

FIBERMARK INC  
Form 10-Q  
May 23, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended: March 31, 2005**

**Commission File Number: 0-20231**

**FiberMark, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other  
jurisdiction of  
incorporation or  
organization)

**82-0429330**  
(I.R.S.  
Employer Identification  
No.)

**161 Wellington Road, P.O. Box 498, Brattleboro, VT 05302**

(Address of principal executive offices and zip code)

**802-257-0365**

(Registrant's telephone number, including area code)

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

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

The registrant had 7,066,226 shares of FiberMark common stock outstanding as of March 31, 2005.

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FIBERMARK, INC.  
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**FIBERMARK, INC.**  
**Condensed Consolidated Statements of Operations**  
Three Months Ended March 31, 2005 and 2004

(In thousands, except per share amounts)

	Unaudited	
	2005	2004
Net sales	\$ 114,797	\$ 112,428
Cost of sales	94,989	91,184
Gross profit	19,808	21,244
Selling, general and administrative expenses	11,321	12,088
Income from operations	8,487	9,156
Foreign exchange transaction (gain) loss	262	(227)
Other expense, net	320	736
Interest expense, net (excluding post-petition contractual interest of \$8,525 and \$92 in 2005 and 2004, respectively)	585	8,948
Reorganization expense	5,502	11,985
Income (loss) before income taxes	1,818	(12,286)
Income tax expense	4,144	4,564
Net loss	\$ (2,326)	\$ (16,850)
Basic loss per share	\$ (0.33)	\$ (2.38)
Diluted loss per share	\$ (0.33)	\$ (2.38)
Weighted average basic shares outstanding	7,066	7,066
Weighted average diluted shares outstanding	7,066	7,066

*See accompanying notes to condensed consolidated financial statements.*

**FIBERMARK, INC.**  
**Condensed Consolidated Balance Sheets**

(In thousands, except share and per share amounts)

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Unaudited

March 31, 2005

December 31, 2004

**ASSETS**
**Current assets:**

Cash	\$	2,938	\$	1,194
Accounts receivable, net of allowances		66,885		61,116
Inventories		74,961		73,650
Prepaid expenses		4,502		4,339

Total current assets		149,286		140,299
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Property, plant and equipment, net		241,461		248,853
Goodwill		8,845		9,167
Other intangible assets, net		2,139		2,629
Other long-term assets		4,778		4,858

Total assets	\$	406,509	\$	405,806
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**LIABILITIES AND STOCKHOLDERS' DEFICIT**
**Current liabilities:**

Revolving credit line	\$	12,588	\$	2,628
Accounts payable		18,865		24,063
Accrued liabilities		24,175		21,269
Accrued income taxes payable		17,399		15,458
Deferred income taxes		266		279

Total current liabilities not subject to compromise		73,293		63,697
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**Long-term liabilities:**

Deferred income taxes		24,384		28,497
Other long-term liabilities		48,327		48,788

Total long-term liabilities not subject to compromise		72,711		77,285
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Liabilities subject to compromise		365,909		366,700
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Total liabilities		511,913		507,682
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**Stockholders' deficit:**

Preferred stock, par value \$.001 per share; 2,000,000 shares authorized, and none issued		-		-
Series A Junior participatory preferred stock, par value \$.001; 7,066 shares authorized, and none issued		-		-
Common stock, par value \$.001 per share; 20,000,000 shares authorized 7,070,026 shares issued and 7,066,226 shares outstanding in 2005 and 2004		7		7
Additional paid-in capital		65,496		65,496
Accumulated deficit		(177,034)		(174,708)
Accumulated other comprehensive income		6,162		7,364

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Less treasury stock, 3,800 shares at cost in 2005 and 2004	(35)	(35)
Total stockholders' deficit	(105,404)	(101,876)
Total liabilities and stockholders' deficit	\$ 406,509	\$ 405,806

*See accompanying notes to condensed consolidated financial statements.*

**FIBERMARK, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
Three Months Ended March 31, 2005 and 2004  
(In thousands)

	Unaudited	
	2005	2004
Cash flows from operating activities:		
Net loss	\$ (2,326)	\$ (16,850)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,679	4,663
Amortization of bond discount	-	43
Loss on disposal of assets	75	-
Deferred income taxes	(2)	3
Reorganization expense	5,502	11,985
Net cash used for reorganization items	(3,133)	(1,993)
Changes in operating assets and liabilities:		
Accounts receivable	(7,519)	(9,028)
Inventories	(2,583)	(3,293)
Prepaid expenses	(181)	(777)
Other long-term assets	1	156
Accounts payable	(5,539)	1,423
Accrued liabilities	1,841	10,439
Accrued income taxes payable	2,611	(3,964)
Other long-term liabilities	1,268	25
Net cash used in operating activities	(5,306)	(7,168)
Cash flows used for investing activities:		
Additions to property, plant and equipment	(1,646)	(1,952)
Proceeds from sale of assets	7	27
Net cash used in investing activities	(1,639)	(1,925)
Cash flows from financing activities:		
Net borrowings under revolving credit line	10,012	18,745
Repayment of debt	(1,000)	(778)
Debt issuance costs	(33)	(112)
Debt issuance costs due to reorganization	-	(350)
Net cash provided by financing activities	8,979	17,505
Effect of exchange rate changes on cash	(290)	(498)
Net increase in cash	1,744	7,914
Cash at beginning of period	1,194	6,111

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Cash at end of period	\$	2,938	\$	14,025
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Supplemental cash flow information:

Interest paid	\$	423	\$	384
Income taxes paid, net of refunds	\$	1,622	\$	7,909

*See accompanying notes to condensed consolidated financial statements.*



**FIBERMARK, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2005 and 2004**

**(Unaudited)**

**1. Bankruptcy Filing**

On March 30, 2004, FiberMark, Inc., and its U.S. subsidiaries including FiberMark North America, Inc., and FiberMark International Holdings LLC, (collectively, with FiberMark, Inc., the “Debtors”), filed voluntary petitions for relief under chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Vermont (the “Bankruptcy Court”). The Debtor’s cases are being jointly administered as Case No. 04-10463. The Debtors have been and will continue to manage their properties and operate their businesses in the ordinary course of business as debtors-in possession (“DIP”) pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. In general, as DIP, the Debtors are authorized under chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

Under Section 362 of the Bankruptcy Code, the filing of bankruptcy petitions automatically stayed most actions against the Debtors, including most actions to collect pre-petition indebtedness or to exercise control of the property of the Debtors’ estates. The filing resulted in an immediate acceleration of \$100.0 million in principal of the company’s 9.375% senior non-amortizing notes and \$230.0 million in principal of 10.75% senior non-amortizing notes, subject to the automatic stay. Absent any other order of the Bankruptcy Court, substantially all pre-petition liabilities will be subject to settlement under a plan of reorganization.

Under Section 365 of the Bankruptcy Code, the Debtors may assume or reject certain executory contracts and unexpired leases, including leases of real property, subject to the approval of the Bankruptcy Court and certain other conditions. Obligations under assumed contracts and leases must be satisfied in full, while pre-petition obligations and rejection damage claims associated with rejected contracts and leases will be treated as pre-petition unsecured claims. The rights and claims of various creditors and security holders will be determined by a plan of reorganization that is confirmed by the Bankruptcy Court. Under the priority rules established by the Bankruptcy Code, post-petition liabilities and certain pre-petition liabilities are given priority in payment, and generally all pre-petition unsecured claims must be satisfied before stockholders are entitled to any distribution.

The chapter 11 cases were commenced in order to implement a comprehensive financial restructuring of the company’s U.S. operations including the senior notes. The company believes that the protection afforded by chapter 11 best preserves the Debtors’ ability to continue to serve their customers and preserve the value of their businesses, while they reorganize, and develop and implement a new strategic plan to de-leverage the company’s balance sheet and create an improved long-term capital structure. At this time, it is not possible to predict accurately the outcome of the chapter 11 reorganization process or its effects on the Debtors’ businesses or whether or when the company may subsequently emerge from chapter 11. The company’s future results depend on the timely and successful confirmation and implementation of a plan of reorganization.

In order to exit chapter 11 successfully, the Debtors will need to propose, and obtain confirmation by the Bankruptcy Court of, a plan of reorganization that satisfies the requirements of the Bankruptcy Code. As provided by the Bankruptcy Code, the Debtors had the exclusive right to propose a plan of reorganization within 120 days from the date of filing the petition for relief and any extension periods granted by the Bankruptcy Court. By order entered on August 6, 2004, the Bankruptcy Court extended the exclusive proposal period to November 15, 2004. The right of the

Debtors to obtain further extensions was limited by the order. The Debtors filed a proposed Plan of Reorganization and Disclosure Statement with the Court on November 12, 2004. On December 17, 2004, after obtaining approval of the Disclosure Statement by the Bankruptcy Court, a final Plan of Reorganization and Disclosure Statement was submitted to creditors with the unanimous support of the Creditors Committee. However, the three largest bondholders, who were also members of the Committee, subsequently voted against the Plan because they were unable to reach agreement among themselves related to corporate governance and control issues involving the reorganized company. The confirmation hearing regarding the Plan was continued several times to allow these bondholders additional time to resolve their differences.

On March 22, 2005, FiberMark, Inc., withdrew the Plan of Reorganization that had been filed in December because these three bondholders remained deadlocked. As a result, the company could not proceed with confirmation of its current Plan and intends to file a new plan that it believes will be confirmed. By order of the Bankruptcy Court dated April 19, 2005, any new plan by the company or any other party in interest must be filed by August 8, 2005. Only the company may file a plan before June 8, 2005, but any such plan must have the support of all members of the Creditors Committee. In the meantime, an examination is being conducted by an examiner appointed by the Bankruptcy Court in connection with issues in dispute among the three bondholder members of the Creditors Committee. The report of the examiner is due to be filed on June 8, 2005. The report may have impact on the terms of any new plan. The terms of any plan finally confirmed will also have a material effect on the company's subsequent liquidity and its long-term and short-term commitments and cash flow, which we cannot now predict. Continuing delay in obtaining confirmation and implementation of a plan of reorganization may negatively impact the company's future results.

At this time, it is not possible for the company to predict the effect of the chapter 11 reorganization process on the company's businesses, the treatment of creditors and equity holders of the respective Debtors under any plan of reorganization finally confirmed, or when it may be possible for the Debtors to emerge from chapter 11. Although until a plan is approved there is uncertainty as to the treatment of creditors and equity holders, the Plan that was submitted to creditors provided for, and any subsequent proposed plan is expected to provide for the cancellation of existing equity interests and for reduced recoveries by holders of debt securities. Accordingly, the company urges that appropriate caution be exercised with respect to existing and future investments in any of these securities.

