GLATFELTER P H CO
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD from __________ to __________**

For the quarterly period ended September 30, 2008
Commission file number 1-3560
P. H. Glatfelter Company
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	**23-0628360** (IRS Employer Identification No.)
96 South George Street, Suite 500 **York, Pennsylvania 17401** (Address of principal executive offices)	**(717) 225-4711** (Registrant s telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 31, 2008, P. H. Glatfelter Company had 45,316,284 shares of common stock outstanding.

P. H. GLATFELTER COMPANY
REPORT ON FORM 10-Q
for the QUARTERLY PERIOD ENDED
SEPTEMBER 30, 2008
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PART I

Item 1 Financial Statements

P. H. GLATFELTER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

In thousands, except per share	**Three months ended September 30 2008**	Three months ended September 30 2007	**Nine months ended September 30 2008**	Nine months ended September 30 2007
Net sales	**$ 339,822**	$ 291,859	**$ 965,545**	$ 860,939
Energy sales net	**2,885**	2,491	**7,612**	7,129
Total revenues	**342,707**	294,350	**973,157**	868,068
Costs of products sold	**285,535**	247,470	**839,329**	755,679
Gross profit	**57,172**	46,880	**133,828**	112,389
Selling, general and administrative expenses	**24,802**	42,197	**74,314**	94,700
(Reversal of) shutdown and restructuring charges			**(856)**	162
Gains on dispositions of plant, equipment and timberlands, net	**(3,975)**	(2,301)	**(18,477)**	(11,188)
Operating income	**36,345**	6,984	**78,847**	28,715
Non-operating income (expense)				
Interest expense	**(5,654)**	(7,569)	**(17,626)**	(22,330)
Interest income	**1,170**	979	**4,131**	2,568
Other net	**146**	113	**317**	380
Total other income (expense)	**(4,338)**	(6,477)	**(13,178)**	(19,382)
Income before income taxes	**32,007**	507	**65,669**	9,333
Income tax provision	**10,345**	(7,305)	**21,176**	(3,730)
Net income	**$ 21,662**	$ 7,812	**$ 44,493**	$ 13,063
Earnings per share				
Basic	**$ 0.48**	$ 0.17	**$ 0.98**	$ 0.29
Diluted	**0.47**	0.17	**0.97**	0.29
Cash dividends declared per common share	**$ 0.09**	$ 0.09	**$ 0.27**	$ 0.27
Weighted average shares outstanding				
Basic	**45,279**	45,084	**45,221**	45,004
Diluted	**45,650**	45,364	**45,669**	45,365

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

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P. H. GLATFELTER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

In thousands	**September 30 2008**	December 31 2007
Assets		
Current assets		
Cash and cash equivalents	**$ 15,947**	$ 29,833
Accounts receivable net	**156,534**	122,980
Inventories	**189,928**	193,042
Prepaid expenses and other current assets	**40,075**	27,557
Total current assets	**402,484**	373,412
Plant, equipment and timberlands net	**507,928**	519,866
Other assets	**403,186**	393,789
Total assets	**$ 1,313,598**	$ 1,287,067
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	**$ 13,071**	$ 11,008
Short-term debt	**2,081**	1,136
Accounts payable	**60,397**	73,195
Dividends payable	**4,077**	4,063
Environmental liabilities	**11,352**	7,038
Other current liabilities	**109,319**	101,116
Total current liabilities	**200,297**	197,556
Long-term debt	**298,938**	301,041
Deferred income taxes	**190,292**	189,156
Other long-term liabilities	**124,492**	123,246
Total liabilities	**814,019**	810,999
Commitments and contingencies		
Shareholders equity		
Common stock	**544**	544
Capital in excess of par value	**47,057**	44,697

Retained earnings	**595,802**	563,608
Accumulated other comprehensive (loss) income	**(9,238)**	4,061
	634,165	612,910
Less cost of common stock in treasury	**(134,586)**	(136,842)
Total shareholders equity	**499,579**	476,068
Total liabilities and shareholders equity	**$ 1,313,598**	$ 1,287,067

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

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P. H. GLATFELTER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

In thousands	**Nine months Ended September 30 2008**	2007
Operating activities		
Net income	**$ 44,493**	$ 13,063
Adjustments to reconcile to net cash provided (used) by operations:		
Depreciation, depletion and amortization	**46,374**	42,293
Pension income	**(11,944)**	(9,646)
(Reversal of) shutdown and restructuring charges	**(856)**	162
Deferred income tax provision	**4,366**	(11,843)
Gains on dispositions of plant, equipment and timberlands, net	**(18,477)**	(11,188)
Stock-based compensation	**3,575**	2,975
(Cash used) reserve for environmental matters	**(12,503)**	25,177
Change in operating assets and liabilities		
Accounts receivable	**(34,768)**	(5,320)
Inventories	**(1,215)**	10,168
Other assets and prepaid expenses	**5,925**	(1,550)
Accounts payable	**(11,482)**	(9,280)
Accruals and other current liabilities	**2,906**	12,297
Other	**1,365**	455
Net cash provided by operating activities	**17,759**	57,763
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	**(40,839)**	(19,289)
Proceeds from disposals of plant, equipment and timberlands, net	**19,280**	12,099
Net cash used by investing activities	**(21,559)**	(7,190)
Financing activities		
Net repayments of revolving credit facility and other	**(25,000)**	(20,656)
Net repayments of other short term debt	**(846)**	(1,767)
Proceeds from borrowing from Sun Trust Financial	**36,695**	
Principal repayments 2011 Term Loan	**(9,000)**	(23,000)
Payment of dividends	**(12,343)**	(12,253)
Proceeds from stock options exercised and other	**1,150**	1,477
Net cash used by financing activities	**(9,344)**	(56,199)
Effect of exchange rate changes on cash	**(742)**	1,461
Net decrease in cash and cash equivalents	**(13,886)**	(4,165)
Cash and cash equivalents at the beginning of period	**29,833**	21,985

Cash and cash equivalents at the end of period	**$ 15,947**	$ 17,820
Supplemental cash flow information		
Cash paid (received) for		
Interest	**$ 12,182**	$ 18,555
Income taxes	**18,239**	(900)

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
unaudited

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter) is a manufacturer of specialty papers and engineered products. Headquartered in York, Pennsylvania, our manufacturing facilities are located in Spring Grove, Pennsylvania; Chillicothe and Freemont, Ohio; Gloucestershire (Lydney), England; Caerphilly, Wales; Gernsbach, Germany; Scaër; France; and the Philippines. Our products are marketed throughout the United States and in over 85 other countries, either through wholesale paper merchants, brokers and agents or directly to customers.

2. ACCOUNTING POLICIES

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

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP. In our opinion, the unaudited interim consolidated financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2007 Annual Report on Form 10-K (2007 Form 10-K).

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes the estimates and assumptions used in the preparation of these consolidated financial statements are reasonable, based upon currently available facts and known circumstances, but recognizes that actual results may differ from those estimates and assumptions.

3. RECENT PRONOUNCEMENTS

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). This standard defines the term fair value , establishes a framework for measurement and requires expanded
disclosures about the fair value measurements. The adoption of SFAS No. 157 did not have an impact on our consolidated financial position or results of operations.

In December 2007, SFAS No. 141(R), Business Combinations was issued. This statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. In addition, under SFAS No. 141(R), changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. With respect to us, SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. However, after adoption of SFAS No. 141(R), changes in estimates of deferred tax assets and liabilities, and final settlements of all income tax uncertainties that related to a business combination which are made after the measurement period will impact income tax expense. We expect SFAS No. 141(R) will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time.

In June 2008, the FASB issued Staff Position (FSP) No. EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. This FSP affects entities that accrue cash dividends on share-based payment awards during the awards service period when the dividends do not need to be returned if the employees forfeit the award. The FSP requires that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and are considered participating securities. The provisions of FSP No. EITF 03-6-1 are effective for fiscal years beginning after December 15, 2008. We are currently evaluating the requirements of FSP No. EITF 03-6-1, to determine the impact, if any, on our consolidated financial statements.

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4. ACQUISITIONS

Metallised Products Limited On November 30, 2007, through Glatfelter-UK Limited, a wholly-owned subsidiary, we completed our acquisition of Metallised Products Limited (MPL), a privately owned company that manufactures a variety of metallized paper products for consumer and industrial applications. MPL is based in Caerphilly, Wales.

