,970)
Net intangibles	\$ 96,081	\$ 8,301

In connection with the Dresden acquisition, we recorded \$74.9 million of goodwill and \$87.6 million of intangible assets, all of which are presented above within Composite Fibers. The remainder of the change in goodwill was due to foreign currency translation adjustments. Other than non-amortizable goodwill and tradename, intangible assets are amortized on a straight-line basis. Customer relationships are amortized over periods ranging from 10 years to 14 years and technology and related intangible assets are amortized over periods ranging from 14 years to 20 years. The following table sets forth information pertaining to amortization of intangible assets:

<i>In thousands</i>	2013	2012
Aggregate amortization expense:	\$ 4,511	\$ 1,778
Estimated amortization expense:		
2014	6,106	
2015	6,106	
2016	5,645	
2017	5,491	
2018	5,491	

The remaining weighted average useful life of intangible assets was 15.7 years at December 31, 2013.

**14. OTHER LONG-TERM ASSETS**

Other long-term assets consist of the following:

<i>In thousands</i>	2013	2012
Pension	\$ 148,849	\$ 53,734
Other	27,610	24,305
Total	\$ 176,459	\$ 78,039

**15. OTHER CURRENT LIABILITIES**

Other current liabilities consist of the following:

<i>In thousands</i>	December 31	
	2013	2012
Accrued payroll and benefits	\$ 41,492	\$ 50,637
Other accrued compensation and retirement benefits	8,372	8,977

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Income taxes payable	6,546	2,656
Accrued rebates	20,208	11,330
Other accrued expenses	46,019	39,889
Total	\$ 122,637	\$ 113,489

**16. LONG-TERM DEBT**

Long-term debt is summarized as follows:

<i>In thousands</i>	2013	2012
Revolving credit facility, due Nov. 2016	\$ 133,540	\$ 250,000
5.375% Notes, due Oct. 2020	250,000	250,000
2.05% Term Loan, due Mar. 2023	58,785	
Total long-term debt	442,325	250,000
Less current portion		
Long-term debt, net of current portion	\$ 442,325	\$ 250,000

On November 21, 2011, we entered into an amendment to our revolving credit agreement with a consortium of banks (the Revolving Credit Facility) which increased the amount available for borrowing to \$350 million, extended the maturity of the facility to November 21, 2016, and instituted a lower interest rate pricing grid.

For all U.S. dollar denominated borrowings under the Revolving Credit Facility, the borrowing rate is, at our option, (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 plus an applicable spread ranging from 25 basis points to 125 basis points based on our corporate credit ratings determined by Standard & Poor's Rating Services and Moody's Investor Service, Inc. (the Corporate Credit Rating); or iii) the daily Euro-rate plus 100 basis points; or (b) the daily Euro-rate plus an applicable margin ranging from 125 basis points to 225 basis points based on the Corporate Credit Rating. For non-US dollar denominated borrowings, interest is based on (b) above.

The Revolving Credit Facility contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios including: i) maximum net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio (the leverage ratio);



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ii) a consolidated EBITDA to interest expense ratio; and iii) beginning December 31, 2015, a minimum liquidity ratio. The most restrictive of our covenants is a maximum leverage ratio of 3.5x. As of December 31, 2013, the leverage ratio, as calculated in accordance with the definition in our credit agreement, was 2.2x, well within the limits set forth in our credit agreement. A breach of these requirements would give rise to certain remedies under the Revolving Credit Facility, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

On October 3, 2012, we completed a private placement offering of \$250.0 million aggregate principal amount of 5.375% Senior Notes due 2020 (the 5.375% Notes ). The 5.375% Notes are fully and unconditionally guaranteed, jointly and severally, by PHG Tea Leaves, Inc., Mollanvick, Inc., and Glatfelter Holdings, LLC (the Guarantors ). The net proceeds from this offering totaled approximately \$245.1 million, after deducting the commissions and other fees and expenses relating to the offering and were used to tender and call \$200.0 million aggregate principal amount of our outstanding 7.125% notes due November 2016, plus the payment of the applicable redemption premium and accrued interest. We used the remaining net proceeds to repay amounts outstanding under our revolving credit facility and for general corporate purposes. Pursuant to the redemption provisions contained in the 7.125% Notes Indenture, we redeemed all of the 7.125% Notes at 102.375% of par. The \$4.8 million redemption premium is reported under the caption other non-operating expenses other-net in the accompanying consolidated statements of income. The write-off of the related unamortized deferred financing fees totaled \$1.9 million and is reported under the caption Interest expense in the accompanying consolidated statements of income.

Interest on the 5.375% Notes will be payable semiannually in arrears on April 15 and October 15, commencing on April 15, 2013.

The 5.375% Notes are redeemable, in whole or in part, at anytime on or after October 15, 2016 at the redemption prices specified in the applicable Indenture. Prior to October 15, 2016, we may redeem some or all of the Notes at a make-whole premium as specified in the Indenture. These Notes and the guarantees of the notes are senior obligations of the Company and the Guarantors, respectively, rank equally in right of payment with future

senior indebtedness of the Company and the Guarantors and will mature on October 15, 2020.

The 5.375% Notes contain various covenants customary to indebtedness of this nature including limitations on i) the amount of indebtedness that may be incurred; ii) certain restricted payments including common stock dividends; iii) distributions from certain subsidiaries; iv) sales of assets; v) transactions amongst subsidiaries; and vi) incurrence of liens on assets. In addition, the 5.375% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the Revolving Credit Agreement at maturity or a default under the Revolving Credit Agreement that accelerates the debt outstanding thereunder. As of December 31, 2013, we met all of the requirements of our debt covenants.

On April 11, 2013, Glatfelter Gernsbach GmbH & Co. KG ( Gernsbach ), a wholly-owned subsidiary of ours, entered into an agreement with IKB Deutsche Industriebank AG, Düsseldorf ( IKB ), pursuant to which Gernsbach borrowed from IKB approximately 42.7 million (or \$57.6 million) aggregate principal amount (the IKB Loan ).

The IKB Loan, guaranteed in full by us, is repayable in 32 quarterly installments beginning on June 30, 2015 and ending on March 31, 2023 and will bear interest at a rate of 2.05% per annum. Interest on the IKB Loan or portion thereof is payable quarterly in each year of the term of the loan with interest accruing from the date the loan or portion thereof is drawn.

The IKB Loan provides for representations, warranties and covenants customary for financings of this type. The financial covenants contained in the IKB Loan, 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, will be calculated by reference to our Amended and Restated Credit Agreement, dated November 21, 2011.

Aggregated unamortized deferred debt issuance costs incurred in connection with all of our outstanding debt totaled \$6.4 million at December 31, 2013 and are reported under the caption Other assets in the accompanying consolidated balance sheets. The deferred costs are being amortized on a straight line basis over the life of the underlying instruments. Amortization expense related to deferred debt issuance costs totaled \$1.3 million in 2013.

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The following schedule sets forth the maturity of our long-term debt during the indicated year.

*In thousands*

2014	\$
2015	5,511
2016	140,888
2017	7,348
2018	7,348
Thereafter	281,230

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

As of December 31, 2013 and 2012, we had \$5.2 million and \$4.6 million, respectively, of letters of credit issued to us by certain financial institutions. The letters of credit, which reduce amounts available under our revolving credit facility, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

**17. ASSET RETIREMENT OBLIGATION**

During 2008, we recorded \$11.5 million, net present value, of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, lagoons were used to dispose of residual waste material. Closure of the lagoons, which is expected to be completed in 2016, will be accomplished by filling the lagoons, installing a non-permeable liner which will be covered with soil to construct the required cap over the lagoons. The amount referred to above, in addition to upward revisions, was accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the consolidated balance sheet. The amount capitalized is being amortized as a charge to operations on the straight-line basis in relation to the expected closure period.