To augment its financial flexibility during the chapter 11 process, the Debtors negotiated with GE Commercial Finance, and received final approval from the Bankruptcy Court on April 27, 2004, to enter into a \$30 million Debtor-in-Possession revolving credit facility ("DIP Facility"). The 15-month DIP Facility commitment is based on availability from North American assets, including receivables, inventory, and fixed assets, that are calculated on the same basis as the pre-petition facility. The German operations continue to be funded under an amended and restated existing credit facility, which no longer includes the North American borrowing base. Under the two credit agreements, our pro forma borrowing base is substantially the same as the borrowing base under the pre-petition facility. Various covenants and restrictions on our operations under the prior credit facility continue to apply under the DIP Facility without material modification, together with an additional restriction on the amount of funds that can be transferred from our German operations to support North American operations. Both facilities mature on June 30, 2005, and the company is negotiating to extend these facilities to accommodate the delay in emergence from chapter 11. The company expects to be able to extend these facilities through the balance of the chapter 11 process. It is anticipated that the Debtors will enter into new exit financing facilities to replace the DIP and German revolving credit facilities in conjunction with the implementation of a confirmed plan of reorganization.

Since the filing, the company's available cash and continued cash flow from operations, as well as cash provided under its DIP facility, have been adequate to fund ongoing operations and meet obligations to customers, vendors and employees in the ordinary course of business and management believes it will continue to be adequate during the balance of the chapter 11 process.

At hearings held on April 27, 2004, the Bankruptcy Court granted final approval of the Debtors' "first day" motions for various relief designed to stabilize their operations and business relationships with their customers, vendors, employees and other entities, and entered orders granting authority to the Debtors to, among other things: (1) pay certain pre-petition and post-petition employee wages, benefits and other employee obligations; (2) honor customer programs; (3) pay certain pre-petition taxes and fees; (4) pay certain pre-petition obligations to foreign vendors; (5) pay certain pre-petition shipping charges; (6) pay certain pre-petition claims of critical vendors; (7) pay certain pre-petition claims of mechanics and materialmen; (8) continue use of existing cash management system and bank accounts; (9) honor consignment arrangements; (10) provide for treatment of valid reclamation claims; and (11) enter into the new credit facility with GE Commercial Finance.

FiberMark, Inc., and the other Debtors have incurred, and will continue to incur, significant reorganization expenses resulting from the filing and the continuing chapter 11 proceedings. The amount of these expenses, which are being expensed as incurred and reported as reorganization items, are expected to continue to have a material effect on the company's results of operations in 2005.

The potential adverse publicity associated with the filing and the continuing chapter 11 proceedings, and the resulting uncertainty regarding the company's future prospects may hinder the company's ongoing business activities and its ability to operate, fund and execute its business plan by: impairing relations with existing and potential customers; limiting the company's ability to obtain trade credit; impairing present and future relationships with vendors; and negatively impacting the ability of the company to attract, retain and compensate key employees and to retain all employees. By order dated August 6, 2004, the Debtors obtained authorization from the Bankruptcy Court to implement key employee retention and severance plans. The aggregate cost of the retention plan could range up to \$3.6 million. The cost of the severance plan will depend upon employee terminations. The company recorded as reorganization expenses approximately \$2.4 million associated with this process in 2004. Also during 2004, \$1.1 million was disbursed in accordance with the retention plan. As of March 31, 2005, the company has approximately \$1.3 million accrued in accordance with the plan.

While operating as DIP under the protection of chapter 11 of the Bankruptcy Code and subject to Bankruptcy Court approval or otherwise as permitted in the normal course of business, the Debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization could materially change the amounts and classifications reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amount of liabilities that might be necessary as a consequence of a plan of reorganization. Liabilities and obligations whose treatment and satisfaction is dependent on the outcome of the chapter 11 cases have been segregated and classified as liabilities subject to compromise in the consolidated balance sheets.

Pursuant to the Bankruptcy Code, schedules have been filed by the Debtors with the Bankruptcy Court setting forth the assets and liabilities of the Debtors as of the date of filing. A general bar date of July 29, 2004, was established for the filing of proofs of claim against the Debtors. Differences between amounts recorded by the Debtors and claims filed by creditors have been substantially resolved as part of the proceedings in the chapter 11 cases. The ultimate number and allowed amount of the substantial majority of such claims are presently known, however, because the settlement terms of each such allowed claim is subject to a confirmed plan of reorganization, the ultimate distribution with respect to allowed claims is not presently ascertainable.

The accompanying unaudited, condensed consolidated financial statements have been prepared assuming the company in its current structure will continue as a going concern. The above factors mentioned, among other things, raise substantial doubt about the company's ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The ability of the company to continue as a going concern is dependent on a number of factors including, but not limited to, the company's development of a plan of reorganization, confirmation of the plan by the Bankruptcy Court, customer retention and the new company's ability to continue to provide high quality products and services. If a plan of

reorganization is not confirmed and implemented, the company may be forced to liquidate under applicable provisions of the Bankruptcy Code. There can be no assurance of the level of recovery that the company's creditors would receive in such liquidation. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities if the company is forced to liquidate.

## 2. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring items, necessary to present fairly the consolidated financial position and the consolidated results of operations and cash flows for the interim periods. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the full year. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2004, included in the company's Annual Report on Form 10-K/A.

The condensed consolidated financial statements have been prepared in accordance with Statement of Position No. 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* ("SOP 90-7"). SOP 90-7 requires an entity to distinguish pre-petition liabilities subject to compromise from post-petition liabilities in the company's condensed consolidated balance sheet. The caption "liabilities subject to compromise" reflects the company's best current estimate of the amount of pre-petition claims that will be restructured in the company's chapter 11 cases. In addition, the company's condensed consolidated statement of operations portrays the results of operations of the reporting entity during chapter 11 proceedings. As a result, any revenue, expenses, realized gains and losses, and provision for losses resulting directly from the reorganization and restructuring of the organization are reported separately as reorganization items. In accordance with SOP 90-7, the company stopped accruing interest expense on its non-amortizing senior notes subsequent to March 30, 2004.

Certain reclassifications have been made to prior years to conform to the current year presentation.

## 3. Changes in Accounting Principles and Recently Issued Standards

In May 2004 the FASB issued an FSP on SFAS No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("Act"). The Act was signed into law on December 8, 2003, and expanded Medicare to include prescription drugs. We sponsor retiree medical programs and this legislation includes a federal subsidy for qualifying companies. The FSP on SFAS 106-2 requires that the effects of the federal subsidy be considered an actuarial gain and treated like similar gains and losses. It also requires certain disclosures for sponsors of retiree medical programs. This FSP is effective in the first interim or annual period beginning after June 15, 2004. The accumulated post-retirement benefit obligation and the net periodic post-retirement benefit cost do not reflect any amount associated with the subsidy because the company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

In November 2004 the FASB issued SFAS No. 151, *Inventory Costs - an amendment of ARB No. 43, Chapter 4*. This Statement amends the guidance in ARB No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires that those items be recognized as current-period charges. Furthermore, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The company is evaluating the effect this Statement will have on the company's financial position, results of operations, and cash flows.

In December 2004 the FASB issued a revision to FASB Statement No. 123, SFAS No. 123R, *Stock-Based Payment*, focusing primarily on accounting for transactions in which an organization issues stock options or share-based payments for employee services. SFAS 123R will become effective for the company on January 1, 2006. The company is evaluating the effect this Statement will have on the company's financial position, results of operations, and cash flows.

In December 2004 the FASB issued FSP FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*. The American Jobs Creation Act of 2004 provides a tax deduction on qualified production activities up to 9% of the lesser of qualified production activities income, as defined in the Act, or taxable income after the deduction for the utilization of any net operating loss carryforwards. According to the Statement, the deduction should be accounted for as a special deduction in accordance with Statement 109. This FSP will not have a material effect on the company's financial position, results of operations or cash flows in 2005 due to net operating loss carryforwards.

In December 2004 the FASB issued FSP FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*. The American Jobs Creation Act allows a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. The company has repatriated some of its foreign earnings so far in 2005 and may elect to repatriate additional amounts of such earnings in 2005. FSP 109-2 provides accounting and disclosure guidance for the repatriation provision. Although FSP 109-2 is effective immediately, it allows companies additional time beyond the enactment date to evaluate the effects of the provision on its plan for investment or repatriation of unremitted foreign earnings. This FSP will not have a material effect on the company's financial position, results of operations or cash flows in 2005 due to net operating loss carryforwards.

In March 2005 the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. This Interpretation clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and / or method of settlement are conditional on a future event that may or may not be within the control of the entity. This Interpretation also clarifies the timing and estimation of fair value as it relates to an asset retirement obligation. This Interpretation is effective for the company as of the year ending December 31, 2005. The company is currently evaluating the impact this Interpretation will have on the company's financial position, results of operations and cash flows.

#### 4. Earnings (Loss) Per Common Share

The reconciliation of the numerators and denominators of the basic and diluted loss per common share computations for the company's reported net loss follows (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2005	2004
Numerator:		
Loss available to common shareholders used in basic and diluted loss per share	\$ (2,326)	\$ (16,850)
Denominator:		
Denominator for basic loss per share:		
Weighted average shares	7,066,226	7,066,226
Effect of dilutive securities:		
Fixed stock options	*	*

Denominator for diluted loss per share			
Adjusted weighted average shares		7,066,226	7,066,226
Basic loss per share	\$	(0.33)	\$ (2.38)
Diluted loss per share	\$	(0.33)	\$ (2.38)

\*Due to a loss for the periods, zero incremental shares are included because the effect would be anti-dilutive. Had there been income for the periods, 0 and 17,033 incremental shares would have been included for the three months ended March 31, 2005 and 2004, respectively.

The above weighted average shares calculations exclude any impact of any reorganization plan that may require the issuance of common stock or common stock equivalents.