Under terms of the agreement, we purchased the stock of MPL for $6.8 million cash and assumed $5.8 million of debt in addition to $1.5 million of transaction costs. The amounts set forth above reflect a $0.4 million reduction in the original purchase price based on final adjusted working capital as of the closing date. The acquisition, which was financed from our existing cash balance, employed about 165 people and had 2007 revenues of approximately $53.4 million.

The following table summarizes the preliminary allocation of the purchase price to assets acquired and liabilities assumed:

In thousands	
Assets acquired:	
Cash	$ 730
Accounts receivable	7,718
Inventory	4,747
Property and equipment	10,178
Other assets	885
Goodwill	1,907
	26,165
Liabilities assumed	
Less acquisition related liabilities including accounts payable and accrued expenses	11,963
Long term debt	5,830
	17,793
Total	$ 8,372

5. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

During the first nine months of 2008 and 2007, we completed sales of timberlands which are summarized by the following table:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2008			
Timberlands	**4,561**	**$19,280**	**$18,646**
Other			**(169)**
	4,561	**$19,280**	**$18,477**
2007			
Timberlands	4,674	$11,649	$11,223
Other		450	(35)

	4,674	$12,099	$11,188

The amounts set forth above for 2008 include a $2.9 million gain from the sale of 261 acres of timberlands for cash consideration to George H. Glatfelter, our chairman and chief executive officer and his spouse. In accordance with terms of our credit facility, we are required to use the proceeds from timberland sales to reduce amounts outstanding under our term loan.

6. EARNINGS PER SHARE

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

	Three months ended September 30	
In thousands, except per share	**2008**	2007
Net income	**$21,662**	$ 7,812
Weighted average common shares outstanding used in basic EPS	**45,279**	45,084
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	**371**	280
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**45,650**	45,364
Earnings per share		
Basic	**$ 0.48**	$ 0.17
Diluted	**0.47**	0.17

	Nine months ended September 30	
In thousands, except per share	**2008**	2007
Net income	**$44,493**	$13,063
Weighted average common shares outstanding used in basic EPS	**45,221**	45,004
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	**448**	361
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**45,669**	45,365
Earnings per share		
Basic	**$ 0.98**	$ 0.29
Diluted	**0.97**	0.29

Approximately 674,534 of potential common shares have been excluded from the computation of diluted earnings per share for the three month and nine month periods ended September 30, 2008 due to their anti-dilutive nature. Approximately 460,750 and 457,750 of potential common shares were excluded from the computation of diluted earnings per share for the three month and nine month periods ended September 30, 2007, respectively.

7. INCOME TAXES

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

As of September 30, 2008 and December 31, 2007, we had $27.9 million and $26.1 million of gross unrecognized tax benefits respectively. As of September 30, 2008, if such benefits were to be recognized, approximately $22.1 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

We, or one of our subsidiaries, file income tax returns with the United States Internal Revenue Service, as well as various state and foreign authorities. The following table summarizes tax years that remain subject to examination by major jurisdiction:

	Open Tax Year	
Jurisdiction	Examination in progress	Not under examination
United States		
Federal	2004 2006	2007
State	2004	2003 2007
Germany (1)	2003 2006	2007
France	N/A	2006 2007
United Kingdom	N/A	2006 2007
Philippines	2005 2007	N/A

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state, and foreign examinations, and the expiration of various statutes of limitations, it is reasonably possible our gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to $0.8 million.

We recognize interest and penalties related to uncertain tax positions as income tax expense. Interest expense recognized in the third quarter of 2008 totaled $0.3 million and $0.2 million in the third quarter of 2007. Interest expense recognized for the first nine months of 2008 totaled $0.5 million and $0.5 million during the first nine months of 2007. Accrued interest was $2.3 million and $1.8 million as of September 30, 2008 and December 31, 2007, respectively. We did not record any penalties associated with uncertain tax positions during 2008 or 2007.

8. STOCK-BASED COMPENSATION

During the first nine months of 2008, 265,910 Stock Only Stock Appreciation Rights (SOSAR) were granted, net of forfeitures, to members of executive management at a weighted average grant date strike price of $13.49 per share. Under terms of the SOSAR, the recipients received the right to receive a payment in the form of shares of common stock equal to the difference if any, in the fair market value of one share of common stock at the time of exercising the SOSAR and the strike price. The SOSARs, which vest ratably over a three year period, had a grant date fair value, estimated using the Black-Scholes valuation model, of $3.75 per right, and an aggregate value of $1.1 million. In addition, 137,600 Restricted Stock Units (RSU) were issued in the first nine months of 2008 with a weighted-average grant date fair value of $14.47 per unit and an aggregate value of $2.0 million. The RSUs vest over a period ranging from three years to five years.

During the first nine months of 2008 and 2007, we recognized stock-based compensation expense totaling $3.5 million and $3.0 million, respectively.

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9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

The following table provides information with respect to the net periodic costs of our pension and post retirement medical benefit plans.

	Three months ended September 30	
In thousands	**2008**	2007
Pension Benefits		
Service cost	**$ 1,907**	$ 2,392
Interest cost	**5,897**	5,452
Expected return on plan assets	**(12,445)**	(11,872)
Amortization of prior service cost	**571**	600
Amortization of unrecognized loss	**91**	203
Net periodic benefit income	**$ (3,979)**	$ (3,225)
Other Benefits		
Service cost	**$ 503**	$ 506
Interest cost	**825**	759
Expected return on plan assets	**(216)**	(223)
Amortization of prior service cost	**(337)**	(259)
Amortization of unrecognized loss	**359**	262
Net periodic benefit cost	**$ 1,134**	$ 1,045

	Nine months ended September 30	
In thousands	**2008**	2007
Pension Benefits		
Service cost	**$ 6,435**	$ 7,176
Interest cost	**17,646**	16,370
Expected return on plan assets	**(38,077)**	(35,600)
Amortization of prior service cost	**1,768**	1,799
Amortization of unrecognized loss	**284**	609
Net periodic benefit income	**$(11,944)**	$ (9,646)
Other Benefits		
Service cost	**$ 1,564**	$ 1,520
Interest cost	**2,401**	2,275
Expected return on plan assets	**(633)**	(669)
Amortization of prior service cost	**(933)**	(776)
Amortization of unrecognized loss	**981**	786

Net periodic benefit cost	**$ 3,380**	$ 3,136

In millions	**Sept. 30, 2008**	Dec. 31, 2007
Pension Plan Assets		
Fair value of plan assets at end of period	**$489.0**	$603.6

The decline in the fair value of our pension plan assets reflects the deteriorating global equity markets during 2008. As of December 31, 2007, approximately 70% of the pension plan assets were invested in publicly-traded equity securities and the balance was comprised of cash and fixed rated debt instruments.

As of December 31, 2007, our pension plans were overfunded by $230.3 million. Although the fair value of our pension plan assets has since declined, the plans remain overfunded at September 30, 2008.

10. COMPREHENSIVE INCOME

The following table sets forth comprehensive income and its components:

	Three months ended September 30	
In thousands	**2008**	2007
Net income	**$ 21,662**	$ 7,812
Foreign currency translation adjustment	**(29,510)**	11,207
Additional pension liability amortization, net of tax	**466**	528
Comprehensive income	**$ (7,382)**	$19,547

	Nine months ended September 30	
In thousands	**2008**	2007
Net income	**$ 44,493**	$13,063
Foreign currency translation adjustment	**(14,669)**	17,623
Additional pension liability amortization, net of tax	**1,370**	1,517
Comprehensive income	**$ 31,194**	$32,203

11. INVENTORIES

Inventories, net of reserves, were as follows:

In thousands	**Sept. 30, 2008**	Dec. 31, 2007
Raw materials	**$ 45,733**	$ 41,119
In-process and finished	**95,215**	102,219
Supplies	**48,980**	49,704
Total	**$189,928**	$193,042

12. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	**Sept. 30, 2008**	Dec. 31, 2007
Revolving credit facility, due April 2011	**$ 7,314**	$ 35,049
Term Loan, due April 2011	**34,000**	43,000
$7^1/8$% Notes, due May 2016	**200,000**	200,000
Term Loan, due January 2013	**36,695**	
Note payable, due March 2013	**34,000**	34,000
Total long-term debt	**312,009**	312,049
Less current portion	**(13,071)**	(11,008)
Long-term debt, excluding current portion	**$298,938**	$301,041

Our revolving credit facility provides for up to $200 million of aggregate borrowings on an unsecured basis. The term loan due in April 2011 requires quarterly repayments of principal outstanding that began on March 31, 2007 with the final principal payment due on April 2, 2011. In addition, if certain prepayment events occur, such as a sale of assets, the incurrence of additional indebtedness in excess of $40.0 million in the aggregate, or issuance of additional equity; we must repay a specified portion of the term loan within five days of the prepayment event.