Following is a summary of the reserve for asset retirement obligations for the periods indicated:

<i>In thousands</i>	2013	2012
Balance at January 1,	\$ 8,882	\$ 9,679
Accretion	229	458
Payments	(2,824)	(1,255)
Gain	(1,255)	
Balance at December 31,	\$ 5,032	\$ 8,882

During 2013, we recognized a \$1.3 million gain related to the progress of closure activities for a portion of the lagoons required to be retired. The gain is reflected in the accompanying consolidated statements of income under the caption costs of products sold.

The following table summarizes the line items in the accompanying condensed consolidated balance sheets where the asset retirement obligations are recorded:

<i>In millions</i>	December 31	
	2013	2012
Other current liabilities	\$ 0.9	\$ 3.6
Other long-term liabilities	4.1	5.3
Total	\$ 5.0	\$ 8.9

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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The amounts reported on the consolidated balance sheets for cash and cash equivalents, accounts receivable and short-term debt approximate fair value. The following table sets forth the carrying value and fair value of long-term debt as of December 31:

<i>In thousands</i>	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		Value		
Fixed-rate bonds	\$ 250,000	\$ 254,533	\$ 250,000	\$ 260,340
2.05% Term loan	58,785	57,952		
Variable rate debt	133,540	133,540		
<b>Total</b>	<b>\$ 442,325</b>	<b>\$ 446,025</b>	\$ 250,000	\$ 260,340

As of December 31, 2013 and 2012, we had \$250.0 million of 5.375% fixed rate bonds. These bonds are publicly registered, but thinly traded. Accordingly, the values set forth above for the bonds, as well as our other debt instruments, are based on observable inputs and other relevant market data (Level 2). The fair value of financial derivatives is set forth below in Note 19.

### 19. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

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

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**Derivatives Designated as Hedging Instruments – Cash Flow Hedges** In 2011, we began to use currency forward contracts as cash flow hedges to manage our exposure to fluctuations in the currency exchange rates on certain forecasted production costs expected to be incurred over a maximum of twelve months. Currency forward contracts involve fixing the EUR-USD exchange rate or USD-CAD for delivery of a specified amount of foreign currency on a specified date.

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

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

<i>In thousands</i>	2013	2012
Derivative		Buy Notional
Sell / Buy		
Euro / U.S. dollar	27,105	27,003
U.S. dollar / Canadian dollar	13,077	12,369

These contracts have maturities of twelve months or less.

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

<i>In thousands</i>	2013	2012
Derivative	Sell (Buy) Notional	
Sell / Buy		
Euro / U.S. dollar	9,000	13,000
Euro / British Pound	(8,000)	
Euro / British Pound	5,000	4,000
Canadian dollar / U.S. dollar	2,000	2,000
U.S. dollar / Euro	2,000	2,000
U.S. dollar / British Pound	6,000	

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

**Fair Value Measurements**

The following table summarizes the fair values of derivative instruments as of December 31 for the year indicated and the line items in the accompanying consolidated balance sheet where the instruments are recorded:

<i>In thousands</i>	2013	2012	2013	2012
Balance sheet caption	Prepaid Expenses and Other Current Assets		Other Current Liabilities	
<b>Designated as hedging:</b>				
Forward foreign currency exchange contracts	\$	\$107	\$1,163	\$751
<b>Not designated as hedging:</b>				
Forward foreign currency exchange contracts	\$ 36	\$159	\$46	\$ 16

The amounts set forth in the table above represent the net asset or liability giving effect to rights of offset with each counterparty.

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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 consolidated statements of income where the results are recorded:

<i>In thousands</i>	<b>2013</b>	2012	2011
<b><i>Designated as hedging:</i></b>			
Forward foreign currency exchange contracts:			
Effective portion cost of products sold	<b>\$ (945)</b>	\$ 2,183	\$ 174
Ineffective portion other net	<b>38</b>	311	165
<b><i>Not designated as hedging:</i></b>			
Forward foreign currency exchange contracts:			
Other net	<b>\$ (455)</b>	\$ (696)	\$ (686)

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

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described in Note 2.

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 consolidated balance sheet under the caption "Prepaid and other current assets" and the value of contracts in a loss position is recorded under the caption "Other current liabilities."

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

<i>In thousands</i>	2013	2012
Balance at January 1,	\$ (599)	\$ 1,649
Deferred losses on cash flow hedges	(1,642)	(65)
Reclassified to earnings	945	(2,183)
Balance at December 31,	\$ (1,296)	\$ (599)

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

Credit risk related to derivative activity arises in the event a 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.

**20. SHAREHOLDERS EQUITY**

The following table summarizes outstanding shares of common stock:

<i>In thousands</i>	2013	Year Ended December 31,	
		2012	2011
Shares outstanding at beginning of year	42,784	42,650	45,976
Shares repurchased		(374)	(3,505)
Treasury shares issued for:			
Restricted stock awards	86	76	14
401(k) plan	123	152	143
Director compensation			12
Employee stock options exercised	137	280	10
Shares outstanding at end of year	43,130	42,784	42,650

**21. SHARE REPURCHASES**

In May 2012, our Board of Directors authorized a two-year share repurchase program for up to \$25.0 million of our outstanding common stock, exclusive of commissions. The following table summarizes share repurchases through December 31, 2013, made under this program:

	shares	(thousands)
Authorized amount	n/a	\$ 25,000
Repurchases	291,120	(4,462)
Remaining authorization		\$ 20,538

In April 2011, our Board of Directors authorized a share repurchase program for up to \$50.0 million of our outstanding common stock, exclusive of commissions, all of which was used.

**22. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS**

**Contractual Commitments** The following table summarizes the minimum annual payments due on noncancelable operating leases and other similar contractual obligations having initial or remaining terms in excess of one year:

<i>In thousands</i>	<b>Leases</b>	<b>Other</b>
2014	\$ 6,648	\$ 71,816
2015	4,481	23,245
2016	2,560	20,959
2017	1,654	103
2018	755	95
Thereafter	162	95

Other contractual obligations primarily represent minimum purchase commitments under energy supply contracts and other purchase obligations.

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At December 31, 2013, required minimum annual payments due under operating leases and other similar contractual obligations aggregated \$16.3 million and \$116.3 million, respectively.

### **Fox River Neenah, Wisconsin**

**Background.** We have significant uncertainties associated with environmental claims arising out of the presence of polychlorinated biphenyls ( PCBs ) in sediments in the lower Fox River, on which our former Neenah facility was located, and in the Bay of Green Bay Wisconsin (collectively, the Site ). The United States, the State of Wisconsin, and two Indian tribes (collectively, the Governments ) seek to require (a) a cleanup of the Site ( response actions ), (b) reimbursement of cleanup costs ( response costs ), and (c) natural resource damages ( NRDs ). They claim that we, together with seven other entities that have been formally notified that they are potentially responsible parties ( PRPs ) under CERCLA for response costs or NRDs, are jointly and severally responsible under the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA or Superfund ) for those response actions, response costs, and NRDs, all of which may total in excess of \$1 billion.