### 5. Stock-Based Compensation

Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, amends Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income (loss) of an entity's accounting policy decisions with respect to stock-based employee compensation. The company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

No stock options were granted under the plans during the three month periods ended March 31, 2005 and 2004. Had compensation expense for the company's stock option awards been determined based on the fair value at the grant date for awards granted after 1994 consistent with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, the company's net loss would have been changed to the pro forma amounts indicated below (in thousands, except per share amounts)

	Three Months Ended March 31,	
	2005	2004
Net loss, as reported	\$ (2,326)	\$ (16,850)
Total stock-based employees compensation determined under fair value method	(63)	(112)
Net loss, pro forma	\$ (2,389)	\$ (16,962)
Basic loss per share, as reported	\$ (0.33)	\$ (2.38)
Basic loss per share, pro forma	\$ (0.34)	\$ (2.40)
Diluted loss per share, as reported	\$ (0.33)	\$ (2.38)
Diluted loss per share, pro forma	\$ (0.34)	\$ (2.40)

### 6. Comprehensive Income (Loss)

Comprehensive loss for the three-month period ended March 31, 2005 and 2004, consists of net loss and foreign currency translation adjustments as follows (in thousands):

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	Three Months Ended March 31,	
	2005	2004
Net loss	\$ (2,326)	\$ (16,850)
Currency translation adjustment, net	(1,202)	(772)
Comprehensive loss	\$ (3,528)	\$ (17,622)

7. Inventories

Inventories at March 31, 2005 and December 31, 2004, consisted of the following (in thousands):

	March 31, 2005	December 31, 2004
Raw material	\$ 20,730	\$ 20,745
Work in progress	26,526	25,048
Finished goods	18,388	18,949
Finished goods on consignment	5,046	4,653
Stores inventory	2,901	2,920
Operating supplies	1,370	1,335
Total inventories	\$ 74,961	\$ 73,650

8. Goodwill and Other Intangible Assets

The following table provides the gross carrying value and accumulated amortization for each major class of other intangible assets as of March 31, 2005 and December 31, 2004 (in thousands):

	Gross Carrying Value		Accumulated Amortization	
	March 31, 2005	December 31, 2004	March 31, 2005	December 31, 2004
Amortizable intangible assets:				
Debt issue costs	\$ 2,414	\$ 2,380	\$ 1,971	\$ 1,561
Acquired technology	846	846	95	84
Other	1,930	1,930	985	882
Total amortizable intangible assets	\$ 5,190	\$ 5,156	\$ 3,051	\$ 2,527

The total intangible amortization expense for the three months ended March 31, 2005 and 2004 was \$477,000 and \$756,000.

In connection with the chapter 11 filing, the company amended and restated the GE credit facility, originally initiated in November 2003, to exclude the North American borrowing base which has been included in a new DIP Facility entered into on April 1, 2004, also with GE. Deferred financing costs associated with the North American borrowing base on the original facility of \$1,328,000 were written off and were reported as reorganization expenses in the first quarter of 2004. Also, in connection with the chapter 11 filing the company wrote-off and recorded as reorganization expenses in the first quarter of 2004, \$7,447,000 relating to the remaining balance on the deferred financing costs associated with the senior non-amortizing notes.

For the period ended March 31, 2005, the company had \$8,845,000 of goodwill, which is all associated with foreign entities.

9. Segment Information:

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The following table categorizes net sales in each product family into the appropriate operating segment (in thousands):

	Three Months Ended March 31, 2005			Three Months Ended March 31, 2004		
	Operating Segments			Operating Segments		
	German	North		German	North	
	Operations	American	Total	Operations	American	Total
Net sales						
Product family						
Office products	\$ -	\$ 19,614	\$ 19,614	\$ -	\$ 19,652	\$ 19,652
Publishing and packaging	-	21,758	21,758	-	23,364	23,364
Technical specialties	61,231	12,194	73,425	55,565	13,847	69,412
	\$ 61,231	\$ 53,566	\$ 114,797	\$ 55,565	\$ 56,863	\$ 112,428

9. Segment Information (continued):

The following table presents selected financial data for each of our operating segments for the three month period ended March 31, 2005 and 2004 (in thousands):

	Three Months Ended March 31, 2005			Three Months Ended March 31, 2004		
	Operating Segments			Operating Segments		
	German	North		German	North	
	Operations	American	Total	Operations	American	Total
Total sales	\$ 61,241	\$ 53,923	\$ 115,164	\$ 56,326	\$ 57,851	\$ 114,177
Inter-segment net sales	(10)	(357)	(367)	(761)	(988)	(1,749)
Total net sales	\$ 61,231	\$ 53,566	\$ 114,797	\$ 55,565	\$ 56,863	\$ 112,428
Income (loss) from operations	\$ 11,200	\$ (2,713)	\$ 8,487	\$ 11,174	\$ (2,018)	\$ 9,156
Depreciation and amortization	\$ 1,509	\$ 3,170	\$ 4,679	\$ 1,290	\$ 3,373	\$ 4,663

10. Restructuring

The following table reconciles the restructuring liability for the three months ended March 31, 2005 (in thousands):

	Balance December 31, 2004	Expense/(Reversal)	Payments	Balance March 31, 2005
Facility closure costs	\$ 591	\$ 0	\$ 0	\$ 591

11. Pension and Post-retirement Benefits



The components of net periodic benefit costs for the three months ended March 31, 2005, and 2004 are as follows (in thousands):

	Three Months Ended March 31,			
	Pension Benefits		Post-retirement Benefits	
	2005	2004	2005	2004
Service cost	\$ 334	\$ 341	\$ 103	\$ 91
Interest cost	779	744	205	195
Return on assets	(374)	(339)	-	-
Net amortization and deferrals:				
Unrecognized prior service cost	103	103	(17)	2
Unrecognized loss	466	275	54	37
Recognized settlement loss	-	190	-	-
Net periodic benefit cost	\$ 1,308	\$ 1,314	\$ 345	\$ 325

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act") was signed into law. The Act expands Medicare primarily by adding a prescription drug benefit for Medicare-eligible individuals beginning in 2006. Pursuant to guidance provided in FASB Staff Position SFAS No. 106-1, the company has chosen to defer recognition of the Act, and, accordingly, the post-retirement benefit obligations and net periodic post-retirement benefit cost do not reflect any potential impact of the legislation. In May 2004 the FASB issued an FSP (FASB Staff Position) on SFAS No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("Act"). The FSP on SFAS 106-2 requires that the effects of the federal subsidy be considered an actuarial gain and treated like similar gains and losses. It also requires certain disclosures for sponsors of retiree medical programs. This FSP is effective in the first interim or annual period beginning after June 15, 2004. The accumulated post-retirement benefit obligation and the net periodic post-retirement benefit cost do not reflect any amount associated with the subsidy because the company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

## 12. Reorganization

In accordance with SOP 90-7, the company is required to separately identify the reorganization expenses related to the March 30, 2004, chapter 11 filing. Reorganization items in the condensed consolidated and DIP statement of operations for the three months ended March 31, 2005 and 2004, consist of (in thousands):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Professional fees	\$ 5,552	\$ 1,993
Employee retention costs	(50)	-
Write-off of unamortized bond discount	-	1,217
Write-off of deferred financing costs	-	8,775
Reorganization expenses	\$ 5,502	\$ 11,985

## 13. Debtor Financial Information

The condensed combined financial statements of the Debtors are presented below. These statements reflect the financial position, results of operations and cash flows of the Debtors on a combined basis, including certain amounts and transactions between Debtors and non-debtor subsidiaries of the company, which are eliminated in the consolidated financial statements.

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Condensed Combined Statement of Operations (in thousands):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net sales	\$ 49,725	\$ 53,325
Cost of sales	45,077	46,982
Gross profit	4,648	6,343
Selling, general and administrative expenses	7,680	8,610
Loss from operations	(3,032)	(2,267)
Foreign exchange transaction gain	(14)	-
Other expense, net	378	800
Equity in income from subsidiaries	(6,830)	(7,239)
Interest expense, net	258	9,037
Reorganization expense	5,502	11,985
Loss before income taxes	(2,326)	(16,850)
Income tax expense	-	-
Net loss	\$ (2,326)	\$ (16,850)

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## Condensed Combined Balance Sheet (in thousands):

	March 31, 2005	December 31, 2004
<b>ASSETS</b>		
Current assets:		
Cash	\$ -	\$ -
Accounts receivable, net of allowances	19,424	19,618
Inventories	44,437	41,946
Prepaid expenses	3,877	3,733
Total current assets	67,738	65,297
Property, plant and equipment, net	136,504	138,115
Intercompany receivables	4,010	3,583
Investment in subsidiaries	105,456	107,151
Other intangible assets, net	1,194	1,581
Other long-term assets	3,064	3,064
Total assets	\$ 317,966	\$ 318,791
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Revolving credit line	\$ 7,065	\$ 2,628
Accounts payable	9,391	10,047
Accrued liabilities	15,288	12,608
Accrued income taxes payable	310	323
Total current liabilities not subject to compromise	32,054	25,606
Long-term liabilities:		
Intercompany payables	8	-
Deferred income taxes	7,134	-
Other long-term liabilities	18,265	28,361
Total long-term liabilities not subject to compromise	25,407	28,361
Liabilities subject to compromise	365,909	366,700
Total liabilities	423,370	420,667
Stockholders' deficit	(105,404)	(101,876)
Total liabilities and stockholders' deficit	\$ 317,966	\$ 318,791

## Condensed Combined Statement of Cash Flows (in thousands):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net cash used in operating activities	\$ (3,094)	\$ (8,365)
Net cash used for reorganization items	(3,133)	(1,993)
Net cash used in investing activities	(1,061)	(441)
Net cash provided by financing activities	7,404	16,881
Effect of exchange rates on cash	(116)	(954)
Increase in cash and cash equivalents	-	5,128
Cash at beginning of period	-	-
Cash at end of period	\$ -	\$ 5,128

Liabilities subject to compromise in the condensed consolidated and DIP balance sheets consist of the following items as of March 31, 2005 and December 31, 2004 (in thousands):

	March 31, 2005	December 31, 2004
Accounts payable	\$ 5,874	\$ 6,861
Accrued liabilities (including accrued interest)	17,070	16,129
Long-term debt	339,005	340,005
Other long-term liabilities	3,960	3,705
Liabilities subject to compromise	\$ 365,909	\$ 366,700

In accordance with SOP 90-7, the company stopped accruing interest on the senior non-amortizing notes as of the March 30, 2004, chapter 11 filing date. The amount of interest that would have been accrued from the filing date to the end of the first quarter of 2005 was \$34.2 million.

#### 14. Long-term Debt

On March 30, 2004, FiberMark, Inc., and its U.S. subsidiaries filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code. The filing resulted in an immediate acceleration of \$100.0 million in principal of the company's 9.375% senior non-amortizing notes and \$230.0 million in principal of 10.75% senior non-amortizing notes, subject to the automatic stay. Outstanding balances for the senior non-amortizing notes have been reclassified to liabilities subject to compromise. In accordance with the filing the company wrote-off and recorded in reorganization expenses \$1.2 million of unamortized bond discounts associated with the senior non-amortizing notes.

On March 31, 2005, \$1.2 million is outstanding under a term loan secured by machinery at our Quakertown, Pennsylvania, facility. This loan bears interest at LIBOR plus 2.0% and is repayable in monthly installments through 2007. The Debtors have made post-filing adequate protection payments on this loan under an order entered by the Bankruptcy Court on May 28, 2004.