Borrowings under the credit agreement bear interest, at our option, at either (a) the bank s base rate described in the credit agreement as the greater of the prime rate or the federal funds rate plus 50 basis points, or (b) a EURO-rate option, based generally on LIBOR at terms up to 6 months selected at our option at the time of borrowing, plus an applicable margin that varies from 67.5 basis points to 137.5 basis points according to our corporate credit rating determined by S&P and Moody s.

The credit agreement, as amended, contains a number of customary covenants for financings of this type that, among other things, restrict our ability to: i) dispose of or create liens on assets; ii) transfer assets between borrowing or guaranteeing subsidiaries and non guaranteeing subsidiaries; iii) incur additional indebtedness; iv) repay other indebtedness; or v) make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios, including a consolidated minimum net worth test, a maximum debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio and a minimum interest coverage ratio. A breach of these requirements, of which we were not aware of any at September 30, 2008, would give rise to certain remedies under the credit agreement as amended, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

The $7^1/8$% Senior Note agreement contains a cross-default clause that provides if there were to be an event of default under the credit agreement discussed earlier, we would also be in default under the $7^1/8$% Senior Notes.

In November 2007, we sold timberlands and as consideration received a $43.2 million, 20-year interest bearing note receivable from the timberland buyer. In January 2008, we pledged this note as collateral under a $36.7 million term loan (the 2008 Term Loan) with SunTrust Financial. The 2008 Term Loan matures in five years, and bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.20% per annum.

On March 21, 2003, we sold timberlands and received as consideration a $37.9 million 10-year interest bearing note receivable from the timberland buyer. We pledged this note as collateral under a $34.0 million promissory note payable to SunTrust Financial (the Note Payable). The Note Payable was scheduled to mature in March 2008. In February 2008, we amended the Note Payable to extend its maturity until March 26, 2013.
Beginning on March 26, 2008, the Note Payable bears a fixed rate of interest of 3.10%.

The notes receivable, discussed in the preceding paragraphs, aggregating $81.1 million, are recorded in the accompanying consolidated balance sheets under the caption Other assets.

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

As of September 30, 2008 and December 31, 2007, we had $12.7 million and $14.1 million of letters of credit issued to us by certain financial institutions. The letters of credit provide financial assurances for i) commitments made related to the Fox River environmental matter, ii) for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program, and iii) assurance related to the purchase of certain utilities for our manufacturing facilities. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

13. ASSET RETIREMENT OBLIGATION

During the second quarter of 2008, we recorded $7.2 million of asset retirement obligations related to the legal requirement to close 19 lagoons at the Spring Grove, PA facility. The lagoons are currently being used to dispose of residual waste material. Closure of the lagoons, which is expected to occur over the next several years, not to exceed ten years, will be accomplished by disposing in the lagoons certain non-hazardous sludge, ash and other residual material currently produced by the mill. This will be followed by the placement of a cover comprised primarily of purchased clay and top soil to construct the required cap over the lagoons. The ultimate time period over which the lagoons are closed is dependent upon the plan to be agreed and approved by the Pennsylvania Department of Environmental Protection. The amounts referred to above were accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the consolidated balance sheet. The amount capitalized will be amortized as a charge to operations on a systematic basis in relation to the expected closure period.

14. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River Neenah, Wisconsin

Background We have significant uncertainties associated with environmental claims arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay Wisconsin (Site). As part of the 1979 acquisition of the Bergstrom Paper Company we acquired a facility located at the Site (the Neenah Facility). In part, the Neenah Facility used wastepaper as a source of fiber. At no time did the Neenah Facility utilize PCBs in the pulp and paper making process, but discharges to the lower Fox River from the Neenah Facility which may have contained PCBs from wastepaper may have occurred from 1954 to the late 1970s. Any PCBs that our Neenah Facility discharged into the lower Fox River resulted from the presence of PCBs in NCR®-brand carbonless copy paper in the wastepaper that was recycled at the Neenah Facility. We closed the Neenah Facility in June 2006.

The United States, the State of Wisconsin and various state and federal governmental agencies (collectively, the Governments), as well as private parties, have found PCBs in sediments on the bed of the Fox River, apparently from a number of sources at municipal and industrial facilities along the upstream and downstream portions of the Site. The Governments have identified manufacturing and recycling of NCR®-brand carbonless copy paper as the principal source of that contamination.

The United States Environmental Protection Agency (EPA) has divided the lower Fox River and the Bay of Green Bay site into five operable units numbered from the most upstream (OU1) to the most downstream (OU5). OU1 is the reach from primarily Lake Winnebago to the dam at Appleton, and is comprised of Little Lake Butte des Morts. Our Neenah Facility discharged its wastewater into OU1. OU2 extends from the dam at Appleton to the dam at Little Rapids, OU3 from the dam at Little Rapids to the dam at De Pere, OU4 from the dam at De Pere to the mouth of the river, and OU5 from the mouth into the lower portion of Green Bay. The river extends 39 miles from the upstream end of OU1 to the downstream end of OU4.

Our liabilities, if any, for this contamination primarily arise under the federal Comprehensive Environmental, Response, Compensation and Liability Act (CERCLA or Superfund). The Governments have sought to recover response actions or response costs, which are the costs of studying and cleaning up contamination, from various responsible parties. In addition, various natural resource trustee agencies of the United States, the States of Wisconsin and Michigan, and several Indian Tribes have sought to recover natural resource damages (NRDs), including natural resource damage assessment costs. Parties that have incurred response costs or NRDs either voluntarily or in response to the governments and trustees demands may have an opportunity to seek contribution or other recovery of some or all of those costs from other parties who are jointly and severally responsible under Superfund for those costs. Therefore, as we incur costs, we also acquire a claim against other parties who may not have paid their equitable share of those costs. As others incur costs, they acquire a claim against us to the extent that they claim that we have not paid our equitable share of the total. Any party that resolves its liability to the United States or a state in a judicially or administratively approved settlement agreement obtains protection from contribution claims for matters addressed in the settlement.

For these reasons, all of the parties who are potentially responsible (PRPs) under CERCLA for response costs or NRDs have exposure to liability for: (a) the cost of past response actions taken by anyone else, (b) the cost of past NRD payments or restoration projects incurred by anyone else, (c) the cost of response actions to be taken in the future, and (d) NRDs. All of this exposure is subject to substantial defenses, including, for example, that the PRP is not liable or not jointly and severally liable for any particular cost or damage, that the cost or damage is not recoverable under CERCLA or any other law, or that the recovery is barred by the passage of time. In addition, a party that has incurred or committed to incur costs or has paid NRDs may be able to claim credit for that cost or payment in any equitable allocation of response costs or NRDs in any action for reallocation of costs.

Cleanup Decisions. Our liability exposure depends importantly on the decisions made by EPA and the Wisconsin Department of Natural Resources (WDNR) as to how the Site will be cleaned up, and consequently the costs and timing of those response actions. The nature of the response actions has been highly controversial. EPA issued a record of decision (ROD) selecting response actions for OU1 and OU2 in December 2002. EPA issued a separate ROD selecting response actions for OU3, OU4, and OU5 in March 2004.

As the result of continuing discussions with parties other than us, as well as our experience in OU1 (discussed below), EPA amended the ROD for OU2-5 in June 2007 to rely less on dredging and more on capping and covering of sediments containing PCBs. The governments project that these methods will allow certain costs to be lower for this portion of the cleanup. In June 2008, EPA amended the ROD for OU1**.**

NRD Assessment. The natural resources trustees have engaged in work to assess NRDs at and arising from the Site. However, they have not completed a required NRD Assessment under the pertinent regulations. The trustees estimate of NRDs ranges from $176 million to $333 million, some of which has already been satisfied. With specific respect to NRD claims, we contended that the trustees claims are barred by the applicable 3 year statute of limitations.