The PRPs consist of us, Appvion, Inc. (formerly known as Appleton Papers Inc.), CBC Coating, Inc. (formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation ( NCR ), U.S. Paper Mills Corp., and WTM I Company.

The Governments have identified manufacturing and recycling of NCR®-brand carbonless copy paper as the principal source of the PCBs in sediments at the Site. Our predecessor, the Bergstrom Paper Company, and later we operated a deinking paper mill in Neenah, Wisconsin. This mill received NCR®-brand carbonless copy paper in its furnish and discharged PCBs to Little Lake Butte des Morts, an impoundment of the river at the upstream end of the Site.

The United States Environmental Protection Agency ( EPA ) has divided the Site into five operable units , including the most upstream ( OU1 ) and four downstream reaches of the river and bay ( OU2-5 ). OU1 extends from primarily Lake Winnebago to the dam at Appleton, and is comprised of Little Lake Butte des Morts. The Neenah Facility discharged its wastewater into this portion of the site.

We have resolved our liability for response actions and response costs associated with the permanent cleanup of Little Lake Butte des Morts through a consent decree,

and amendments, entered in *United States v. P.H. Glatfelter Co.*, No. 2:03-cv-949-LA (E.D. Wis.). Together with WTM I Company and with assistance from Menasha Corporation, we have completed that cleanup except for on-going operation and maintenance.

In November 2007, the EPA issued a unilateral administrative order for remedial action ( UAO ) to us and to seven other respondents directing us to implement the cleanup of the Site downstream of Little Lake Butte des Morts. Since that time, the district court has held that one of the respondents, Appvion, is not liable for this Site. In addition, the United States and the State of Wisconsin have entered into a settlement with another respondent, Georgia-Pacific LLP ( GP ), limiting GP s responsibility to the downstream-most three miles of the river. Work has proceeded to implement the UAO, mostly funded by NCR and its indemnitors.

In January 2008, two of the UAO respondents, NCR and Appleton Papers Inc. (now known as Appvion), brought two actions, consolidated under the caption *Appleton Papers Inc. v. George A. Whiting Paper Co.*, No. 2:08-cv-16-WCG (E.D. Wis.) ( Whiting Litigation ), that ultimately involved us and more than two dozen parties in litigation to allocate among the parties the responsibility for response actions, response costs, and NRDs for this Site. Most of the parties responsible for relatively small discharges of PCBs settled with the Governments, resolving their liability. On June 27, 2013, the district court entered a final judgment that (a) neither NCR nor Appvion may pursue any other party for contribution, (b) NCR owes us and the other non-settling parties full contribution for any amounts we may have to pay on account of response actions or response costs downstream of Little Lake Butte des Morts or on account of NRDs, (c) NCR is not liable for response costs, response actions, or NRDs in Little Lake Butte des Morts, and (d) NCR owes us reimbursement of \$4.28 million in costs we incurred in the past. NCR and Appvion have appealed that judgment. We have filed a cross-appeal of that judgment (as have several other defendants), challenging those portions of the judgment with which we disagree, including the ruling that NCR is not liable for response costs, response actions, or NRDs in Little Lake Butte des Morts. Until the Whiting Litigation judgment is affirmed on appeal, all past and future costs or damages incurred by any person remain the subject of litigation against us.

In October 2010, the United States and the State of Wisconsin sued us and thirteen other defendants to recover an injunction requiring the UAO respondents to complete the response actions required by the UAO and all





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parties to reimburse past and future response costs incurred by the Governments as well as to pay NRDs. That case is captioned *United States v. NCR Corp.*, No. 1:10-cv-910-WCG (E.D. Wis.) ( Government Action ). To date, litigation of the Government Action has been limited to the United States claim against the UAO respondents for a mandatory injunction to require implementation of the remaining work under the UAO, that is, completion of the remedy in the 33 miles of the river downstream of Little Lake Butte des Morts. Following a trial in December 2012, on May 1, 2013, the district court granted that injunction ( May 2013 Order ). The May 2013 Order directs the Company jointly and severally along with three other defendants that are also enjoined (NCR, WTM I Company, and Menasha Corporation) to comply with the UAO. An accompanying declaratory judgment declares the Company and those three defendants jointly and severally liable with three additional defendants (Georgia-Pacific, LLP, U.S. Paper Mills, Inc., and CBC Coatings, Inc.) that have entered into agreements with the United States governing those parties compliance with the UAO. The district court has denied NCR's motion to require us to contribute to compliance with the injunction. We have appealed the May 2013 Order, as have NCR, WTM I, and Menasha.

**Cost estimates.** Estimates of the Site remediation change over time as we, or others, gain additional data and experience at the Site. In addition, disagreement exists over the likely costs for some of this work. Based upon estimates made by the Governments and independent estimates commissioned by various potentially responsible parties, we have no reason to disagree with the Governments' assertion that total past and future response costs and NRDs at this site may exceed \$1 billion and that \$1.5 billion is a reasonable outside estimate. Much of that amount has already been incurred. As described below, some of that amount is NRDs. The parties implementing the response action under the UAO in the downstream part of the river estimate the cost of work done in 2013 and the future cost of work yet to be done totals approximately \$360 million. The Governments seek to have that work done at a rate estimated to cost approximately \$70 million each year from 2013 through 2016, and at lower rates afterward.

**NRDs.** The Governments' NRD assessment documents claimed that we are jointly and severally responsible for NRDs with a value between \$176 million and \$333 million. The Governments now claim that this range should be inflated to 2009 dollars and then certain unreimbursed past assessment costs should be added, so that the range of their claim would be \$287 million to \$423 million. We

deny liability for most of these NRDs and believe that even if anyone is liable, that we are not jointly and severally liable for the full amount. The May 2013 Order does not determine whether liability for NRDs would be joint and several. Moreover, we believe that the Natural Resource Trustees may not legally pursue this claim at this late date, as the limitations period for NRD claims is three years from discovery.

**Reserves for the Site.** As of December 31, 2013, our reserve for the Site, including our remediation and ongoing monitoring obligations in Little Lake Butte des Morts, our share of remediation of the rest of the Site, NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled \$16.3 million. Of our total reserve for the Fox River, \$0.1 million is recorded in the accompanying condensed consolidated balance sheets under the caption Environmental liabilities and the remainder is recorded under the caption Other long term liabilities.

Although we believe that amounts already funded by us and WTM I to implement the Little Lake Butte des Morts remedy are adequate and no payments have been required since January 2009, there can be no assurance that these amounts will in fact suffice. WTM I has filed a bankruptcy petition in the Bankruptcy Court in Richmond; accordingly, there can be no assurance that WTM I will be able to fulfill its obligation to pay half of any additional costs, if required.

We do not believe that we will be allocated a significant percentage share of liability in any final equitable allocation of the response costs and NRDs. The accompanying consolidated financial statements do not include reserves for defense costs for the Whiting Litigation, the Government Action, or any future defense costs related to our involvement at the Site, which could be significant.