On March 31, 2005, \$6.0 million is outstanding on a term loan secured by papermaking machinery at our Warren Glen, New Jersey, facility. The interest rate on this loan is 8.94% to 8.95% with the balance amortizing through 2007. The Debtors have made post-filing adequate protection payments on this loan under an order entered by the Bankruptcy Court on July 1, 2004.

In the fourth quarter of 2002, we entered into a sale-leaseback agreement involving our Lowville, New York, facility. Under the sale-leaseback agreement, FiberMark paid \$1.1 million, representing 20% of the project cost in January 2003, and is obligated to make 24 monthly payments of \$100,000 plus interest at 4.6% on the outstanding principal, followed by a balloon payment of approximately \$2.0 million due on January 31, 2005. The balloon payment date has been extended until the company emerges from its chapter 11 status at which time FiberMark expects to resume ownership of the entire site after making the final principal payment. At March 31, 2005, the balance outstanding on the capital lease was \$1.8 million. The Debtors have made post-filing adequate protection payments on this sale-leaseback obligation under an order entered by the Bankruptcy Court on July 1, 2004.

The DIP Facility and the amended and restated facility for our German operations both require the company to certify covenant compliance 45 days after a quarter end and submit year end audited financial statements within 90 days. The company was in violation of this requirement but has obtained a waiver of default from the lender.

The term loan agreement secured by machinery at the Warren Glen, New Jersey, facility requires the company to maintain a specified level of tangible net worth. At December 31, 2004 and 2003, the company was in violation of this covenant but has obtained a complete waiver of default from the lender.

In accordance with SOP 90-7, the company has reclassified its long-term debt and sale-leaseback liabilities of \$339.0 million to liabilities subject to compromise at March 31, 2005.

#### 15. Consolidating Financial Statements

Below are consolidating statements of operations for the three months ended March 31, 2005 and 2004, and statements of cash flow for the Three Months Ended March 31, 2005 and 2004, and consolidating balance sheets as of March 31, 2005 and December 31, 2004 (in thousands):

CONSOLIDATING STATEMENTS OF OPERATIONS	Three Months Ended March 31, 2005			
	Guarantor	Non-Guarantor	Eliminations	Consolidated FiberMark, Inc.
Net sales	\$ 53,566	\$ 61,231	\$ -	\$ 114,797
Cost of sales	48,032	46,957	-	94,989
Gross profit	5,534	14,274	-	19,808
Selling, general and administrative expenses	8,249	3,074	-	11,321
Income (loss) from operations	(2,713)	11,200	-	8,487
Foreign exchange transaction (gain) loss	(23)	285	-	262
Other (income) expense, net	378	(58)	-	320
Equity in subsidiary income	(6,653)	-	6,653	-

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Interest expense, net	333	252	-	585
Reorganization expense	5,502	-	-	5,502
Income (loss) before income taxes	(2,250)	10,721	(6,653)	1,818
Income tax expense	76	4,068	-	4,144
Net income (loss)	\$ (2,326)	\$ 6,653	\$ (6,653)	\$ (2,326)

**CONSOLIDATING  
STATEMENTS OF  
OPERATIONS**

Three Months Ended March 31, 2004

	Guarantor	Non-Guarantor	Eliminations	Consolidated FiberMark, Inc.
Net sales	\$ 56,863	\$ 55,565	\$ -	\$ 112,428
Cost of sales	49,803	41,381	-	91,184
Gross profit	7,060	14,184	-	21,244
Selling, general and administrative expenses	9,078	3,010	-	12,088
Income (loss) from operations	(2,018)	11,174	-	9,156
Foreign exchange transaction loss	-	(227)	-	(227)
Other (income) expense, net	793	(57)	-	736
Equity in subsidiary income	(7,122)	-	7,122	-
Interest expense, net	9,109	(161)	-	8,948
Reorganization expense	11,985	-	-	11,985
Income (loss) before income taxes	(16,783)	11,619	(7,122)	(12,286)
Income tax expense	67	4,497	-	4,564
Net income (loss)	\$ (16,850)	\$ 7,122	\$ (7,122)	\$ (16,850)

**CONSOLIDATING BALANCE  
SHEETS**

March 31, 2005

<b>ASSETS</b>	Guarantor	Non-Guarantor	Eliminations	Consolidated FiberMark, Inc.
Current assets:				
Cash	\$ 1,525	\$ 1,413	\$ -	\$ 2,938
Accounts receivable, net of allowances	22,749	44,136	-	66,885
Inventories	47,604	27,357	-	74,961
Prepaid expenses	4,090	412	-	4,502
Intercompany accounts receivables	-	110	(110)	-
Total current assets	75,968	73,428	(110)	149,286
Property, plant and equipment, net	138,495	102,966	-	241,461
Goodwill	2,511	6,334	-	8,845
Investment in subsidiaries	97,731	-	(97,731)	-
Other intangible assets, net	1,194	945	-	2,139
Other long-term assets	3,064	1,714	-	4,778
Total assets	\$ 318,963	\$ 185,387	\$ (97,841)	\$ 406,509

**LIABILITIES AND  
STOCKHOLDERS' EQUITY  
(DEFICIT)**

Current liabilities:				
Revolving credit line	\$ 7,065	\$ 5,523	\$ -	\$ 12,588
Accounts payable	9,447	9,520	(102)	18,865
Accrued liabilities	15,782	8,393	-	24,175
Accrued income taxes payable	596	16,803	-	17,399
Deferred income taxes	-	266	-	266
Total current liabilities not subject to compromise	32,890	40,505	(102)	73,293
Long-term liabilities:				
Intercompany accounts payable	8	-	(8)	-
Deferred income taxes	7,237	17,147	-	24,384
Other long-term liabilities	18,323	30,004	-	48,327
Total long-term liabilities not subject to compromise	25,568	47,151	(8)	72,711
Liabilities subject to compromise	365,909	-	-	365,909
Total liabilities	424,367	87,656	(110)	511,913

Stockholders' equity (deficit):

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Preferred stock	-	-	-	-
Common stock	7	33	(33)	7
Additional paid-in capital	65,496	3,791	(3,791)	65,496
Accumulated earnings (deficit)	(177,034)	80,971	(80,971)	(177,034)
Accumulated other comprehensive income	6,162	12,936	(12,936)	6,162
Less treasury stock	(35)	-	-	(35)
Total stockholders' equity (deficit)	(105,404)	97,731	(97,731)	(105,404)
Total liabilities and stockholders' equity (deficit)	\$ 318,963	\$ 185,387	\$ (97,841)	\$ 406,509



**CONSOLIDATING BALANCE  
SHEETS**

December 31, 2004

	Guarantor	Non-Guarantor	Eliminations	Consolidated FiberMark, Inc.
<b>ASSETS</b>				
Current assets:				
Cash (overdraft)	\$ (239)	\$ 1,433	\$ -	\$ 1,194
Accounts receivable, net of allowances	22,804	38,312	-	61,116
Inventories	44,517	29,133	-	73,650
Prepaid expenses	3,930	409	-	4,339
Intercompany accounts receivables	-	226	(226)	-
Total current assets	71,012	69,513	(226)	140,299
Property, plant and equipment, net	140,193	108,660	-	248,853
Goodwill, net	2,542	6,625	-	9,167
Investment in subsidiaries	99,453	-	(99,453)	-
Other intangible assets, net	1,581	1,048	-	2,629
Other long-term assets	3,064	1,794	-	4,858
Total assets	\$ 317,845	\$ 187,640	\$ (99,679)	\$ 405,806
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>				
Current liabilities:				
Revolving credit line	\$ 2,628	\$ -	\$ -	\$ 2,628
Accounts payable	8,048	16,241	(226)	24,063
Accrued liabilities	13,112	8,157	-	21,269
Accrued income taxes payable	761	14,697	-	15,458
Deferred income taxes	-	279	-	279
Total current liabilities not subject to compromise	24,549	39,374	(226)	63,697
Long-term liabilities:				
Deferred income taxes	10,564	17,933	-	28,497
Other long-term liabilities	17,908	30,880	-	48,788
Total long-term liabilities not subject to compromise	28,472	48,813	-	77,285
Liabilities subject to compromise	366,700	-	-	366,700
Total liabilities	419,721	88,187	(226)	507,682
Stockholders' equity (deficit):				
Preferred stock	-	-	-	-

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Common stock	7	33	(33)	7
Additional paid-in capital	65,496	3,791	(3,791)	65,496
Accumulated earnings (deficit)	(174,708)	78,318	(78,318)	(174,708)
Accumulated other comprehensive income	7,364	17,311	(17,311)	7,364
Less treasury stock	(35)	-	-	(35)
Total stockholders' equity (deficit)	(101,876)	99,453	(99,453)	(101,876)
Total liabilities and stockholders' equity (deficit)	\$ 317,845	\$ 187,640	\$ (99,679)	\$ 405,806

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**CONSOLIDATING  
STATEMENTS OF CASH  
FLOWS**

Quarter Ended March 31, 2005

	Guarantor	Non-Guarantor	Eliminations	Consolidated FiberMark, Inc.
Cash flows from operating activities:				
Net income (loss)	\$ (2,326)	\$ 6,653	\$ (6,653)	\$ (2,326)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization	3,170	1,509	-	4,679
Loss on disposal of assets	-	75	-	75
Equity in subsidiary income	(6,653)	-	6,653	-
Deferred income taxes	(2)	-	-	(2)
Reorganization expense	5,502	-	-	5,502
Net cash used for reorganization items	(3,133)	-	-	(3,133)
Changes in operating assets and liabilities:				
Accounts receivable	55	(7,574)	-	(7,519)
Inventories	(3,087)	504	-	(2,583)
Prepaid expenses	(160)	(21)	-	(181)
Other long-term assets	-	1	-	1
Accounts payable	273	(5,812)	-	(5,539)
Accrued liabilities	1,242	599	-	1,841
Accrued income taxes payable	(165)	2,776	-	2,611
Other long-term liabilities	785	483	-	1,268
Intercompany accounts, net	147	(147)	-	-
Net cash used in operating activities	(4,352)	(954)	-	(5,306)
Cash flows from investing activities:				
Additions to property, plant and equipment	(1,052)	(594)	-	(1,646)
Proceeds from sale of assets	-	7	-	7
Net cash used in investing activities	(1,052)	(587)	-	(1,639)
Cash flows from financing activities:				
Net borrowings under revolving credit line	4,437	5,575	-	10,012
Repayment of debt	(1,000)	-	-	(1,000)
Dividend, net	4,000	(4,000)	-	-
Debt issuance costs	(33)	-	-	(33)
Net cash provided by financing activities	7,404	1,575	-	8,979

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Effect of exchange rate changes in cash	(236)	(54)	-	(290)
Net increase (decrease) in cash	1,764	(20)	-	1,744
Cash (overdraft) at beginning of period	(239)	1,433	-	1,194
Cash at end of period	\$ 1,525	\$ 1,413	\$ -	\$ 2,938