Work Under Agreements, Orders, and Decrees. As we mention above, our exposure to liability depends on the amount of work done, costs incurred, and damages paid both by us and by others. The procedural context of the work done, costs incurred, and damages paid also matters.

Since 1991, the Governments and various groups of potentially responsible parties, including us, have entered into a series of agreements, orders, and decrees under which we and others have performed work, incurred costs, or paid damages in connection with the Site. As a result, some parties have contributed or performed substantial work at the Site and at least one party, Fort Howard Corporation (whose successor is either the Fort James Operating Company or Georgia Pacific Corporation) has resolved its NRD liability at the Site.

Notably, in April 2004, the United States District Court for the Eastern District of Wisconsin entered a consent decree (OU1 Consent Decree) in *United States v. P.H. Glatfelter Co.*, No. 2:03-cv-949, under which we and WTM I Corp. have been implementing the remedy in OU1, dividing costs evenly in addition to a $7 million contribution from Menasha Corp. and a $10 million contribution that the United States contributed from a separate settlement in *United States v. Appleton Papers Inc.*, No. 2:01-cv-816, obligating NCR and Appleton Papers to contribute to certain NRD projects. In June 2008, the parties entered into an amendment to the OU1 Consent Decree. The amendment allows for implementation of the amended remedy for OU1. It also commits us and WTM I to implement that remedy without a cost limitation on that commitment. The amended OU1 Consent Decree has been lodged with the court, but has not yet been entered by the court. The amended OU1 Consent Decree, by its terms, binds the parties unless the United States withdraws its consent or the court denies a motion to enter the consent decree.

Further, in November 2007, EPA issued an administrative order for remedial action (UAO) to Appleton Papers Inc., CBC Coating, Inc. (formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation, us, U.S. Paper Mills Corp., and WTM I Company directing those respondents to implement the amended remedy in OU2-5. One section of that order required the respondents, by August 1, 2008, to submit an expression of their intention to commence remediation in OU2-5. Accordingly, in August we submitted a letter response to the EPA which noted our understanding that: 1) other respondents had commenced designing that remedy and procuring certain equipment and real estate necessary to the ordered work, 2) we have been attempting, unsuccessfully, to reach an agreement with the respondents for the funding of the ordered work, 3) NCR and Appleton Papers, Inc. have subsequently initiated the Whiting Litigation which they evidently intend will end in either a final judgment or negotiated settlement that will determine the terms under which the respondents will cooperate in the implementation of the OU2-5 remedy and, 4) therefore, the only way that we could practically comply with the UAO would be to answer a final judgment in the Whiting Litigation, if that judgment were to require Glatfelter to contribute to the remediation cost of OU2-5.

Cost estimates. Estimates of the Site remediation change over time as we, or others, gain additional experience. In addition, disagreement exists over the likely costs for some of this work. The Governments estimate that the total cost of implementing the amended remedy in OU1 will be approximately $102 million. Because we have completed a significant amount of work in this portion of the river, we believe the costs of completing the remedial actions specified in the amended ROD can be completed for this amount. However, it is reasonably possible costs could exceed this amount by up to $10 million. The cost of implementing the remedy set forth in the amended ROD for OU2-5 (the downstream portions of the Site) is estimated by the Governments to total between $270 million and $499 million, reflecting a contingency factor of plus or minus 30%. However, based on independent estimates commissioned by various potentially responsible parties, we believe the actual costs to be incurred to implement the remedy of OU2 5 will exceed the Government s estimate by a significant amount.

NRDs. The trustees claim that we are jointly and severally responsible for NRDs with a value between $176 million and $333 million. We deny (a) liability for most of these NRDs, (b) that if anyone is liable, that we are jointly and severally liable for the full amount, and (c) that the trustees can not pursue this claim at this late date as the limitations period for NRD claims is three years from discovery.

Allocation. Since 1991, various potentially responsible parties have, without success, attempted to agree on a binding, final, allocation of costs and damages among themselves. All costs that they have incurred to date have been incurred individually, or under interim, nonbinding allocations. However, the consent decree in *United States v. P.H.*

Glatfelter Co. affords us and WTM I contribution protection for claims seeking to reallocate costs of implementing the OU1 remedy, and Fort James Operating Co. (now Georgia-Pacific) has certain rights under its consent decree. Otherwise, the parties have not litigated their internal allocation with us.

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NCR and Appleton Papers Inc. have commenced litigation in the United States District Court for the Eastern District of Wisconsin captioned *Appleton Papers Inc. v. George A. Whiting Paper Co.*, No. 08-C-16-WCG, (Whiting Litigation) seeking to reallocate costs and damages allegedly incurred or paid or to be incurred or paid by NCR or Appleton Papers. They have to date joined 24 defendants**:** us, George A. Whiting Paper Co., Menasha Corporation, Green Bay Packaging Inc., International Paper Company, Leicht Transfer & Storage Company, Neenah Foundry Company, Newpage Wisconsin System Inc., The Procter & Gamble Paper Products Company, Wisconsin Public Service Corp. the Cities of Appleton, De Pere, and Green Bay, Brown County, Green Bay Metropolitan Sewerage District, Heart of the Valley Metropolitan Sewerage District, Neenah-Menasha Sewerage Commission, WTM I Company, U.S. Paper Mills Corporation, Georgia-Pacific Consumer Products LP, Georgia-Pacific, LLC, Fort James Operating Company, CBC Coating, Inc. and Fort James Corporation. At the request of all defendants including us, and over the objection of the plaintiffs, on September 23, 2008, the court in the *Whiting* Litigation issued an Order (Case Management Order) which, among other things, ordered that: (1) the Whiting Litigation be segmented into several separate issue-specific proceedings in an effort to minimize litigation costs for several parties in the case who may ultimately have relatively little liability beginning with a proceeding that is scheduled to be heard on December 1, 2009 that will focus on which party(ies) were in the best position to know about possible contamination of the Fox River and could have prevented that contamination and (2) the litigation would be suspended as to the defendants who are not respondents on the OU2-5 UAO (non-UAO Defendants) to allow them to pursue settlement with the governments. On October 10, 2008 the United States notified the UAO respondents that it and the State of Wisconsin had informed the non-UAO Defendants that they were willing to engage in discussions to attempt to resolve those parties potential liability regarding PCB contamination in the Fox River and invited the UAO respondents to share any information in their possession which is believed to be pertinent to the Governments review of the potential liability of the non-UAO Defendants. It is uncertain whether any settlement with the non-UAO Defendants will be reached. In any event, the Whiting Litigation is expected to result in an allocation of responsibility among all of the current parties, including the responsibility of any parties who may reach a settlement with the Governments or any other parties to the Whiting Litigation.

We contend that as the PCB contamination in the Fox River is, in large part, attributable to the presence of PCBs in NCR®-brand carbonless copy paper that was being recycled by our Neenah Mill and other paper companies located in the area of lower Fox River and in the Bay of Green Bay Wisconsin, NCR or other sources of NCR®-brand carbonless copy paper were, clearly, in the best position to know about possible contamination of the Fox River and could have prevented that contamination. We further contend that we are not jointly and severally liable for costs or damages arising from the presence of PCBs in the Fox River. Finally, we contend that NCR or other sources of NCR®-brand carbonless copy paper that our Neenah Mill recycled bear most of the responsibility for costs and damages arising from the presence of PCBs in OU1. Other parties disagree.

To date we have spent or have committed to spend approximately $50 million implementing the remedy in OU1, and under the various agreements, orders, and decrees under which we and others have performed work, incurred costs, or paid damages in connection with the Site.