In setting our reserve for the Site, we have assessed our legal defenses, including our successful defenses to the allegations made in the Whiting Litigation and the determination in the Whiting Litigation that NCR owes us full contribution for response costs and NRDs that we may become obligated to pay except in OU1, and assumed that we will not bear the entire cost of remediation or damages to the exclusion of other known parties at the Site, who are also potentially jointly and severally liable. The existence and ability of other parties to participate has also been taken into account in setting our reserve, and is generally based on our evaluation of recent publicly available financial information on certain of the responsible parties and any known insurance, indemnity or cost

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sharing agreements between responsible parties and third parties. In addition, our assessment is based upon the magnitude, nature, location and circumstances associated with the various discharges of PCBs to the river and the relationship of those discharges to identified contamination. We will continue to evaluate our exposure and the level of our reserves, including, but not limited to, our potential share of the costs and NRDs, if any, associated with the Site.

The amount and timing of future expenditures for environmental compliance, cleanup, remediation and personal injury, NRDs and property damage liabilities cannot be ascertained with any certainty due to, among other things, the unknown extent and nature of any contamination, the response actions that may ultimately be required, the availability of remediation equipment and landfill space, and the number and financial resources of any other PRPs.

**Other Information.** The Governments have published studies estimating the amount of PCBs discharged by each identified potentially responsible party's (PRP's) facility to the lower Fox River and Green Bay. These reports estimate our Neenah mill's share of the mass of PCBs discharged to be as high as 27%. The district court in its May 2013 Order found the discharge mass estimates used in these studies not to be accurate. We believe that the Neenah mill's absolute and relative contribution of PCB mass is significantly lower than the estimates set forth in these studies. The trial court in the Government Action has found that the Neenah mill discharged an unknown amount of PCBs.

In any event, based upon the rulings in the Whiting Litigation and the Government Action, neither of which endorsed an equitable allocation in proportion to the mass of PCBs discharged, we continue to believe that an allocation in proportion to mass of PCBs discharged would not constitute an equitable allocation of the potential liability for the contamination at the Fox River. We contend that other factors, such as the location of contamination, the location of discharge, and a party's role in causing discharge, must be considered in order for the allocation to be equitable.

In the 1990s, we entered into interim cost-sharing agreements with six of the other PRPs, which provided for those PRPs to share certain costs relating to scientific studies of PCBs discharged at the Site (Interim Cost Sharing Agreements). These Interim Cost Sharing Agreements do not establish the final allocation of

remediation costs incurred at the Site. Based upon our evaluation of the rulings in the Whiting Litigation as well as the volume, nature and location of the various discharges of PCBs at the Site and the relationship of those discharges to identified contamination, we believe our allocable share of liability at the Site is less than our share of costs under the Interim Cost Sharing Agreements.

**Range of Reasonably Possible Outcomes.** Our analysis of the range of reasonably possible outcomes is derived from all available information, including but not limited to decisions of the courts, official documents such as records of decision, discussions with the United States and other parties, as well as legal counsel and engineering consultants. Based on our analysis of the current records of decision and cost estimates for work to be performed at the Site, we believe that it is reasonably possible that our costs associated with the Fox River matter may exceed our cost estimates and the aggregate amounts accrued for the Fox River matter by amounts that are insignificant or that could range up to \$275 million over an undeterminable period that could range beyond 10 years. We believe that the likelihood of an outcome in the upper end of the monetary range is significantly less than other possible outcomes within the range and that the possibility of an outcome in excess of the upper end of the monetary range is remote. The rulings in our favor in the Whiting Litigation, if sustained on appeal, suggest that outcomes in the upper end of the monetary range have become somewhat less likely, while adverse rulings on some issues in the Whiting Litigation and the Government Action and increases in cost estimates for some of the work may make an outcome in the upper end of the range more likely. The Company also believes that the effect of reading the Whiting Litigation decisions together with the May 2013 Order requires the ongoing compliance with the UAO to be funded by NCR, or to the extent that the Company is required to provide any such funding, that NCR will be required to reimburse the Company. There can be no assurance, however, that the May 2013 Order will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operation.

**Summary.** Our current assessment is that we will be able to manage this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our debt covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or

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damages will not exceed our available resources, or that those obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations. Should a court grant the United States or the State of Wisconsin relief that requires us individually either to perform directly or to contribute

significant amounts towards remedial action downstream of Little Lake Butte des Morts or to NRDs, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.

**23. SEGMENT AND GEOGRAPHIC INFORMATION**

The following tables set forth profitability and other information by business unit:

For the year ended December 31, 2013

<i>In millions</i>	Composite Fibers	Advanced Airlaid Materials	Specialty Papers	Other and Unallocated	Total
Net sales	\$ 566.4	\$ 268.4	\$ 887.9	\$	\$ 1,722.6
Energy and related sales, net			3.2		3.2
Total revenue	566.4	268.4	891.0		1,725.8
Cost of products sold	456.5	238.0	799.3	13.3	1,507.1
Gross profit	109.8	30.4	91.7	(13.3)	218.7
SG&A	47.4	8.9	52.0	25.5	133.9
Gains on dispositions of plant, equipment and timberlands, net				(1.7)	(1.7)
Total operating income (loss)	62.4	21.5	39.7	(37.1)	86.5
Non-operating expense				(17.3)	(17.3)
Income (loss) before income taxes	\$ 62.4	\$ 21.5	\$ 39.7	\$ (54.4)	\$ 69.2
<b>Supplementary Data</b>					
Plant, equipment and timberlands, net	\$ 300.0	\$ 175.1	\$ 242.6	\$ 5.6	\$ 723.3
Depreciation, depletion and amortization	24.8	8.9	33.2	1.3	68.2
Capital expenditures	56.9	6.7	34.3	5.1	103.0

For the year ended December 31, 2012

<i>In millions</i>	Composite Fibers	Advanced Airlaid Materials	Specialty Papers	Other and Unallocated	Total
Net sales	\$ 436.7	\$ 246.3	\$ 894.8	\$	\$ 1,577.8
Energy and related sales, net			7.0		7.0
Total revenue	436.7	246.3	901.8		1,584.8
Cost of products sold	362.6	218.7	779.5	10.3	1,371.1
Gross profit	74.2	27.6	122.3	(10.4)	213.6
SG&A	38.1	9.6	55.0	18.9	121.6
Gains on dispositions of plant, equipment and timberlands, net				(9.8)	(9.8)
Total operating income (loss)	36.1	18.0	67.3	(19.5)	101.9
Non-operating expense				(22.9)	(22.9)
Income (loss) before income taxes	\$ 36.1	\$ 18.0	\$ 67.3	\$ (42.4)	\$ 78.9
<b>Supplementary Data</b>					
Plant, equipment and timberlands, net	\$ 200.1	\$ 172.9	\$ 247.9	\$ 0.3	\$ 621.2
Depreciation, depletion and amortization	23.5	8.7	37.4		69.5
Capital expenditures	31.4	3.9	23.1	0.3	58.8

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For the year ended December 31, 2011

<i>In millions</i>	Composite Fibers	Advanced Airlaid Materials	Specialty Papers	Other and Unallocated	Total
Net sales	\$ 476.0	\$ 252.0	\$ 875.1	\$	\$ 1,603.2
Energy and related sales, net			9.3		9.3
Total revenue	476.0	252.0	884.4		1,612.5
Cost of products sold	395.7	227.7	775.7	7.2	1,406.3
Gross profit	80.3	24.3	108.7	(7.2)	206.2
SG&A	39.5	10.9	51.4	23.0	124.9
Gains on dispositions of plant, equipment and timberlands, net				(4.0)	(4.0)
Total operating income (loss)	40.8	13.4	57.3	(26.2)	85.3
Non-operating expense				(34.4)	(34.4)
Income (loss) before income taxes	\$ 40.8	\$ 13.4	\$ 57.3	\$ (60.7)	\$ 50.8
<b>Supplementary Data</b>					
Plant, equipment and timberlands, net	\$ 176.2	\$ 175.6	\$ 250.2	\$	\$ 602.0
Depreciation, depletion and amortization	24.8	8.5	36.0		69.3
Capital expenditures	22.5	10.6	31.4		64.5

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

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. The costs incurred by support areas not directly aligned with the business unit are allocated primarily based on an estimated utilization of support area services.