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**CONSOLIDATING  
STATEMENTS OF CASH  
FLOWS**

Quarter Ended March 31, 2004

	Guarantor	Non-Guarantor	Eliminations	Consolidated FiberMark, Inc.
Cash flows from operating activities:				
Net income (loss)	\$ (16,850)	\$ 7,122	\$ (7,122)	\$ (16,850)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,373	1,290	-	4,663
Amortization of bond discount	43	-	-	43
Equity in subsidiary income	(7,122)	-	7,122	-
Deferred income taxes	3	-	-	3
Reorganization expense	11,985	-	-	11,985
Net cash used for reorganization items	(1,993)	-	-	(1,993)
Changes in operating assets and liabilities:				
Accounts receivable	(3,378)	(5,650)	-	(9,028)
Inventories	(3,967)	674	-	(3,293)
Prepaid expenses	(783)	6	-	(777)
Other long-term assets	156	-	-	156
Accounts payable	1,744	(321)	-	1,423
Accrued liabilities	9,824	615	-	10,439
Accrued income taxes payable	(469)	(3,495)	-	(3,964)
Other long-term liabilities	(129)	154	-	25
Net cash provided by (used in) operating activities	(7,563)	395	-	(7,168)
Cash flows from investing activities:				
Additions to property, plant and equipment				
	(486)	(1,466)	-	(1,952)
Increase in other intangible assets	(25)	52	-	27
Net cash used in investing activities	(511)	(1,414)	-	(1,925)
Cash flows from financing activities:				
Net borrowings (repayments) under revolving credit line				
	(2,753)	21,498	-	18,745
Repayment of debt	(778)	-	-	(778)
Net borrowings (repayments) under intercompany notes				
	8,823	(8,186)	(637)	-
Dividend, net	12,051	(12,338)	287	-
Debt issuance costs	(112)	-	-	(112)
Debt issuance costs due to reorganization	(350)	-	-	(350)

Net cash provided by (used in) financing activities	16,881	974	(350)	17,505
Effect of exchange rate changes in cash	(749)	(99)	350	(498)
Net increase (decrease) in cash	8,058	(144)	-	7,914
Cash (overdraft) at beginning of period	(986)	7,097	-	6,111
Cash at end of period	\$ 7,072	\$ 6,953	\$ -	\$ 14,025
Supplemental cash flow information:				
Non-cash investing activities				
Settlement of intercompany loans through dividends	\$ 18,897	\$ (18,897)	\$ -	\$ -

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

#### Three Months Ended March 31, 2005, Compared with Three Months Ended March 31, 2004

##### *Overview*

In order to help you understand, in appropriate context, the discussion and analysis of our results of operations and financial condition that appears below, this overview section should be read in conjunction with Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2004 Annual Report on Form 10-K/A.

Consolidated net sales for the quarter ended March 31 were \$114.8 million in 2005 compared with \$112.4 million in 2004, an increase of \$2.4 million or 2.1%. Favorable foreign exchange rates increased first-quarter 2005 sales by \$2.9 million compared with 2004. Net of currency effects, current year net sales decreased by \$0.5 million, or 0.4% versus last year.

A consolidated net loss of \$2.3 million in the first quarter of 2005 compared with a net loss of \$16.9 million in 2004. The following factors accounted for most of change in net loss:

- Interest expense, net, was \$8.4 million lower in 2005, primarily due to the cessation of interest expense accruals on the senior notes pending the outcome of the bankruptcy process.
- Reorganization expenses related to chapter 11 decreased by \$6.5 million to \$5.5 million in 2005, from \$12.0 million in 2004. The decrease was due to the 2004 chapter 11 write-off of \$1.2 million in unamortized bond discount and \$8.8 million of deferred financing costs, offset by an increase in professional fees of \$3.5 million in 2005 versus 2004.
- Income from operations declined by \$0.7 million, as lower gross profit (\$1.4 million decline) was partially offset by lower SG&A expenses.

##### *Sales from German Operations*

Net sales from German operations in the first quarter of 2005 were \$61.2 million compared with \$55.6 million in the prior-year quarter, an increase of \$5.6 million or 10.1%. Excluding the translation effects of a stronger euro, which accounted for \$2.8 million in sales for the first quarter compared with the prior-year quarter, sales from German operations grew by \$2.8 million, or 5.0%. During the quarter, we made continued gains in most of our German businesses due to a combination of market share gains and geographic growth, particularly in the Pacific Rim. One notable exception was our nonwoven wallcovering business, in which weak economic conditions in Europe and Germany have lowered market demand. In addition, in some markets, the combination of pricing pressure and product mix deflated sales levels, despite the overall gain in sales.

##### *Sales from North American Operations*

First-quarter 2005 net sales from North American operations were \$53.6 million compared with \$56.9 million in the prior-year quarter, a decrease of \$3.3 million or 5.8%. All of our product families reported at least modest declines, with the weakness most evident in technical specialties. Lower volume was partially offset by price increases and improvements in product mix.

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First-quarter 2005 sales of publishing and packaging products were \$21.8 million compared with \$23.4 million, a decline of \$1.6 million or 6.8% versus the first quarter of 2004. The decline in publishing related to market weakness and downgrading, particularly in trade publishing; product substitution; order timing and industry consolidation, offset in part by strengthening elementary/high-school text book sales. Our packaging sales, which represent a relatively small portion of this market segment, were down primarily due to timing fluctuations and competition from lower cost materials or packaging formats. Packaging sales tend to vary quarter to quarter as some significant projects are one-time applications that may not recur on a quarterly basis.

Sales in office products were \$19.6 million in the first quarter of 2005 compared with \$19.7 million in the same 2004 period, essentially even with 2004 levels. The small graphic design portion of this business continued to grow in excess of 10%. The core office products line experienced a modest (1%) decline reflecting the market maturity of the applications in which our materials are used.

Technical specialties sales were \$12.2 million in the first quarter of 2005 compared with \$13.8 million in 2004, a decrease of \$1.6 million or 11.6%. Sales in many of our key technical markets were down, including our tape, art and archival and electrical transformer businesses, due largely to product downgrading, substitution by alternate materials or technologies, market share losses, as well as a glue shortage affecting demand by a number of our tape customers. Gains in specialty building materials and printable specialties products partially offset these declines.

### *Company-wide Data*

Gross profit in 2005 was \$19.8 million, or 17.3% of sales, compared with \$21.2 million, or 18.9% of sales in 2004. The primary positive and negative factors accounting for the \$1.4 million net decrease in gross profit were:

- Lower sales volume, which decreased margins by \$2.8 million
- Raw material and energy cost increases of \$2.3 million, including higher pulp costs of \$0.9 million
  - Increased manufacturing overhead, including depreciation, of \$1.3 million
  - Price increases and stronger product mix totaling \$4.3 million
- Foreign currency benefits of \$0.5 million due to favorable translation of German and U.K. profits

Selling, general and administrative (SG&A) expenses were \$11.3 million in 2005 compared with \$12.1 million in 2004, a decrease of \$0.8 million or 6.6%. Selling and research expenses, net, increased by \$0.4 million while administrative expenses declined by \$1.2 million due to lower professional fees and legal costs. Foreign currency exchange rates had a negligible effect on SG&A expenses.

Foreign exchange transaction losses in 2005 were \$0.3 million, compared with foreign exchange transaction gains of \$0.2 million in 2004. These gains and losses arose upon conversion of dollar-based receivables and payables into euros in the German operating segment.

Other expense, net, was \$0.3 million in 2005 compared with \$0.7 million in 2004, due primarily to lower amortization expense as a result of the 2004 chapter 11 write-off of deferred financing costs.

Interest expense decreased to \$0.6 million in 2005 from \$8.9 million in 2004, primarily due to the cessation of interest accruals on the senior notes during the bankruptcy process.

Reorganization expenses related to the chapter 11 proceedings were \$5.5 million in 2005 for professional fees and accruals for key employee retention payments. In 2004 the company recorded reorganization expenses of \$12.0 million, including \$10.0 million related to the write off of deferred financing costs and unamortized discounts on the senior notes.

Income taxes were \$4.1 million in 2005 and \$4.6 million in 2004. Our taxes relate to income earned in Germany and the United Kingdom with nominal taxes due from U.S. operations.



The loss in 2005 was \$2.3 million, or \$0.33 per share, compared with a net loss in 2004 of \$16.9 million, or \$2.38 per share, for reasons described previously.

### **Liquidity and Capital Resources**

On March 30, 2004, FiberMark, Inc. and its U.S. subsidiaries filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code. See notes 1 for further information. The chapter 11 proceedings have had material effects on the company's liquidity including \$16.1 million of cash reorganization expenses, which partially offset reduced annual interest payments of approximately \$34.1 million that would have been payable under the senior notes in 2004 and 2005.

As part of the restructuring process under chapter 11, the \$85 million revolving credit facility that was put in place on November 12, 2003 (the "Pre-petition Facility") and is described under "Long-term Debt" was amended and restated to effectively split the agreement into two parts. The North American portion was converted to a Debtor-in-Possession revolving credit facility ("DIP") that was approved by the Bankruptcy Court. The DIP facility will continue to provide financing for the North American operations during the reorganization process.

GE Commercial Finance provided the \$30 million DIP loan. Loan availability is based on North American assets, including receivables, inventory, and fixed assets, that are calculated on the same basis as the Pre-petition Facility. Since the bankruptcy filing, our German operations have been funded under an amended and restated revolving credit facility with availability based on historical cash flows in Germany. Under the two credit agreements, our borrowing base is substantially the same as the borrowing base under the Pre-petition Facility. Various covenants and restrictions on our operations under the prior revolving credit facility continue to apply under the DIP facility without material modification, together with an additional restriction on the amount of funds that can be transferred from Germany to support North American operations.

The company's obligation to make interest payments of approximately \$34.1 million per year to the holders of the company's senior notes was suspended when the company filed a petition for chapter 11 protection. Pending the confirmation of a new plan of reorganization, no prediction can be made as to the subsequent treatment of these obligations.

The company is negotiating to extend the current DIP facility and the German credit facility provided by GE Commercial Finance to accommodate the potential continuation of chapter 11 proceedings beyond the original terms of these facilities. The company expects to be able to extend these facilities through the balance of the chapter 11 process.

Exit from chapter 11 will occur as soon as a new plan of reorganization is filed and approved by the Bankruptcy Court. The company cannot guarantee that a plan of reorganization will be approved before the facilities expire on their current or extended terms. See "Recent Developments."