Reserves for the Fox River Site In 2007, we recorded additional charges of $6 million in the first quarter and $20 million in the third quarter to satisfy both our obligations at OU1 and all pending, threatened or asserted and unasserted claims against us for the Fox River including our claimed liability for the remediation of OU3-5 as a result of the developments concerning the Fox River including our revised cost estimates for OU1. These additional charges represent our current assessment of the ultimate costs to be incurred by us associated with the revised final plan for OU1 and any settlement of liability for NRDs and for remediation of OU 2-5. As of September 30, 2008, our reserve for the Fox River environmental liability totaled $24.4 million, of which $9.9 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remaining $14.5 million is recorded under the caption Other long term liabilities. Our reserve includes amounts originally established prior to 2002 and adjustments in the first and third quarter of 2007 increasing the liability by $26.0 million offset by expenditures related to remediation activities.

We and WTM I have been funding the OU1 remedy by depositing funds in an OU1 Escrow Account and then paying for work out of that account. At September 30**,** 2008, the remaining OU1 Escrow Account balance totaled

$19.3 million. During the first nine months of 2008, Menasha contributed $7 million to the OU1 Escrow Account. In addition, WTM I and we committed to contribute an additional $9.5 million each, and contributions, or security for later contributions, have been posted according to the agreed schedule. Of the total commitment, we funded $3.0 million on July 15, 2008 and obtained a letter of credit guaranteeing payment of the balance.

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We believe that we have strong defenses to liability for remediation of OU2-5 including the existence of ample data that indicates that PCBs did not leave OU1 in concentrations that could have caused or contributed to the need for cleanup in OU2-5. Others, including the EPA and other PRPs, disagree with us and, as a result, the EPA has issued a UAO to us and to others to perform the OU2-5 work. NCR and Appleton Papers have recently commenced the Whiting Litigation and have joined us and others. Additional litigation associated with the remediation of the Site is likely. As illustrated by the Whiting Litigation, we also note that there exist additional potentially responsible parties other than the PRPs who were named in the UAO or who have been joined in the Whiting Litigation, including the owners of public wastewater treatment facilities who discharged PCB-contaminated wastewater to the Fox River and entities providing PCB-containing wastepaper to each of the recycling mills.

Even if we are not successful in establishing that we are not liable for the remediation of OU2-5, we do not believe that we would be allocated a significant percentage share of liability in any equitable allocation of the remediation costs and other potential damages associated with OU2 5. The accompanying consolidated financial statements do not include reserves for any future litigation or defense costs for the Fox River, and because litigation has commenced, the costs to do so could be significant.

In setting our reserve for the Fox River, we have assessed our defenses to liability, including matters raised in the Whiting Litigation, and assumed that we will not bear the entire cost of remediation and damages to the exclusion of other known PRPs at the Site who are also potentially jointly and severally liable. The existence and ability of other PRPs to participate has also been taken into account in setting our reserve, and is generally based on our evaluation of recent publicly available financial information on each PRP, and any known insurance, indemnity or cost sharing agreements between PRPs and third parties. In addition, our assessment is based upon the magnitude, nature, location and circumstances associated with the various discharges of PCBs to the river and the relationship of those discharges to identified contamination. We will continue to evaluate our exposure and the level of our reserves, including, but not limited to, our potential share of the costs and NRDs, if any, associated with the Fox River site.

Other than with respect to the OU1 Consent Decree, the amount and timing of future expenditures for environmental compliance, cleanup, remediation and personal injury, NRDs and property damage liabilities cannot be ascertained with any certainty due to, among other things, the unknown extent and nature of any contamination, the response actions that may ultimately
be required, the availability of remediation equipment, and landfill space, and the number and financial resources of any other PRPs.

Other Information The Wisconsin DNR and FWS have each published studies, the latter in draft form, estimating the amount of PCBs discharged by each identified PRP to the lower Fox River and the Bay of Green Bay. These reports estimate the Neenah Facility s share of the volumetric discharge to be as high as 27%. We do not believe the volumetric estimates used in these studies are accurate because (a) the studies themselves disclose that they are not accurate and (b) the volumetric estimates contained in the studies are based on assumptions that are unsupported by existing data on the Site. We believe that our volumetric contribution is significantly lower than the estimates set forth in these studies. Further, we do not believe that a volumetric allocation would constitute an equitable allocation of the potential liability for the contamination. Other factors, such as the location of contamination, the location of discharge, and a party s role in causing discharge, must be considered in order for the allocation to be equitable.

We previously entered into interim cost-sharing agreements with four of the other PRPs, which provided for those PRPs to share certain costs relating to scientific studies of PCBs discharged at the Site (Interim Cost Sharing Agreements). These interim cost-sharing agreements do not establish the final allocation of remediation costs incurred at the Site. Based upon our evaluation of the volume, nature and location of the various discharges of PCBs at the Site and the relationship of those discharges to identified contamination, we believe our allocable share of liability at the Site is less than our share of costs under the Interim Cost Sharing Agreements.

While the OU1 Consent Decree, as amended, provides a negotiated framework for resolving both our and WTM I s liability for the remediation of OU1, it does not resolve our exposure at the Site. The OU1 Consent Decree does not address response costs necessary to remediate the remainder of the Site and only addresses NRDs and claims for reimbursement of government expenses to a limited extent. Because CERCLA imposes strict joint and several liability, uncertainty persists regarding our exposure with respect to the remainder of the Fox River site. In addition, as mentioned previously, EPA has issued a UAO to us and others calling for further work in OU2-5, and Appleton Papers and NCR have commenced the Whiting Litigation that has become more complicated as a host of additional parties have been joined in that litigation. We cannot predict the outcome of the Whiting Litigation or any other litigation, regulatory actions or settlement negotiations related to this matter.

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Range of Reasonably Possible Outcomes Our analysis of the range of reasonably possible outcomes is derived from all available information, including but not limited to official documents such as RODs, discussions with the United States and other PRPs, as well as legal counsel and engineering consultants. Based on our analysis of the current RODs and cost estimates for work to be performed at the Site, we believe that it is reasonably possible that our costs associated with the Fox River matter may exceed our reserve for the Fox River matter by amounts that are insignificant or that could range up to $195 million**,** over a period that is currently undeterminable but that could range beyond 15 years. We believe that the likelihood of an outcome in the upper end of the monetary range is significantly less than other possible outcomes within the range and that the possibility of an outcome in excess of the upper end of the monetary range is remote.

Based on currently available information, we believe that the remaining work to complete the remediation of OU1 can be completed with the amounts in the OU1 Escrow Account, and the amounts committed to be contributed by us and WTM I. Our assessment assumes that: 1) the court ultimately enters the amended OU1 Consent Decree; 2) we and WTM I successfully negotiate acceptable contracts covering the work provided for in the amended OU1 ROD; and 3) the remedial measures provided in the amended OU1 ROD are successfully implemented. However, if we are unsuccessful in managing our costs to implement the amended OU1 ROD**,** additional charges may be necessary and such amounts could be material.

Summary Our current assessment is that we will be able to manage these environmental matters without a long-term, material adverse impact on the Company. These matters could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our loan covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to these matters, that our share of costs and/or damages for these matters will not exceed our available resources, or that such obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations. With regard to the Fox River site, if we are not successful in managing the completion of the remaining remedial work at OU1 and/or should the United States seek to enforce the UAO for OU2-5 against us which requires us to either perform directly or contribute significant amounts towards the performance of that work, such developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and may result in a default under our loan covenants.