Management evaluates results of operations of the business units before pension income or expense, alternative fuel mixture credits, debt redemption costs, restructuring related charges, certain corporate level costs, and the effects of certain asset dispositions. Management believes that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption Other and Unallocated. 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.

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

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

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

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

**Composite Laminates** papers used in production of decorative laminates; and

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

Composite Fibers' revenue composition by market consisted of the following for the years indicated:

Edgar Filing: Burlington Coat Factory Investments Holdings, Inc. - Form 10-Q

In thousands	2013	2012	2011
Food & beverage	\$ 302,738	\$ 265,423	\$ 284,748
Wall covering	97,698		
Metallized	83,949	87,720	95,276
Composite laminates	39,296	44,613	53,334
Technical specialties and other	42,679	38,984	42,671
Total	\$ 566,360	\$ 436,740	\$ 476,029

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

feminine hygiene;

specialty wipes; home care;

adult incontinence; table top; and

food pads.

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

In thousands	2013	2012	2011
Feminine hygiene	\$ 219,222	\$ 197,792	\$ 206,724
Wipes	15,186	13,562	5,463
Home care	14,857	14,527	15,308
Adult incontinence	5,046	6,959	6,083
Other	14,085	13,442	18,469
Total	\$ 268,396	\$ 246,282	\$ 252,047

Our Specialty Papers business unit focuses on producing papers for the following markets:

**Carbonless & forms** papers for credit card receipts, multi-part forms, security papers and other end-user applications;  
**Engineered products** for digital imaging, casting, release, transfer, playing card, postal, FDA-compliant food and beverage applications, and other niche specialty applications;

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

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

Specialty Papers revenue composition by market consisted of the following for the years indicated:

In thousands	2013	2012	2011
Carbonless & forms	\$ 369,618	\$ 372,950	\$ 368,582
Engineered products	184,913	187,724	166,660
Envelope & converting	175,928	174,781	170,380
Book publishing	153,054	155,925	166,506
Other	4,346	3,397	2,950
Total	\$ 887,859	\$ 894,777	\$ 875,078

No individual customer accounted for more than 10% of our consolidated net sales in 2013, 2012 or 2011. However, one customer accounted for the majority of Advanced Airlaid Materials net sales in 2013, 2012 and 2011.

## Edgar Filing: Burlington Coat Factory Investments Holdings, Inc. - Form 10-Q

Our net sales to external customers and location of net plant, equipment and timberlands are summarized below. Net sales are attributed to countries based upon origin of shipment.

<i>In thousands</i>	2013		2012		2011	
	Net sales	Plant, Equipment and Timberlands Net	Net sales	Plant, Equipment and Timberlands Net	Net sales	Plant, Equipment and Timberlands Net
United States	\$ 968,833	\$ 248,306	\$ 952,195	\$ 248,185	\$ 933,357	\$ 250,217
Germany	483,859	287,880	358,442	191,559	410,183	181,537
United Kingdom	107,082	63,650	119,092	59,131	122,218	57,634
Canada	113,414	83,033	106,702	83,796	88,018	86,079
Other	49,427	40,471	41,357	38,515	49,378	26,483
Total	\$ 1,722,615	\$ 723,340	\$ 1,577,788	\$ 621,186	\$ 1,603,154	\$ 601,950

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Our 5.375% Notes are fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries, PHG Tea Leaves, Inc., Mollanvick, Inc., and Glatfelter Holdings, LLC. The guarantees are subject to certain customary release provisions including i) the designation of such subsidiary as an unrestricted or excluded subsidiary; (ii) in connection with any sale or disposition of the capital stock of the subsidiary guarantor; and (iii) upon our exercise of our legal defeasance option or our covenant defeasance option, all of which are more fully described in the Indenture dated as of October 3, 2012 among us, the Guarantors and US Bank National Association, as Trustee, relating to the 5.375% Notes. The following presents our consolidating statements of income, including comprehensive income, and cash flows for the years ended December 31, 2013, 2012 and 2011 and our consolidating balance sheets as of December 31, 2013 and 2012. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis. Effective December 31, 2013, Glatfelter Pulpwood Company, previously a guarantor, was merged with and into the parent. Accordingly, all condensed consolidating financial statements have been restated to give effect to this merger as of the earliest period presented. In addition, the amounts of intercompany investing and financing activities previously presented net for the years ended December 2012 and 2011 have been presented on a gross basis to conform to the current year's presentation.

**Condensed Consolidating Statement of Income for the  
year ended December 31, 2013**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 887,859	\$ 16	\$ 834,756	\$ (16)	\$ 1,722,615
Energy and related sales, net	3,153				3,153
Total revenues	891,012	16	834,756	(16)	1,725,768
Costs of products sold	812,298	15	694,819	(24)	1,507,108
Gross profit	78,714	1	139,937	8	218,660
Selling, general and administrative expenses	69,614	718	63,535		133,867
Gains on dispositions of plant, equipment and timberlands, net	(1,390)	(319)	(17)		(1,726)
Operating income (loss)	10,490	(398)	76,419	8	86,519
Other non-operating income (expense)					
Interest expense	(15,456)		(2,508)	(1)	(17,965)
Interest income	(2,808)	8,662	(5,544)		310
Other, net	56,843	104	1,802	(58,412)	337
Total other non-operating income (expense)	38,579	8,766	(6,250)	(58,413)	(17,318)
Income (loss) before income taxes	49,069	8,368	70,169	(58,405)	69,201
Income tax provision (benefit)	(18,089)	453	19,675	4	2,043
Net income (loss)	67,158	7,915	50,494	(58,409)	67,158
Other comprehensive income (loss)	88,609	6,883	4,223	(11,106)	88,609
Comprehensive income (loss)	\$ 155,767	\$ 14,798	\$ 54,717	\$ (69,515)	\$ 155,767

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**Condensed Consolidating Statement of Income for the**  
**year ended December 31, 2012**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 894,777	\$ 14	\$ 683,022	\$ (25)	\$ 1,577,788
Energy and related sales, net	7,000				7,000
Total revenues	901,777	14	683,022	(25)	1,584,788
Costs of products sold	789,589	13	581,544	(7)	1,371,139
Gross profit	112,188	1	101,478	(18)	213,649
Selling, general and administrative expenses	73,877	169	47,544		121,590
Gains on dispositions of plant, equipment and timberlands, net	(9,790)		(25)		(9,815)
Operating income (loss)	48,101	(168)	53,959	(18)	101,874
Other non-operating income (expense)					
Interest expense	(18,689)		(5)		(18,694)
Interest income	(3,170)	7,134	(3,504)		460
Other, net	34,223	477	1,283	(40,682)	(4,699)
Total other non-operating income (expense)	12,364	7,611	(2,226)	(40,682)	(22,933)
Income (loss) before income taxes	60,465	7,443	51,733	(40,700)	78,941
Income tax provision	1,086	1,587	16,889		19,562
Net income (loss)	59,379	5,856	34,844	(40,700)	59,379
Other comprehensive income (loss)	2,775	3,243	3,920	(7,163)	2,775
Comprehensive income (loss)	\$ 62,154	\$ 9,099	\$ 38,764	\$ (47,863)	\$ 62,154