Despite the lack of final approval of a plan of reorganization by the Bankruptcy Court, the company believes that cash flow from operations, plus existing cash balances and amounts that will be available to us under the credit facilities, will be sufficient to fund our capital requirements, debt service and working capital needs during the remainder of the chapter 11 case and throughout 2005, after giving effect to the reduced level of interest payments that would result from a new capital structure including less leverage, and the expected costs to complete the restructuring process.

We concluded that the bankruptcy filings were in our best interest after carefully considering a variety of alternatives in consultation with outside financial advisors. As we had stated in our 2003 Annual Report on Form 10-K, "our substantial level of indebtedness could adversely affect our financial condition. We expect to obtain funds to service our debt over time primarily from our operations. We cannot be certain that our cash flow will be sufficient to allow

us to pay such debt service. If we do not have sufficient cash flow, we may be required to refinance all or part of our existing debt, sell assets, borrow more money, or restructure our debts with our creditors. We cannot guarantee that we will be able to do so on terms acceptable to us. In addition, the terms of existing or future debt agreements may restrict us from adopting any of these alternatives. The failure to generate sufficient cash flow or to achieve such alternatives could have a significant adverse affect on our ability to make required payments.”

### *Comparison of Cash Flows*

The following chart summarizes cash flows by major category in 2005 and 2005 (in thousands):

	Quarter Ended March 31, 2005	Quarter Ended March 31, 2004
Net cash provided by (used in):		
Operating activities	\$ (5,306)	\$ (7,168)
Investing activities	(1,639)	(1,925)
Financing activities	8,979	17,505
Effect of exchange rates on cash	(290)	(498)
Net increase in cash	\$ 1,744	\$ 7,914

Cash used in operating activities was \$5.3 million in 2005 compared to \$7.2 million in 2004. Major changes in cash flow included:

- Net losses in 2005 were \$2.3 million compared to \$16.9 million in 2004, decreasing by \$14.6 million. The decrease was the result of lower reorganization expense of \$6.5 million and reduced interest expense of \$8.4 million, both due to the chapter 11 process.
- Accounts receivable increased by \$7.5 million in 2005 due to strong sales in Germany compared to relatively weak year-end sales. Overall accounts receivable quality remains high. Accounts receivable rose by \$9.0 million in the first three months of 2004.
  - Non-cash items included depreciation and amortization of \$4.7 million in 2005 and \$4.7 million in 2004.
- Accounts payable decreased by \$5.5 million in 2005 mainly due to decreased German spending in December 2004 together with the timing of German disbursements in the first quarter of 2005. Accounts payable rose by \$1.4 million in 2004.

Cash used in investing activities was \$1.6 million in 2005 for capital expenditures. Capital expenditures were \$2.0 million in 2004.

Cash provided by financing activities was \$9.0 million in 2005 and \$17.5 million in 2004.

*During 2005:* Net borrowings under the revolving credit facility were \$10.0 million

The company repaid \$1.0 million of long-term debt

*During 2004:* Net borrowings under the revolving credit facility were \$18.7 million

The company repaid \$0.8 million of long-term debt

Debt issuance costs for credit facilities were \$0.4 million

Foreign exchange rates effectively decreased cash in 2005 by \$0.3 million and by \$0.5 million in 2004.

Our capital expenditure budget for 2005 is approximately \$23.3 million. For the first three months of 2005, capital expenditures were \$1.6 million.

The filing of the chapter 11 petitions will relieve the company, for the time being, of the semi-annual interest payment obligation of approximately \$17.1 million that would otherwise have been payable in April 2005 and October 2005. Pending the filing of a plan of reorganization, no prediction can be made as to the subsequent treatment of these

obligations.

### **Contractual Obligations**

The following table lists our contractual obligations due by period with initial or remaining terms in excess of one year at March 31, 2005 (in millions):

	2005 <sup>(1)</sup>	2006-2008	2009-2011	Thereafter	Total
Long-term debt <sup>(2)</sup>	\$ 2.3	\$ 104.9	\$ 230.0	\$ -	\$ 337.2
Letters of credit	9.8	-	-	-	9.8
Operating leases	1.7	2.7	0.1	0.1	4.6
Sale-leaseback <sup>(2)</sup>	1.8	-	-	-	1.8
Forward purchase contracts	1.5	-	-	-	1.5
Benefit plan obligations <sup>(3)</sup>	2.0	9.0	11.0	11.6	33.6
	\$ 19.1	\$ 116.6	\$ 241.1	\$ 11.7	\$ 388.5

<sup>(1)</sup> April 1 through December 31, 2005

<sup>(2)</sup> Obligations exclude interest costs.

<sup>(3)</sup> Related benefit plan obligations at March 31, 2005, were \$47.9 million.

All of the obligations referred to above may be modified, as to their amount, payment date and/or other terms, by the chapter 11 process. Pending the filing of a plan of reorganization, no prediction can be made as to their treatment in such plan.

The majority of our forward purchase contracts relate to our natural gas purchases in the United States, obligating us to purchase a minimum quantity each month during the contract period.

### **Long-term Debt**

As of March 31, 2005, we had outstanding \$100.0 million of senior non-amortizing notes, which mature on October 15, 2006, and carry a fixed interest rate of 9.375%. Also outstanding at March 31, 2005, were \$230.0 million of non-amortizing senior notes, which mature on April 15, 2011, and were issued at a discounted price of \$228.3 million and carry a fixed interest rate of 10.75%. In connection with the chapter 11 filing, the company wrote-off the remaining \$1.2 million unamortized portion of the discount.

On December 31, 2003, the company had a 30-month, \$85.0 million credit facility, entered into on November 12, 2003, which provided a significant increase in cash availability for capital expenditures, working capital and general corporate purposes. On April 1, 2004, this facility was replaced by the DIP Facility and the amended and restated facility for our German operations as described previously. Both of the new credit facilities were led by GE Commercial Finance. The DIP Facility was secured by substantially all of FiberMark's U.S. assets, excluding various equipment at our Quakertown, Pennsylvania and Warren Glen, New Jersey, facilities that secure two previously existing term loans, and is also secured by specified foreign assets. The amended and restated credit facility also provides borrowing capacity based on the level of profitability as measured by the earnings before income taxes, depreciation, and amortization ("EBITDA") of FiberMark's German businesses up to a maximum of \$40 million. To secure these foreign borrowings, the company has pledged various percentages of the ownership shares of the German operations that effectively prevent FiberMark from disposing of or materially changing the assets of those businesses without consent from the Lender.

The following chart identifies our unused borrowing capacity under our new revolving credit facilities as of March 31, 2005 (in millions):

	North America*	Germany	Combined
Borrowing base	\$ 23.3	\$ 40.0	\$ 63.3
Less:reserves against availability	(4.6)	-	(4.6)
Net availability	18.7	40.0	58.7
Less:outstanding borrowings	(7.1)	(5.5)	(12.6)
letters of credit	(9.8)	-	(9.8)
Unused borrowing capacity	\$ 1.8	\$ 34.5	\$ 36.3

\* The maximum North America borrowing base is \$30.0 million; however, as of March 31, 2005, the borrowing base was \$23.3 million due to working capital and plant, property and equipment that form the borrowing base.

Advances under the credit facilities are repayable daily. The borrowing rates are determined at the company's discretion based on the terms of the amended and restated credit facility and the DIP Facility are as follows:

#### *DIP Facility*

Borrowing Source	Base Rate Index	Margin Over Index
U.S.	LIBOR	3.25%
U.S.	Prime Rate	1.75%
U.S.	Unused Line Fee	0.50%

#### *German Facility*

Borrowing Source	Base Rate Index	Margin Over Index
Germany	Euribor	2.50%
Germany	Euro Index	4.00%
Germany	Unused Line Fee	0.50%

On March 31, 2005, \$1.2 million is outstanding under a term loan secured by machinery at our Quakertown, Pennsylvania, facility. This loan bears interest at LIBOR plus 2.0% and is repayable in monthly installments through 2007. The Debtors have made post-filing adequate protection payments on this loan under an order entered by the Bankruptcy Court on May 28, 2004.

On March 31, 2005, \$6.0 million is outstanding on a term loan secured by papermaking machinery at our Warren Glen, New Jersey, facility. The interest rate on this loan ranges from 8.94% to 8.95% with the balance amortizing through 2007. The Debtors have made post-filing adequate protection payments on this loan under an order entered by the Bankruptcy Court on July 1, 2004.

In the fourth quarter of 2002, we entered into a sale-leaseback agreement involving our Lowville, New York, facility. Under the sale-leaseback agreement, FiberMark paid \$1.1 million, representing 20% of the project cost in January 2003, and is obligated to make 24 monthly payments of \$100,000 plus interest at 4.6% on the outstanding principal, followed by a balloon payment of approximately \$2.0 million due on January 31, 2005. The balloon payment date has been extended until the company emerges from its chapter 11 status at which time FiberMark expects to resume ownership of the entire site after making the final principal payment. At March 31, 2005, the balance outstanding on the capital lease was \$1.8 million. The Debtors have made post-filing adequate protection payments on this sale-leaseback obligation under an order entered by the Bankruptcy Court on July 1, 2004.

The DIP Facility and the amended and restated facility for our German operations both require the company to certify covenant compliance 45 days after a quarter end and submit year end audited financial statements within 90 days. The company was in violation of this requirement but has obtained a waiver of default from the lender.

The term loan agreement secured by machinery at the Warren Glen, New Jersey, facility requires the company to maintain a specified level of tangible net worth. At December 31, 2004 and 2003, the company was in violation of this covenant but has obtained a complete waiver of default from the lender.

In accordance with SOP 90-7, the company has reclassified its long-term debt and sale-leaseback liabilities of \$339.0 million to liabilities subject to compromise at March 31, 2005.

### **Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Differences from those estimates are recorded in the reporting period during which the difference becomes known. Estimates are used in accounting for, among other items, impairment of goodwill and other long-lived assets, restructuring and facility closures, acquisitions, deferred tax assets, pensions, accounting matters related to reorganization and bankruptcy, excess and obsolete inventory and allowances for doubtful accounts receivable. Those estimates which require management's most difficult, subjective or complex judgments are defined as critical and their accounting policies are described in further detail as follows:

#### *Impairment of Goodwill and Other Long-Lived Assets*

Long-lived assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS 144. Facility closures and the sale of technology and our operating results are events that have triggered such impairment reviews in the past. Property, plant and equipment to be disposed of as a result of facility closures are reported at the lower of the carrying amount or fair value less cost to sell. Generally, the company bases its estimates on historical patterns, influenced by judgments about current market conditions. Goodwill and other intangibles are assessed for impairment at least annually in accordance with SFAS 142. No events occurred that would impair goodwill or long-lived assets for the three month period ended March 31, 2005 and 2004, respectively.