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15. SEGMENT AND GEOGRAPHIC INFORMATION

The following table sets forth financial and other information by business unit for the periods indicated:

Business Unit Performance	For the three months ended September 30,							
In thousands	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net sales	**$226,028**	$207,894	**$113,794**	$83,965	**$**	$	**$339,822**	$291,859
Energy sales, net	**2,885**	2,491					**2,885**	2,491
Total revenue	**228,913**	210,385	**113,794**	83,965			**342,707**	294,350
Cost of products sold	**192,110**	180,739	**96,114**	68,327	**(2,689)**	(1,596)	**285,535**	247,470
Gross profit (loss)	**36,803**	29,646	**17,680**	15,638	**2,689**	1,596	**57,172**	46,880
SG&A	**13,961**	14,988	**9,329**	7,452	**1,512**	19,757	**24,802**	42,197
Shutdown and restructuring charges								
Gains on dispositions of plant, equipment and timberlands					**(3,975)**	(2,301)	**(3,975)**	(2,301)
Total operating income (loss)	**22,842**	14,658	**8,351**	8,186	**5,152**	(15,860)	**36,345**	6,984
Nonoperating income (expense)					**(4,338)**	(6,477)	**(4,338)**	(6,477)
Income (loss) before income taxes	**$ 22,842**	$ 14,658	**$ 8,351**	$ 8,186	**$ 814**	$(22,337)	**$ 32,007**	$ 507
Supplementary Data								
Net tons sold	**200,072**	190,505	**21,530**	17,823			**221,602**	208,328
Depreciation, depletion and amortization	**$ 9,007**	$ 9,084	**$ 6,700**	$ 5,345	**$**	$	**$ 15,707**	$ 14,429
Capital expenditures	**4,156**	3,269	**11,275**	1,798			**15,431**	5,067

Business Unit Performance	For the nine months ended September 30,							
In thousands	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net sales	**$634,270**	$607,404	**$331,274**	$253,535	**$ 1**		**$965,545**	$860,939
Energy sales, net	**7,612**	7,129					**7,612**	7,129
Total revenue	**641,882**	614,533	**331,274**	253,535	**1**		**973,157**	868,068
Cost of products sold	**566,334**	551,476	**280,972**	209,639	**(7,977)**	(5,436)	**839,329**	755,679
Gross profit (loss)	**75,548**	63,057	**50,302**	43,896	**7,978**	5,436	**133,828**	112,389
SG&A	**41,940**	44,036	**29,038**	23,946	**3,336**	26,718	**74,314**	94,700

Shutdown and restructuring charges					**(856)**	162	**(856)**	162
Gains on dispositions of plant, equipment and timberlands					**(18,477)**	(11,188)	**(18,477)**	(11,188)
Total operating income (loss)	**33,608**	19,021	**21,264**	19,950	**23,975**	(10,256)	**78,847**	28,715
Nonoperating income (expense)					**(13,178)**	(19,382)	**(13,178)**	(19,382)
Income (loss) before income taxes	**$ 33,608**	$ 19,021	**$ 21,264**	$ 19,950	**$ 10,797**	$(29,638)	**$ 65,669**	$ 9,333
Supplementary Data								
Net tons sold	**564,983**	548,969	**65,225**	54,298			**630,208**	603,267
Depreciation depletion and amortization	**$ 26,619**	$ 26,615	**$ 19,755**	$ 15,678	**$**	$	**$ 46,374**	$ 42,293
Capital expenditures	**14,586**	14,078	**26,253**	5,211			**40,839**	19,289

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

Management evaluates results of operations of the business units before non-cash pension income, any charges related to the Fox River environmental reserves, restructuring related charges, unusual items, effects of asset dispositions and insurance recoveries because it believes this is a more meaningful representation of the operating performance of its core papermaking businesses, the profitability of business units and the extent of cash flow generated from core operations. This presentation is closely aligned with the management and operating structure of our company. It is also on this basis that the Company s performance is evaluated internally and by the Company s Board of Directors. Such amounts are presented above under the caption Other and Unallocated.

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16. GUARANTOR FINANCIAL STATEMENTS

Our $7^{1}/^{8}$% Senior Notes have been fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries, PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, GLT International Finance, LLC, Glatfelter Holdings, LLC and Glatfelter Holdings II, LLC.

The following presents our condensed consolidating statements of income and cash flow, and our condensed consolidating balance sheets. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis.

During 2007, we completed a reorganization pursuant to which, Glenn Wolfe, a previously identified guarantor subsidiary, was merged into the parent company. Accordingly the 2007 financial information set forth below reflects such reorganization. All prior period financial information has been restated.

Condensed Consolidating Statement of Income for the three months ended September 30, 2008

In thousand	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$226,027	$12,024	$113,795	$(12,024)	$339,822
Energy sales net	2,885				2,885
Total revenues	228,912	12,024	113,795	(12,024)	342,707
Costs of products sold	189,315	11,998	95,801	(11,579)	285,535
Gross profit	39,597	26	17,994	(445)	57,172
Selling, general and administrative expenses	14,611	488	9,703		24,802
Gains on dispositions of plant, equipment and timberlands, net	13	(4,044)	56		(3,975)
Operating income	24,973	3,582	8,235	(445)	36,345
Non-operating income (expense)					
Interest expense	(4,854)		(800)		(5,654)
Interest income	622	3,290	(742)	(2,000)	1,170
Other income (expense) net	7,312	(890)	(208)	(6,068)	146
Total other income (expense)	3,080	2,400	(1,750)	(8,068)	(4,338)
Income (loss) before income taxes	28,053	5,982	6,485	(8,513)	32,007
Income tax provision (benefit)	6,391	2,482	2,392	(920)	10,345
Net income (loss)	$ 21,662	$ 3,500	$ 4,093	$ (7,593)	$ 21,662

Condensed Consolidating Statement of Income for the three months ended September 30, 2007

In thousand	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated

Net sales	$207,895	$10,765	$83,964	$(10,765)	$291,859
Energy sales net	2,491				2,491
Total revenues	210,386	10,765	83,964	(10,765)	294,350
Costs of products sold	179,508	10,376	68,466	(10,880)	247,470
Gross profit	30,878	389	15,498	115	46,880
Selling, general and administrative expenses	33,712	567	7,918		42,197
Shutdown and restructuring charges	89		(89)		
Gains on dispositions of plant, equipment and timberlands, net	(138)	(2,154)	(9)		(2,301)
Operating income	(2,785)	1,976	7,678	115	6,984
Non-operating income (expense)					
Interest expense	(7,051)	(1)	(517)		(7,569)
Interest income	206	3,807	(1,284)	(1,750)	979
Other income (expense) net	12,033	346	(401)	(11,865)	113
Total other income (expense)	5,188	4,152	(2,202)	(13,615)	(6,477)
Income (loss) before income taxes	2,403	6,128	5,476	(13,500)	507
Income tax provision (benefit)	(5,409)	2,138	(3,466)	(568)	(7,305)
Net income (loss)	$ 7,812	$ 3,990	$ 8,942	$(12,932)	$ 7,812

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Condensed Consolidating Statement of Income for the nine months ended September 30, 2008

In thousand	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$634,270	$ 34,017	$331,275	$(34,017)	$965,545
Energy sales net	7,612				7,612
Total revenues	641,882	34,017	331,275	(34,017)	973,157
Costs of products sold	559,042	33,211	281,486	(34,410)	839,329
Gross profit	82,840	806	49,789	393	133,828
Selling, general and administrative expenses	42,506	1,505	30,303		74,314
Shutdown and restructuring charges	(856)				(856)
Gains on dispositions of plant, equipment and timberlands, net	140	(18,648)	31		(18,477)
Operating income	41,050	17,949	19,455	393	78,847
Non-operating income (expense)					
Interest expense	(15,144)	(11)	(2,471)		(17,626)
Interest income	19,965	9,583	(1,817)	(23,600)	4,131
Other income (expense) net	13,673	(331)	(604)	(12,421)	317
Total other income (expense)	18,494	9,241	(4,892)	(36,021)	(13,178)
Income (loss) before income taxes	59,544	27,190	14,563	(35,628)	65,669
Income tax provision (benefit)	15,051	10,835	4,238	(8,948)	21,176
Net income (loss)	$ 44,493	$ 16,355	$ 10,325	$(26,680)	$ 44,493

Condensed Consolidating Statement of Income for the nine months ended September 30, 2007

In thousand	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$607,406	$ 32,368	$253,533	$(32,368)	$860,939
Energy sales net	7,129				7,129
Total revenues	614,535	32,368	253,533	(32,368)	868,068
Costs of products sold	548,180	29,829	210,002	(32,332)	755,679
Gross profit	66,355	2,539	43,531	(36)	112,389

Selling, general and administrative expenses	67,578	1,675	25,447		94,700
Shutdown and restructuring charges	262		(100)		162
Gains on dispositions of plant, equipment and timberlands, net	41	(11,220)	(9)		(11,188)
Operating income	(1,526)	12,084	18,193	(36)	28,715
Non-operating income (expense)					
Interest expense	(20,653)	(1)	(1,676)		(22,330)
Interest income	646	10,803	(3,681)	(5,200)	2,568
Other income (expense) net	25,175	924	(597)	(25,122)	380
Total other income (expense)	5,168	11,726	(5,954)	(30,322)	(19,382)
Income (loss) before income taxes	3,642	23,810	12,239	(30,358)	9,333
Income tax provision (benefit)	(9,421)	9,148	(1,590)	(1,867)	(3,730)
Net income (loss)	$ 13,063	$ 14,662	$ 13,829	$(28,491)	$ 13,063