**Condensed Consolidating Statement of Income for the**  
**year ended December 31, 2011**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 875,077	\$	\$ 728,077	\$	\$ 1,603,154
Energy and related sales net	9,344				9,344
Total revenues	884,421		728,077		1,612,498
Costs of products sold	783,464		622,841		1,406,305
Gross profit	100,957		105,236		206,193
Selling, general and administrative expenses	73,263	50	51,558		124,871
Gains (losses) on dispositions of plant, equipment and timberlands, net	(4,018)	80	(12)		(3,950)
Operating income (loss)	31,712	(130)	53,690		85,272
Other non-operating income (expense)					
Interest expense	(30,741)		(1,053)		(31,794)
Interest income	(558)	7,802	(5,578)	(1,000)	666
Other, net	25,359	(657)	1,447	(29,448)	(3,299)
Total other non-operating income (expense)	(5,940)	7,145	(5,184)	(30,448)	(34,427)
Income (loss) before income taxes	25,772	7,015	48,506	(30,448)	50,845
Income tax provision (benefit)	(16,922)	16,085	9,369	(381)	8,151
Net income (loss)	42,694	(9,070)	39,137	(30,067)	42,694
Other comprehensive income (loss)	(45,494)	(3,350)	(5,276)	8,626	(45,494)
Comprehensive income (loss)	\$ (2,800)	\$ (12,420)	\$ 33,861	\$ (21,441)	\$ (2,800)

**Table of Contents****Condensed Consolidating Balance Sheet as of December 31, 2013**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 56,216	\$ 501	\$ 66,165	\$	\$ 122,882
Other current assets	208,814	327,152	253,779	(326,045)	463,700
Plant, equipment and timberlands, net	247,243	1,054	475,043		723,340
Other assets	973,748	236,411	214,301	(1,055,972)	368,488
Total assets	\$ 1,486,021	\$ 565,118	\$ 1,009,288	\$ (1,382,017)	\$ 1,678,410
<b>Liabilities and Shareholders Equity</b>					
Current liabilities	\$ 375,535	\$ 2,855	\$ 247,855	\$ (337,878)	\$ 288,367
Long-term debt	250,000		513,120	(320,795)	442,325
Deferred income taxes	70,989	(283)	78,633	(8,319)	141,020
Other long-term liabilities	105,021		13,792	3,409	122,222
Total liabilities	801,545	2,572	853,400	(663,583)	993,934
Shareholders equity	684,476	562,546	155,888	(718,434)	684,476
Total liabilities and shareholders equity	\$1,486,021	\$565,118	\$1,009,288	\$(1,382,017)	\$1,678,410

**Condensed Consolidating Balance Sheet as of December 31, 2012**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 43,781	\$ 4,278	\$ 49,620	\$	\$ 97,679
Other current assets	200,137	395,145	214,568	(388,671)	421,179
Plant, equipment and timberlands, net	247,095	1,078	373,013		621,186
Other assets	806,254	150,304	45,133	(898,750)	102,941
Total assets	\$ 1,297,267	\$ 550,805	\$ 682,334	\$ (1,287,421)	\$ 1,242,985
<b>Liabilities and Shareholders Equity</b>					
Current liabilities	\$ 344,741	\$ 1,864	\$ 291,547	\$ (387,244)	\$ 250,908
Long-term debt	250,000				250,000
Deferred income taxes	36,262	2,033	40,972	(17,221)	62,046
Other long-term liabilities	126,585		11,093	2,674	140,352
Total liabilities	757,588	3,897	343,612	(401,791)	703,306
Shareholders equity	539,679	546,908	338,722	(885,630)	539,679
Total liabilities and shareholders equity	\$ 1,297,267	\$ 550,805	\$ 682,334	\$ (1,287,421)	\$ 1,242,985

**Table of Contents****Condensed Consolidating Statement of Cash Flows for the year**

ended December 31, 2013

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$ 55,507	\$ 4,974	\$ 113,154	\$	\$ 173,635
Investing activities					
Expenditures for plant, equipment and timberlands	(39,496)		(63,551)		(103,047)
Proceeds from disposals of plant, equipment and timberlands, net	1,435	333	179		1,947
Repayments from intercompany loans		18,223		(18,223)	
Advances of intercompany loans		(27,216)		27,216	
Intercompany capital contributed		(91)		91	
Acquisitions, net of cash acquired			(210,911)		(210,911)
Other	(425)				(425)
Total investing activities	(38,486)	(8,751)	(274,283)	9,084	(312,436)
Financing activities					
Net proceeds from indebtedness			182,230		182,230
Payments of note offering costs	(160)		(259)		(419)
Payment of dividends to shareholders	(16,965)				(16,965)
Repayments of intercompany loans	(1,100)		(17,123)	18,223	
Borrowings of intercompany loans	15,310		11,906	(27,216)	
Intercompany capital received			91	(91)	
Payments for share based compensation awards and other	(1,671)				(1,671)
Total financing activities	(4,586)		176,845	(9,084)	163,175
Effect of exchange rate on cash			829		829
Net increase (decrease) in cash	12,435	(3,777)	16,545		25,203
Cash at the beginning of period	43,781	4,278	49,620		97,679
Cash at the end of period	\$ 56,216	\$ 501	\$ 66,165	\$	\$ 122,882

**Condensed Consolidating Statement of Cash Flows for the year**

ended December 31, 2012

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$ 25,787	\$ 5,958	\$ 81,101	\$	\$ 112,846
Investing activities					
Expenditures for plant, equipment and timberlands	(23,463)		(35,289)		(58,752)
Proceeds from disposals of plant, equipment and timberlands, net	10,236		36		10,272
Repayments from intercompany loans	6,088	29,343		(35,431)	
Advances of intercompany loans	(91)	(34,375)	(514)	34,980	
Other	(225)				(225)
Total investing activities	(7,455)	(5,032)	(35,767)	(451)	(48,705)
Financing activities					
Net proceeds from indebtedness	17,869				17,869
Payments of note offering costs	(4,748)				(4,748)
Payment of dividends to shareholders	(15,608)				(15,608)
Repurchases of common stock	(5,675)				(5,675)
Repayments of intercompany loans			(35,431)	35,431	
Borrowings of intercompany loans	27,875	514	6,591	(34,980)	
Proceeds from stock options exercised and other	2,673				2,673
Total financing activities	22,386	514	(28,840)	451	(5,489)
Effect of exchange rate on cash			750		750
Net increase in cash	40,718	1,440	17,244		59,402
Cash at the beginning of period	3,063	2,838	32,376		38,277