#### *Restructuring and Facility Closures*

Among those factors affecting the accruals for restructuring and facility closures are estimates of the number and types of employees that will be affected, the benefit costs related to those employees and the length of time until the operations can be consolidated within other facilities. Generally, we base our estimates on historical patterns of past facility closures, influenced by judgments about current market conditions.

The company accounts for restructuring and facility closure costs in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The pronouncement requires companies to recognize costs associated with exit (including restructuring) or disposal activities at fair value when the related liability is incurred. Costs covered by the standard include certain contract termination costs, certain employee termination benefits and other costs to consolidate or close facilities and relocate employees that are associated with an exit activity or disposal of long-lived assets. There was no significant impact to the condensed consolidated financial statements relating to SFAS 146 for the quarter ended March 31, 2005 and 2004, respectively.

#### *Income Taxes*

We estimate income taxes in each of our operational jurisdictions in accordance with SFAS 109, *Accounting for Income Taxes*. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as property, plant and equipment, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, for which we must then assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent that recovery is not likely, a

valuation allowance must be established. Significant management judgment is required in determining the provision (benefit) for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The company provides a full valuation allowance against any tax benefits that were created by operating losses in our North American operations because management determined that it is more likely than not that the deferred tax assets arising from the pre-tax losses incurred would not be realized. Furthermore, the company filed for chapter 11 on March 30, 2004, decreasing even further any likelihood that any of its U.S. operations deferred tax assets will be realized. Upon consummation of the plan of reorganization, the company may recognize a substantial amount of cancellation of indebtedness income. Accordingly, a substantial portion of the company's net operating loss carry-forwards potentially could be eliminated. Other tax attributes, including property bases, could also be reduced. Any surviving capital loss or net operating loss carry-forward may be subject to limitations imposed under the ownership change rules in the Internal Revenue Code.

#### *Pension Assumptions*

We have several defined benefit retirement plans and post-retirement plans covering certain employees. The defined benefit plan covering certain U.S. employees is an ERISA and IRS-qualified plan and we make annual contributions in amounts at least equal to the minimum amounts required by ERISA. The defined benefit plans covering all hourly employees in Germany were established by the company to provide a monthly pension benefit upon retirement. We have no legal obligation to fund the German plans. The post-retirement plans covering a specific group of employees provide a medical benefit upon retirement based on length of service.

Pension and post-retirement benefit obligations and the related effects on operations are calculated by our external actuaries using actuarial models. Two critical assumptions, discount rate and expected return on assets, are important elements of plan expense and/or liability measurement. We evaluate these critical assumptions annually. Other assumptions involve demographic factors such as retirement, mortality and turnover. These assumptions are evaluated periodically and are updated to reflect our experience. Actual results that differ from the estimates may result in more or less future company funding into pension plans and more or less pension expense than is planned by management.

#### *Accounting in Reorganization under Bankruptcy*

The condensed consolidated financial statements have been prepared in accordance with SOP 90-7 which requires pre-filing liabilities that are subject to compromise to be separately reported on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the expected amount of the allowed claim, even if they may be settled for lesser amounts. Additional pre-filing claims (liabilities subject to compromise) may arise due to the allowance of contingent or disputed claims.

#### **New Accounting Pronouncements**

In May 2004 the FASB issued an FSP on SFAS No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("Act"). The Act was signed into law on December 8, 2003 and expanded Medicare to include prescription drugs. We sponsor retiree medical programs and this legislation includes a federal subsidy for qualifying companies. The FSP on SFAS 106-2 requires that the effects of the federal subsidy be considered an actuarial gain and treated like similar gains and losses. It also requires certain disclosures for sponsors of retiree medical programs. This FSP is effective in the first interim or annual period beginning after June 15, 2004. The accumulated post-retirement benefit obligation and the net periodic post-retirement benefit cost do not reflect any amount associated with the subsidy because the company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

In November 2004 the FASB issued SFAS No. 151, *Inventory Costs - an amendment of ARB No. 43, Chapter 4*. This Statement amends the guidance in ARB No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires that those items be recognized as

current-period charges. Furthermore, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The company is evaluating the effect this Statement will have on the company's financial position, results of operations, and cash flows.

In December 2004 the FASB issued a revision to FASB Statement No. 123, SFAS No. 123R, *Stock-Based Payment*, focusing primarily on accounting for transactions in which an organization issues stock options or share-based payments for employee services. SFAS 123R will become effective for the company on January 1, 2006. The company is evaluating the effect this Statement will have on the company's financial position, results of operations, and cash flows.

In December 2004 the FASB issued FSP FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*. The American Jobs Creation Act of 2004 provides a tax deduction on qualified production activities up to 9% of the lesser of qualified production activities income, as defined in the Act, or taxable income after the deduction for the utilization of any net operating loss carryforwards. According to the Statement, the deduction should be accounted for as a special deduction in accordance with Statement 109. This FSP will not have a material effect on the company's financial position, results of operations or cash flows in 2005 due to net operating loss carryforwards.

In December 2004 the FASB issued FSP FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*. The American Jobs Creation Act allows a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. The company has repatriated some of its foreign earnings so far in 2005 and may elect to repatriate additional amounts of such earnings in 2005. FSP 109-2 provides accounting and disclosure guidance for the repatriation provision. Although FSP 109-2 is effective immediately, it allows companies additional time beyond the enactment date to evaluate the effects of the provision on its plan for investment or repatriation of unremitted foreign earnings. This FSP will not have a material effect on the company's financial position, results of operations or cash flows in 2005 due to net operating loss carryforwards.

In March 2005 the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. This Interpretation clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and / or method of settlement are conditional on a future event that may or may not be within the control of the entity. This Interpretation also clarifies the timing and estimation of fair value as it relates to an asset retirement obligation. This Interpretation is effective for the company as of the year ending December 31, 2005. The company is currently evaluating the impact this Interpretation will have on the company's financial position, results of operations and cash flows.

### **Forward-looking Statements**

This report contains forward-looking statements that involve substantial risks and uncertainties. Any statements that are not historical, which may include forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words, fall within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements, based on assumptions believed to be valid at the time, discuss our future expectations, contain projections of our future results of operations or of our financial position or state other "forward-looking" information. The following items, "Factors Affecting Future Results", as well as any cautionary language in this report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not undertake to update any forward-looking statement made in this report or that may, from time to time, be made by us, or on our behalf.

## Factors Affecting Future Results

Our future results of operations and our financial position may be affected by a number of factors and risks, including, but not limited to, the following:

### Bankruptcy Proceedings

*FiberMark's chapter 11 filing could harm our financial condition and results of operations.*

On March 30, 2004, FiberMark, Inc. and its U.S. subsidiaries filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code.

FiberMark's bankruptcy filing could present additional challenges, including, without limitation: possible problems with our relationships with customers, suppliers, employees and creditors; our ability to attract and retain key employees; and uncertainty as to the confirmation and implementation of a new plan of reorganization. The company's future results depend on the timely and successful confirmation and implementation of a plan of reorganization. Numerous factors, including the possibility of rejection of such a plan by one or more of the various classes of claims and interest holders, may prevent confirmation of such a plan. For example, on March 22, 2005, FiberMark, Inc., withdrew the Plan of Reorganization dated December 17, 2004, on file in its chapter 11 case. The withdrawal became necessary because its three largest bondholders, also members of the Creditors Committee, had not resolved ongoing disagreements among themselves related to corporate governance and control issues involving the reorganized company. As a result, the company could not proceed with confirmation of the Plan. By order of the Bankruptcy Court dated April 19, 2005, any new plan by the company or any other party in interest must be filed by August 8, 2005. Only the company may file a plan before June 8, 2005, but any such plan must have the support of all members of the Creditors Committee. In the meantime, an examination is being conducted by an examiner appointed by the Bankruptcy Court in connection with issues in dispute among the three bondholder members of the Creditors Committee. The report of the examiner is due to be filed on June 8, 2005. The report may have impact on the terms of any new plan. The terms of a new plan will have a material effect on the company's subsequent liquidity and its long-term and short-term commitments and cash flow, which we cannot now predict. Continuing delay in obtaining confirmation and implementation of a plan of reorganization may negatively impact the company's future results.

### Financial Position

*Our substantial level of indebtedness could adversely affect our financial condition.*

As of March 31, 2005, we had approximately \$351.6 million of indebtedness, including our outstanding 10.75% Senior Subordinated Notes Due 2011 "2001 notes", our revolving credit facilities and the indenture for our outstanding 9.375% Series B Senior Notes due 2006 "1996 notes".

We cannot predict to what extent a new plan of reorganization in our bankruptcy proceedings, if filed, confirmed and implemented, will succeed in reducing our indebtedness and improving our debt-to-equity and EBITDA-to-debt service ratios. A continuing high level of indebtedness could have important consequences, which might include the following: impair our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes; reduce the funds available to us for other purposes such as capital expenditures; create a competitive disadvantage, to the extent that our indebtedness exceeds the level of some competitors, and reduce our flexibility in planning for, or responding to, changing conditions in our industry, including increased competition; increase our vulnerability to economic downturns and adverse developments in our business; incur restrictions that limit our ability and the ability of our subsidiaries, among other things, to incur additional indebtedness or liens; pay dividends or make other distributions; repurchase our common stock; make investments; sell assets; enter into agreements restricting our subsidiaries' ability to pay dividends; enter into transactions with affiliates; and consolidate,



merge or sell all or substantially all of our assets.

Assuming that a new plan of reorganization is filed, confirmed and implemented, we expect to obtain funds to service our remaining debt over time primarily from our operations and from borrowings under an exit facility that will replace the DIP Facility. We cannot be certain that our cash flow will be sufficient to allow us to pay such debt service. If we do not have sufficient cash flow, we may be required to refinance all or part of our existing debt, sell assets, borrow more money, or restructure our debts with our creditors. We cannot guarantee that we will be able to do so on terms acceptable to us. In addition, the terms of existing or future debt agreements may restrict us from adopting any of these alternatives. The failure to generate sufficient cash flow or to achieve such alternatives could have a significant adverse affect on our ability to make required payments.

In addition, a breach of any of the financial covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders and holders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness.

## Results of Operations

*Fluctuations in the costs and availability of raw materials could harm our business.*

Our principal raw materials, hardwood and softwood pulp and secondary fiber and latex, are cyclical in both price and supply. The cyclical nature of pulp pricing presents a potential risk to our gross profit margins because we may not be able to pass along price increases to our customers. We may also be unable to purchase pulp in sufficient quantities, or at acceptable prices, to meet our production requirements during times of tight supply.

A significant price increase or any material limitation or interruption in our supply of key raw materials, including pulp, Tyvek®, or latex, particularly if we are unable to pass those increases through to our customers, could harm our financial condition, results of operations and competitive position. DuPont is the sole source of Tyvek®, a critical component in our binding tapes.