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Condensed Consolidating Balance Sheet as of September 30, 2008

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 5,463	$ 303	$ 10,181	$	$ 15,947
Other current assets	322,319	335,942	78,863	(350,587)	386,537
Plant, equipment and timberlands net	274,386	7,706	225,836		507,928
Other assets	747,596	181,824	(34,626)	(491,608)	403,186
Total assets	$1,349,764	$525,775	280,254	$(842,195)	$1,313,598
Liabilities and Shareholders Equity					
Current liabilities	$ 393,964	$ 80,175	$ 71,659	$(345,501)	$ 200,297
Long-term debt	228,243		70,695		298,938
Deferred income taxes	136,610	31,154	28,679	(6,151)	190,292
Other long-term liabilities	91,368	13,707	10,113	9,304	124,492
Total liabilities	850,185	125,036	181,146	(342,348)	814,019
Shareholders equity	499,579	400,739	99,108	(499,847)	499,579
Total liabilities and shareholders equity	$1,349,764	$525,775	$280,254	$(842,195)	$1,313,598

Condensed Consolidating Balance Sheet as of December 31, 2007

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 6,693	$ 162	$ 22,978	$	$ 29,833
Other current assets	257,804	277,958	37,008	(229,191)	343,579
Plant, equipment and timberlands net	279,511	7,591	232,764		519,866
Other assets	749,913	212,513	(78,513)	(490,124)	393,789
Total assets	$1,293,921	$498,224	$214,237	$(719,315)	$1,287,067
Liabilities and Shareholders Equity					

Current liabilities	$ 319,516	$ 39,285	$ 64,423	$(225,668)	$ 197,556
Long-term debt	267,041		34,000		301,041
Deferred income taxes	138,615	33,557	32,236	(15,252)	189,156
Other long-term liabilities	92,681	14,310	8,489	7,766	123,246
Total liabilities	817,853	87,152	139,148	(233,154)	810,999
Shareholders equity	476,068	411,072	75,089	(486,161)	476,068
Total liabilities and shareholders equity	$1,293,921	$498,224	$214,237	$(719,315)	$1,287,067

Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2008

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	$ 26,109	$ 2,882	$ 12,368	$(23,600)	$ 17,459
Investing activities					
Purchase of plant, equipment and timberlands	(13,146)	(1,440)	(26,253)		(40,839)
Proceeds from disposal plant, equipment and timberlands		19,280			19,280
Repayments from (advances of) intercompany loans, net	2,800	(19,178)	(9,158)	25,536	
Return (contributions) of intercompany capital, net		24,997		(24,997)	
Total investing activities	(10,346)	23,659	(35,411)	539	(21,559)
Financing activities					
Net (repayments of) proceeds from indebtedness	(36,001)		37,850		1,849
Payment of dividends to shareholders	(12,343)				(12,343)
(Repayments) borrowings of intercompany loans, net	30,936	(2,800)	(2,600)	(25,536)	
Return of intercompany capital, net			(24,997)	24,997	
Payment of intercompany dividends		(23,600)		23,600	
Proceeds from stock options exercised and other	1,150				1,150
Total financing activities	(16,258)	(26,400)	10,253	23,061	(9,344)
Effect of exchange rate on cash	(735)		(7)		(742)
Net increase (decrease) in cash	(1,230)	141	(12,797)		(13,886)
Cash at the beginning of period	6,693	162	22,978		29,833
Cash at the end of period	$ 5,463	$ 303	$ 10,181	$	$ 15,947

Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2007

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated

Net cash provided (used) by Operating activities	$ 45,191	$ (5,409)	$ 23,181	$ (5,200)	$ 57,763
Investing activities					
Purchase of plant, equipment and timberlands	(13,279)	(800)	(5,210)		(19,289)
Proceeds from disposal plant, equipment and timberlands	242	11,647	210		12,099
Repayments from (advances of) intercompany loans, net		(500)	(2,700)	3,200	
Total investing activities	(13,037)	10,347	(7,700)	3,200	(7,190)
Financing activities					
Net (repayments of) proceeds from indebtedness	(31,571)		(13,852)		(45,423)
Payment of dividends	(12,253)				(12,253)
(Repayments) borrowings of intercompany loans, net	2,700		500	(3,200)	
Return of intercompany capital, net					
Payment of intercompany dividends		(5,200)		5,200	
Proceeds from stock options exercised and other	1,477				1,477
Total financing activities	(39,647)	(5,200)	(13,352)	2,000	(56,199)
Effect of exchange rate on cash	652		809		1,461
Net increase (decrease) in cash	(6,841)	(262)	2,938		(4,165)
Cash at the beginning of period	10,227	546	11,212		21,985
Cash at the end of period	$ 3,386	$ 284	$ 14,150	$	$ 17,820

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter s Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included in its our Annual Report on Form 10-K..

Forward-Looking Statements This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects and future consolidated financial position or results of operations, made in this Report on Form 10-Q are forward looking. We use words such as anticipates , believes , expects , future , intends and similar expressions to identify forward-looking statements. Forward-looking statements reflect management s current expectations and are inherently uncertain. Our actual results may differ significantly from such expectations. The following discussion includes forward-looking statements regarding expectations of, among others, net sales, costs of products sold, environmental costs, capital expenditures and liquidity, all of which are inherently difficult to predict. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. Accordingly, we identify the following important factors, among others, which could cause our results to differ from any results that might be projected, forecasted or estimated in any such forward-looking statements:

i. changes in the cost or availability of raw materials we use, in particular pulpwood, market pulp, pulp substitutes, abaca fiber and certain chemicals;

ii. changes in energy-related costs and commodity raw materials with an energy component;

iii. variations in demand for, or pricing of, our products;

iv. our ability to develop new, high value-added Specialty Papers and Composite Fibers products;

v. the impact of competition, changes in industry paper production capacity, including the construction of new mills, the closing of mills and incremental changes due to capital expenditures or productivity increases;

vi. the gain or loss of significant customers and/or on-going viability of such customers;

vii. cost and other effects of environmental compliance, cleanup, damages, remediation or restoration, or personal injury or property damages related thereto, such as the costs of natural resource restoration or damages related to the presence of polychlorinated biphenyls (PCBs) in the lower Fox River on which our former Neenah mill was located;

viii. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;

ix. geopolitical events, including war and terrorism;

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

xi. adverse results in litigation;

xii. our ability to successfully execute our timberland strategy to realize the value of our timberlands; and

xiii. our ability to finance, consummate and integrate future acquisitions.

Introduction We manufacture, both domestically and internationally, a wide array of specialty papers and engineered products. Substantially all of our revenue is earned from the sale of our products to customers in numerous markets, including book publishing, envelope & converting, carbonless papers and forms, food and beverage, decorative laminates for furniture and flooring, metalized papers and other highly technical niche markets.

Overview Our results of operations for the first nine months of 2008 when compared with the same period of 2007 reflect increased shipping volumes and improved pricing conditions in each of our business units. However, each of our business units results in the comparison was adversely impacted by significantly higher input costs that offset the benefits from higher selling prices.

Specialty Papers operating income in 2008 increased approximately 77% compared to 2007 largely due to initiatives implemented in the second half of 2007 to improve the operational effectiveness and overall profitability of the Chillicothe facility.

Our Composite Fibers business unit s operating income for the first nine months of 2008 improved 6.6% in the period-to-period comparison despite the adverse impact of lost production associated with the upgrades of paper machines at two of its facilities, and lower production output due to the tight supply of abaca fiber. In addition, the inclusion of the November 2007 acquisition of the Caerphilly facility was slightly dilutive to this business unit s results.

Results of operations for the first nine months of 2008 include $11.0 million of after-tax gains from the sale of timberlands as well a $2.0 million recovery in a litigation matter related to our former Ecusta mill, offset by legal fees for matters at that site.