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Cash at the end of period	\$ 43,781	\$ 4,278	\$ 49,620	\$ 97,679
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**Condensed Consolidating Statement of Cash Flows for the  
year ended December 31, 2011**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$ 81,008	\$ (6,816)	\$ 67,115	\$ (1,000)	\$ 140,307
Investing activities					
Expenditures for plant, equipment and timberlands	(31,363)		(33,128)		(64,491)
Proceeds from disposals of plant, equipment and timberlands, net	4,448		43		4,491
Proceeds from installment note receivable			43,170		43,170
Repayments from intercompany loans	15,539	64,198		(79,737)	
Advances of intercompany loans	(10,388)	(70,197)	(7,600)	88,185	
Intercompany capital contributed	(25,000)	(16,000)		41,000	
Total investing activities	(46,764)	(21,999)	2,485	49,448	(16,830)
Financing activities					
Net (repayments of) proceeds from indebtedness	(76,563)		(37,493)		(114,056)
Payments of note offering costs	(1,672)				(1,672)
Payment of dividends to shareholders	(16,611)				(16,611)
Repurchases of common stock	(48,033)				(48,033)
Repayments of intercompany loans	(16,300)		(63,437)	79,737	
Borrowings of intercompany loans	65,775	7,600	14,810	(88,185)	
Intercompany capital received		25,000	16,000	(41,000)	
Payment of intercompany dividend		(1,000)		1,000	
Proceeds from stock options exercised and other	232				232
Total financing activities	(93,172)	31,600	(70,120)	(48,448)	(180,140)
Effect of exchange rate on cash			(848)		(848)
Net increase (decrease) in cash	(58,928)	2,785	(1,368)		(57,511)
Cash at the beginning of period	61,991	53	33,744		95,788
Cash at the end of period	\$ 3,063	\$ 2,838	\$ 32,376	\$	\$ 38,277

**25. QUARTERLY RESULTS (UNAUDITED)**

<i>In thousands, except per share</i>	Diluted earnings per							
	Net sales		Gross Profit		Net Income		share	
	2013	2012	2013	2012	2013	2012	2013	2012
First	\$ 405,189	\$ 397,352	\$ 57,375	\$ 60,970	\$ 15,629	\$ 18,878	\$ 0.36	\$ 0.43
Second	425,967	384,693	40,840	40,878	933	13,432	0.02	0.31
Third	456,648	404,354	66,039	59,192	34,119	20,099	0.77	0.46
Fourth	434,811	391,389	54,406	52,609	16,477	6,970	0.37	0.16

The information set forth above for net income and earnings per share includes the impact of the following, on an after-tax basis:

<i>In thousands</i>	Early Redemption of Bonds		Alternative Fuel Mixture/ Cellulosic Biofuel Credits		Gains on Sales of Plant Equipment and Timberlands		Acquisition Integration Costs	
	2013	2012	2013	2012	2013	2012	2013	2012
First	\$	\$	\$	\$	\$ 282	\$	\$ (1,761)	\$
Second				4,440		3,696	(3,969)	
Third			9,866	111	142	859	(154)	
Fourth		(4,784)	450	(309)	1,301	834	(194)	



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### ***ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES***

None.

### ***ITEM 9A CONTROLS AND PROCEDURES***

#### **Disclosure Controls and Procedures**

Our chief executive officer and our chief financial officer have, 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 December 31, 2013, concluded that, as of the evaluation date, our disclosure controls and procedures were effective.

#### **Internal Control Over Financial Reporting**

Management's report on the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included in Item 8 Financial Statements and Supplementary Data.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended December 31, 2013, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

### ***ITEM 9B OTHER INFORMATION***

None.

## **PART III**

### ***ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

**Directors** The information with respect to directors required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2014. Our board of directors has determined that, based on the relevant experience of the members of the Audit Committee, all members are audit committee financial experts as this term is set forth in the applicable regulations of the SEC.

**Executive Officers of the Registrant** The information with respect to the executive officers required under this Item incorporated herein by reference to Executive Officers as set forth in Part I, page 12 of this report.

We have adopted a Code of Business Ethics for the CEO and Senior Financial Officers (the Code of Business Ethics) in compliance with applicable rules of the Securities and Exchange Commission that applies to our chief executive officer, chief financial officer and our principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Business Ethics is filed as an exhibit to this Annual Report on Form 10-K and is available on our website, free of charge, at [www.glatfelter.com](http://www.glatfelter.com).

### ***ITEM 11 EXECUTIVE COMPENSATION***

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2014.

### ***ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT***

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2014.



**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2014.

**ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2014.

Our Chief Executive Officer has certified to the New York Stock Exchange that he is not aware of any violations by the Company of the NYSE corporate governance listing standards.

**Table of Contents****PART IV****ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) 1. Our Consolidated Financial Statements as follows are included in Part II, Item 8:
- i. Consolidated Statements of Income for the Years Ended December 31, 2013, 2012 and 2011
  - ii. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011
  - iii. Consolidated Balance Sheets as of December 31, 2013 and 2012
  - iv. Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011
  - v. Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2013, 2012 and 2011
  - vi. Notes to Consolidated Financial Statements for the Years Ended December 31, 2013, 2012 and 2011
2. Financial Statement Schedules (Consolidated) are included in Part IV:
- i. Schedule II -Valuation and Qualifying Accounts For each of the three years in the ended December 31, 2013

**(b) Exhibit Index see comments**

Exhibit Number	Description of Documents	Incorporated by Reference to Exhibit	Filing
2 (a)	Share Purchase Agreement, dated March 13, 2013, by and among Glatfelter Gernsbach GmbH & Co. KG. (as purchaser), H. Glatfelter Company (as purchaser guarantor), Fortress Security Papers AG (as vendor) and Fortress Paper Ltd. (as vendor guarantor) (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the Securities and Exchange Commission upon request).	2.1	Form 10-Q filed May 9, 2013
3 (a)	Articles of Incorporation, as amended through December 20, 2007 (restated for the purpose of filing on EDGAR).	3(b)	Form 10-K filed March 13, 2008
(b)	By-Laws as amended through December 12, 2013.	3.1	Form 8-K filed December 17, 2013
4 (a)	Indenture, dated as of October 3, 2012, by and among P. H. Glatfelter Company, the Subsidiary Guarantors named therein and U.S. Bank National Association, as Trustee, relating to 5.375% Senior Notes due 2020.	4.1	Form 8-K filed October 3, 2012
10 (a)	Amended and Restated Credit Agreement, dated as of November 21, 2011, by and among the Company, certain of its subsidiaries as borrowers and certain of its subsidiaries as guarantors and PNC Bank, National Association, as administrative agent, PNC Capital Markets LLC, J.P. Morgan Securities LLC and RBS Citizens, N.A. as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A. and Citizens Bank of Pennsylvania, as co-syndication agents, and certain other banks as lenders.	10.1	Form 8-K filed November 23, 2011
(b)	Loan Agreement, dated April 11, 2013, by and among Glatfelter Gernsbach GmbH & Co. KG. and IKB Deutsche Industriebank AG, Düsseldorf	10.1	Form 10-Q filed May 9, 2013
(c)	Guaranty, dated April 17, 2013, executed by P. H. Glatfelter Company (as Guarantor) in favor of IKB Deutsche Industriebank AG.	10.2	Form 10-Q filed May 9, 2013
(d)	P. H. Glatfelter Company Amended and Restated 2005 Management Incentive Plan, effective January 1, 2010**	10.1	Form 8-K filed May 6, 2010
(e)	P. H. Glatfelter Company Supplemental Executive Retirement Plan (amended and restated effective January 1, 2010)**	10(c)	Form 10-K filed March 8, 2013
(f)	P. H. Glatfelter Company Supplemental Management Pension Plan (amended and restated effective January 1, 2008)**	10(d)	Form 10-K filed March 8, 2013
(g)	P. H. Glatfelter Company Amended and Restated Long-Term Incentive Plan, as amended and restated effective May 9, 2013**	10.1	Form 8-K filed May 13, 2013
(h)	Form of Top Management Restricted Stock Unit Award Certificate**	10.2	Form 8-K filed May 5, 2009
(i)	Form of Non-Employee Director Restricted Stock Unit Award Certificate**	10.3	Form 8-K filed April 29, 2005
(j)	Form of Stock-Only Stock Appreciation Right Award Certificate**	10.3	Form 8-K filed May 5, 2009
(k)	Form of Performance Share Award Certificate**	10(j)	Form 10-K filed March 8, 2013
(l)	Form of Restricted Stock Unit Award Certificate, form effective as of December 13, 2013, filed herewith**		