*Fluctuations in economic activity and demand for our products could harm our business.*

The markets for our products are variable and are influenced to a significant degree by the global economic activity and fluctuations in our customers' demand and inventory levels. Downturns in global economic conditions and decreased demand for specialty fiber-based materials could have a material adverse effect on our financial condition and results of operations. Our efforts to find new high growth, high margin product lines to offset the effects of market shrinkage or slow growth in mature markets may not succeed. Achieving further market share gains in markets where we already have strong market positions may be difficult.

*Competition in specialty paper and materials markets could harm our financial condition and results of operations.*

We face intense competition, which could harm our financial condition and results of operations. Our principal competitors include a small number of paper and specialty paper manufacturers. Additionally, we compete with producers of nonwoven materials, vinyl, plastic and other substitute materials and technologies. Some of these competitive options may be lower priced, lower quality or offer other advantages. Consequently, short-term or structural declines in sales may result. Some of these producers have substantially greater resources than we do. Further concentration of our competitors through mergers and acquisitions may increase their competitive advantage. In addition, some of our customers have the internal ability to process some or all of the materials they buy from us, and have in the past elected to do so. To the extent our customers elect to do so in the future, our business could suffer. Industry and market-specific capacity levels can also affect competitive behavior and adversely impact pricing levels. Increased concentration of buying power in certain large direct or indirect customers can have similar effects.

*Our industry is subject to many environmental and other governmental regulations. These regulations could give rise to significant additional liabilities or expenditures or restrictions on our business, any of which could cause our financial condition and results of operations to suffer.*

Our operations and properties are subject to a wide variety of foreign, federal, state and local laws and regulations, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of various materials, substances and wastes, the remediation of contaminated soil and groundwater, and the health and safety of employees. Such regulations can restrict our operations, and expose us to claims and other liabilities with respect to environmental protection, remediation and health and safety matters. We could incur material costs or other liabilities in connection with such regulations or claims. In addition, future events, such as new information, changes in environmental or health and safety laws or regulations or their interpretation, and more vigorous enforcement policies of regulatory agencies, may result in significant additional expenditures, liabilities or restrictions that could harm our financial condition, results of operations and competitive position.

*Disruptions caused by labor disputes or organized labor activities may harm our business.*

A large proportion of our workforce is represented by labor unions. In addition, we may from time to time experience union organizing activities in currently non-union facilities. Disputes with the current labor organizations with which we work or new union organizing activities may result in work slowdowns or stoppages or higher labor costs. A work slowdown or stoppage in any one of our facilities could slow or halt production from that facility and from any other facility which depends on that facility for its material. As a result, meeting scheduled delivery times for our customers could be difficult or impossible, which could result in loss of business.

*Expected cost savings related to site closures and facility consolidations may be further delayed.*

We continue to experience delays in realizing the expected cost savings related to our site closures and facility consolidations. While some of these savings have been realized, they have been achieved more slowly than expected due to offsetting inefficiencies that we believe are short term in nature. Some consolidation activity was delayed due to the time necessary to effectively implement the transfers, while other activity was delayed in order to postpone associated capital spending given uncertain economic conditions. Failing to achieve these expected cost savings would adversely affect our results of operations.

## **Inflation**

We attempt to minimize the effect of inflation on earnings by controlling operating expenses. During the past several years, the rate of general inflation has been relatively low and has not had a significant impact on our results of operations. We purchase raw materials that are subject to cyclical changes in costs that may not reflect the rate of general inflation.

## **Seasonality**

Our business is mildly seasonal, with the second half of each year typically having a lower level of net sales and operating income. This seasonality is the result of summer manufacturing shutdowns and the impact of year-end holidays.

## **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have, or are likely to have, a current future material effect on our financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a result of our global operating and financing activities, we are exposed to market risks including changes in commodity pricing, fluctuations in interest rates, and fluctuations in foreign currency exchange rates. Our principal commodities that can fluctuate in price are natural gas and wood pulp. We manage our exposure to price fluctuations in natural gas by purchasing forward contracts for a substantial portion of our winter requirements. These contracts are evaluated annually. To a certain extent, pulp costs are managed through purchasing practices that attempt to minimize the impact of market price changes. We have not historically hedged our pulp purchases.

#### *Interest Rate Risk*

While the majority of our debt is fixed-rate, we are exposed to interest rate fluctuations due to balances outstanding on our credit facilities, which have variable interest rates based on various domestic and European interest rate benchmarks such as LIBOR, the Prime Rate, and Euribor. Based on the March 31, 2005, outstanding borrowing under the credit facility of \$12.6 million, the impact of a 1% increase in the interest rates would be less than \$0.2 million and immaterial to our consolidated financial position, results of operations or cash flows.

#### *Foreign Currency Risk*

FiberMark manufactures products in the United States, Germany and the United Kingdom, and sells products worldwide with transactions being denominated in foreign currencies other than the local currency of the subsidiary. As a result, financial results could be affected by changes in the foreign currency exchange rates or economic conditions in countries where our products are sold.

Our operations are able to limit foreign currency exchange transaction risks by completing transactions in local currencies. Global currency transaction exposures are offset wherever possible before exchanging foreign currencies. In addition, our German operations borrow in local currency, which partially hedges the foreign currency exposure of those operations. We do not hedge our exposure to our net investments denominated in foreign currencies.

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## ITEM 4. CONTROLS AND PROCEDURES

### *Evaluation of Disclosure Controls and Procedures*

FiberMark has established and maintains disclosure controls and other procedures that are designed to ensure that material information relating to FiberMark and its subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (commonly referred to as the Exchange Act). These officers recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and such officers necessarily apply their judgment in evaluating the company's disclosure controls and procedures. Based on this evaluation as of March 31, 2005, our chief executive officer and our chief financial officer concluded that our internal controls and procedures were effective at the reasonable assurance level, except as described below.

### *Changes in Internal Controls*

In connection with their audit of our consolidated financial statements for the fiscal year ended December 31, 2004, our independent registered public accounting firm, KPMG LLP, reported to the company that material weaknesses continued to be identified in the company's internal controls relating to: insufficient review and analysis of certain account balances, reconciliations and trends; insufficient technical accounting resources and inadequate controls to ensure the appropriate accounting of foreign currency transactions, including transactions denominated in a foreign currency and investments and intercompany transactions with foreign subsidiaries as stipulated by FASB Statement No. 52, *Accounting for Foreign Currency*.

The evaluation of internal controls is subjective and involves judgment. We believe the areas in our internal control cited by KPMG LLP with respect to the review and analysis process and accounting for foreign currency transactions that required improvements as of that time have since been substantially corrected. Significant improvements were made during 2004 and are continuing in 2005 in internal controls over financial reporting, including processes related to account reconciliations, account analysis, supporting documentation and technical accounting issues. During the first quarter of 2005, the company took measures to correct these material weaknesses including enhancement of financial systems and resources to provide more timely financial information and analysis. Additionally, the company has implemented monthly analysis and accounting for foreign currency transactions.

There were no significant changes in the company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) or in other factors that could materially affect, or reasonably likely to materially affect, such control subsequent to the date of their most recent evaluation, other than those measures outlined above. The company believes that these measures, which were instituted during 2004 and 2005, along with additional controls it continues to implement, are reasonably likely to have a positive impact on its internal control over financial statement preparation and foreign currency transactions in future periods.

## **PART II. OTHER INFORMATION.**

### **ITEM 1. LEGAL PROCEEDINGS.**

On March 30, 2004, FiberMark, Inc. and its U.S. operations filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code. Please see note 1 to the Notes to the Condensed Consolidated Financial Statements for further information.

We are also involved in legal proceedings arising in the ordinary course of business, none of which are expected to have a material adverse affect on our operations or financial condition.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

On March 30, 2004, FiberMark, Inc., and its U.S. subsidiaries filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code. The filing resulted in an immediate acceleration of the company's 9.375% senior non-amortizing notes and 10.75% senior non-amortizing notes, subject to the automatic stay. At this time, it is not possible to predict accurately the outcome of the chapter 11 reorganization process or its effects on the Debtors' business, creditors or stockholders or whether or when we may subsequently emerge from chapter 11. The company's future results depend on the timely and successful confirmation and implementation of a reorganization plan.

The ultimate treatment of and recovery, if any, by creditors and equity holders will not be determined until confirmation and implementation of a plan of reorganization. FiberMark, Inc., and the other Debtors are unable to predict at this time what the treatment of creditors and equity holders of the respective Debtors will ultimately be under any plan of reorganization finally confirmed. Although until a plan is approved there is substantial uncertainty as to the treatment of creditors and equity holders, based upon information available to it, the company currently believes that any proposed reorganization plan will provide for the cancellation of existing equity interests and for reduced recoveries by holders of debt securities.

### **ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None

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**ITEM 6. EXHIBITS:**

- 31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 dated May 23, 2005
  - 32.1 Certification of Principal Executive Officer pursuant to Rules 12a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of Principal Financial Officer pursuant to Rules 12a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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## SIGNATURES

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

FiberMark, Inc.

Date: May 23, 2005

By: /s/ John E. Hanley

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Vice President and Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)

FiberMark, Inc.

Date: May 23, 2005

By: /s/ Craig D. Thiel

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Vice President and Corporate Controller  
(Principal Accounting Officer)

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**EXHIBIT INDEX**

Number	Description
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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of FiberMark, Inc. (the “company”) on Form 10-Q for the quarterly period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Alex Kwader, chairman and chief executive officer of the company, and I, John E. Hanley, vice president and chief financial officer of the company, certify, pursuant to 18 U.S.C. (Section Mark) 1350, as adopted pursuant to (Section Mark) 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

FiberMark, Inc.

Date: May 23, 2005

By: /s/ Alex Kwader

\_\_\_\_\_  
Chairman and Chief Executive Officer

FiberMark, Inc.

Date: May 23, 2005

By: /s/ John E. Hanley

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Vice President and Chief Financial Officer

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

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### CERTIFICATION

I, Alex Kwader, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FiberMark, Inc.;
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. The registrant'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)) for the registrant 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 the registrant, 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) [Not applicable]
  - c) Evaluated the effectiveness of the registrant'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 the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 the registrant'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 the registrant's internal control over financial reporting.

Date: May 23, 2005

/s/ Alex Kwader

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Alex Kwader  
Chairman and Chief Executive Officer

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### CERTIFICATION

I, John E. Hanley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FiberMark, Inc.;
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. The registrant'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)) for the registrant 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 the registrant, 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) [Not applicable]
  - c) Evaluated the effectiveness of the registrant'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 the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 the registrant'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 the registrant's internal control over financial reporting.

Date: May 23, 2005

/s/ John E. Hanley

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John E. Hanley  
Vice President and Chief Financial Officer  
(Principal Financial Officer)