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Exhibit Number	Description of Documents	Incorporated by Reference to	
		Exhibit	Filing
(m)	Restricted Stock Unit Award Certificate, dated as of December 13, 2013, for Dante C. Parrini**	10.1	Form 8-K filed December 17, 2013
(n)	Non-Competition and Non-Solicitation Agreement by and between P. H. Glatfelter Company and Dante C. Parrini, dated July 2, 2010. **	10.1	Form 8-K filed July 6, 2010
(o)	Restricted Stock Unit Award Certificate, dated as of July 2, 2010, for Dante C. Parrini, filed herewith**		
(p)	Form of Change in Control Employment Agreement by and between P. H. Glatfelter Company and certain employees, form effective as of December 8, 2008 **	10(j)	Form 10-K filed March 13, 2009
(p) (A)	Schedule of Change in Control Employment Agreements**	10(l) A	Form 10-K filed March 8, 2013
(q)	Form of Change in Control Employment Agreement by and between P.H. Glatfelter Company and certain employees, form effective as of August 5, 2013, filed herewith**		
(q) (A)	Schedule of Change in Control Employment Agreements, filed herewith**		
(r)	Summary of Non-Employee Director Compensation (effective January 1, 2005)**	10.1	Form 8-K filed December 20, 2004
(s)	P. H. Glatfelter Company Deferred Compensation Plan for Directors, effective as of January 1, 2007**	10(k)	Form 10-K filed March 8, 2013
(t)	Service Agreement, commencing on August 1, 2006, between the Registrant (through a wholly owned subsidiary) and Martin Rapp**	10(r)	Form 10-K filed March 16, 2007
(u)	Retirement Pension Contract, dated October 31, 2007, between Registrant (through a wholly owned subsidiary) and Martin Rapp**	10(t)	Form 10-K filed March 13, 2008
(v)	Guidelines for Executive Severance**	10.2	Form 8-K filed July 6, 2010
(w)	Agreement between the State of Wisconsin and Certain Companies Concerning the Fox River, dated as of January 31, 1997, among P. H. Glatfelter Company, Fort Howard Corporation, NCR Corporation, Appleton Papers Inc., Riverside Paper Corporation, U.S. Paper Mills, Wisconsin Tissue Mills Inc. and the State of Wisconsin	10(i)	Form 10-K filed March 28, 1997
(x)	Consent Decree for Remedial Design and Remedial Action at Operable Unit 1 of the Lower Fox River and Green Bay Site between the United States of America and the State of Wisconsin v. P. H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.)	10.3(a)	Form 10-Q filed August 6, 2010
(x) (A)	Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.)	10.3(b)	Form 10-Q filed August 6, 2010
(x) (B)	Second Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.)	10.3(c)	Form 10-Q filed August 6, 2010
(x) (C)	Amended Consent Decree for Remedial Design and Remedial Action at Operable Unit 1 of the Lower Fox River and Green Bay Site by and among the United States of America and the State of Wisconsin v. P. H. Glatfelter and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.) (certain Appendices have been intentionally omitted, copies of which can be obtained free of charge from the Registrant)	10.3(d)	Form 10-Q filed August 6, 2010
(y)	Administrative Order for Remedial Action dated November 13, 2007, issued by the United States Environmental Protection Agency	10.2	Form 8-K filed November 19, 2007
14	Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter	14	Form 10-K filed March 15, 2004
21	Subsidiaries of the Registrant, filed herewith		
23	Consent of Independent Registered Public Accounting Firm, filed herewith		
31.1	Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act Of 2002, filed herewith		
31.2	Certification of John P. Jacunski, 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, furnished herewith		
32.2	Certification of John P. Jacunski, 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, furnished herewith		

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<b>Exhibit Number</b>	<b>Description of Documents</b>	<b>Incorporated by Reference to Exhibit                      Filing</b>
101.INS	XBRL Instance 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	

\*\* Management contract or compensatory plan

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**SIGNATURES**

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

P. H. GLATFELTER COMPANY

(Registrant)

March 3, 2014

By /s/ Dante C. Parrini  
Dante C. Parrini  
Chairman and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

<b>Date</b>	<b>Signature</b>	<b>Capacity</b>
March 3, 2014	/s/ Dante C. Parrini  Dante C. Parrini  Chairman and Chief Executive Officer	Principal Executive Officer and Director
March 3, 2014	/s/ John P. Jacunski  John P. Jacunski  Senior Vice President and Chief Financial Officer	Principal Financial Officer
March 3, 2014	/s/ David C. Elder  David C. Elder  Vice President, Finance	Chief Accounting Officer
March 3, 2014	/s/ Kathleen A. Dahlberg  Kathleen A. Dahlberg	Director
March 3, 2014	/s/ Nicholas DeBenedictis  Nicholas DeBenedictis	Director
March 3, 2014	/s/ Kevin M. Fogarty  Kevin M. Fogarty	Director

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March 3, 2014	/s/ J. Robert Hall	Director
	J. Robert Hall	
March 3, 2014	/s/ Richard C. III	Director
	Richard C. III	
March 3, 2014	/s/ Ronald J. Naples	Director
	Ronald J. Naples	
March 3, 2014	/s/ Richard L. Smoot	Director
	Richard L. Smoot	
March 3, 2014	/s/ Lee C. Stewart	Director
	Lee C. Stewart	

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

I, Dante C. Parrini, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013 of P. H. Glatfelter Company ( 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; and
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 the equivalent 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.



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Date: March 3, 2014

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

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

I, John P. Jacunski, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013 of P. H. Glatfelter Company ( 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; and
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 the equivalent 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.

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Date: March 3, 2014

By: /s/ John P. Jacunski  
John P. Jacunski  
Senior Vice President and Chief Financial Officer

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**Table of Contents****Schedule II****P. H. GLATFELTER COMPANY AND SUBSIDIARIES****SUPPLEMENTAL FINANCIAL STATEMENT SCHEDULE**

For each of the three years ended December 31, 2013

**Valuation and Qualifying Accounts**

<i>In thousands</i>	Allowance for					
	Doubtful Accounts			Sales Discounts and Deductions		
	2013	2012	2011	2013	2012	2011
Balance, beginning of year	\$ 2,858	\$ 2,861	\$ 3,118	\$ 2,302	\$ 2,831	\$ 2,845
Provision	945	71	149	5,526	3,661	4,080
Write-offs, recoveries and discounts allowed	(1,119)	(91)	(385)	(6,148)	(4,173)	(4,070)
Other (a)	41	17	(21)	130	(17)	(24)
Balance, end of year	\$ 2,725	\$ 2,858	\$ 2,861	\$ 1,810	\$ 2,302	\$ 2,831

The provision for doubtful accounts is included in selling, general and administrative expense and the provision for sales discounts and deductions is deducted from sales. The related allowances are deducted from accounts receivable.

(a) Relates primarily to changes in currency exchange rates.