RESULTS OF OPERATIONS

Nine months Ended September 30, 2008 versus the Nine months Ended September 30, 2007

The following table sets forth summarized results of operations:

In thousands, except per share	**Nine months Ended September 30** **2008**	2007
Net sales	**$965,545**	$860,939
Gross profit	**133,828**	112,389
Operating income	**78,847**	28,715
Net income	**44,493**	13,063
Earnings per share	**0.97**	0.29

The consolidated results of operations for the nine months ended September 30, 2008 and 2007 includes the following significant items:

In thousands, except per share	**After-tax** *Gain (loss)*	**Diluted EPS**
2008		
Timberland sales	**$ 11,027**	**$ 0.24**
Reversal of shutdown and restructuring charges	**527**	**0.01**
Acquisition integration related costs	**(828)**	**(0.02)**
2007		
Environmental remediation	$(15,979)	$ (0.35)
Acquisition integration related costs	(1,472)	(0.03)
Timberland sales	6,815	0.15

The above items increased earnings by $10.7 million, or $0.23 per diluted share, in the first nine months of 2008. In the comparable period a year ago, the above items decreased earnings by $10.6 million, or $0.23 per diluted share.

Business Units

Business Unit Performance *In thousands*	Specialty Papers **2008**	2007	Composite Fibers **2008**	2007	Other and Unallocated **2008**	2007	Total **2008**	2007
			For the nine months ended September 30,					
Net sales	**$634,270**	$607,404	**$331,274**	$253,535	**$ 1**		**$965,545**	$860,939
Energy sales, net	**7,612**	7,129					**7,612**	7,129
Total revenue	**641,882**	614,533	**331,274**	253,535	**1**		**973,157**	868,068
Cost of products sold	**566,334**	551,476	**280,972**	209,639	**(7,977)**	(5,436)	**839,329**	755,679

Gross profit	**75,548**	63,057	**50,302**	43,896	**7,978**	5,436	**133,828**	112,389
SG&A	**41,940**	44,036	**29,038**	23,946	**3,336**	26,718	**74,314**	94,700
Shutdown and restructuring charges					**(856)**	162	**(856)**	162
Gains on dispositions of plant, equipment and timberlands					**(18,477)**	(11,188)	**(18,477)**	(11,188)
Total operating income (loss)	**33,608**	19,021	**21,264**	19,950	**23,975**	(10,256)	**78,847**	28,715
Nonoperating income (expense)					**(13,178)**	(19,382)	**(13,178)**	(19,382)
Income (loss) before income taxes	**$ 33,608**	$ 19,021	**$ 21,264**	$ 19,950	**$ 10,797**	$(29,638)	**$ 65,669**	$ 9,333
Supplementary Data								
Net tons sold	**564,983**	548,969	**65,225**	54,298			**630,208**	603,267
Depreciation, depletion and amortization expense	**$ 26,619**	$ 26,615	**$ 19,755**	$ 15,678	**$**	$	**$ 46,374**	$ 42,293
Capital expenditures	**14,586**	14,078	**26,253**	5,211			**40,839**	19,289

GLATFELTER

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

Management evaluates results of operations of the business units before non-cash pension income, charges related to the Fox River environmental reserves, restructuring related charges, unusual items, certain corporate level costs, effects of asset dispositions and insurance recoveries because it believes this is a more meaningful representation of the operating performance of its core papermaking businesses, the profitability of business units and the extent of cash flow generated from core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is closely aligned with the management and operating structure of our company. It is also on this basis that the Company s performance is evaluated internally and by the Company s Board of Directors.

Sales and Costs of Products Sold

	Nine months ended September 30		
In thousands	**2008**	2007	Change
Net sales	**$965,545**	$860,939	$104,606
Energy sales net	**7,612**	7,129	483
Total revenues	**973,157**	868,068	105,089
Costs of products sold	**839,329**	755,679	83,650
Gross profit	**$133,828**	$112,389	$ 21,439
Gross profit as a percent of Net sales	**13.9%**	13.1%	

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

	Percent of Total	
	2008	2007
Business Unit		
Specialty Papers	**65.7%**	70.6%
Composite Fibers	**34.3**	29.4
Total	**100.0%**	100.0%

Net sales totaled $965.5 million for the first nine months of 2008, an increase of $104.6 million, or 12.2%, compared to the same period a year ago.

In the Specialty Papers business unit, net sales for the first nine months of 2008 increased $26.9 million to $634.3 million and operating income totaled $33.6 million, an increase of $14.6 million over the previous year. The improved operating income is primarily due to progress achieved in executing Chillicothe s profit improvement initiatives and improved operating efficiencies. Higher average selling prices contributed $27.5 million of the increase in net sales and volumes shipped increased 2.9%. These price and volume increases were partially offset by expected mix changes between carbonless papers and uncoated papers, as well as lower sales of scrap paper. The benefits of higher average selling prices were offset by $33.9 million of higher costs, largely driven by fiber and energy. Unplanned operating downtime at the Spring Grove and Chillicothe facilities also reduced operating results by $1.7 million early in 2008.

In Composite Fibers, net sales were $331.3 million for the first nine months of 2008, an increase of $77.7 million from the same period a year ago. The completion of the November 30, 2007 Caerphilly acquisition accounted for $35.0 million of the increase in net sales, the translation of foreign currencies benefited net sales by $23.6 million and higher average selling prices contributed $10.3 million. Volumes increased 20.1% with increases realized across all product lines.

Energy and raw material costs in the Composite Fibers business unit were $12.0 million higher than the same period a year ago, increasing at a rate faster than average selling prices. Operating income increased $1.3 million in the comparison and totaled $21.3 million for the first nine months of 2008.

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Non-Cash Pension Income Non-cash pension income results from the over-funded status of our pension plans. The following summarizes non-cash pension income for the first nine months of 2008 compared to the same period of 2007:

	Nine months ended September 30		
In thousands	**2008**	2007	Change
Recorded as:			
Costs of products sold	**$ 8,214**	$6,473	$1,741
SG&A expense	**3,730**	3,173	557
Total	**$11,944**	$9,646	$2,298

The amount of pension income recognized each year is determined using various actuarial assumptions and certain other factors, including the fair value of our pension assets as of the beginning of the year. As discussed in Item 1 Financial Statements Note 9, the fair value of the plans assets has declined significantly since the beginning of 2008. Accordingly, based on information currently available to us, it is likely the amount of pension income recognized in future periods will be less than the current year.

Selling, general and administrative (SG&A) expenses decreased $20.4 million in the period-to-period comparison and totaled $74.3 million for the first nine months of 2008. SG&A decreased in the comparison due to the inclusion of $26.0 million in charges for environmental matters in the 2007 period. The amounts for 2008 also were adversely impacted by foreign currency translation and the inclusion of the Caerphilly acquisition.

Gain on Sales of Plant, Equipment and Timberlands During the first nine months of 2008, we completed sales of timberlands which are summarized by the following table:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2008			
Timberlands	**4,561**	**$19,280**	**$18,646**
Other			**(169)**
		$19,280	**$18,477**
2007			
Timberlands	4,674	$11,649	$11,223
Other		450	(35)
		$12,099	$11,188

Income taxes For the first nine months of 2008 we recorded a provision for income taxes totaling $21.2 million and the effective tax rate was 32.2%. For the first nine months of 2007, we recorded a benefit for income taxes totaling $3.7 million on pre tax income of $9.3 million. The 2007 income tax benefits include a $5.3 million deferred income tax benefit related to the reduction of German corporate income tax.

Foreign Currency We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The local currency in Germany and France is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the first nine months of 2008, Euro functional currency operations generated approximately 20.7% of our sales and 19.9% of operating expenses and British Pound Sterling operations represented 10.9% of net sales and 11.3% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on first nine months of 2008 reported results compared to first nine months 2007:

In thousands	Nine months ended September 30
	Favorable (unfavorable)
Net sales	**$ 23,599**
Costs of products sold	**(18,955)**
SG&A expenses	**(1,850)**
Income taxes and other	**(120)**
Net income	**$ 2,674**

The above table only presents the financial reporting impact of foreign currency translations. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

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Three Months Ended September 30, 2008 versus the Three Months Ended September 30, 2007

The following table sets forth summarized results of operations:

In thousands, except per share	Three months ended September 30 **2008**	2007
Net sales	**$339,822**	$291,859
Gross profit	**57,172**	46,880
Operating income	**36,345**	6,984
Net income	**21,662**	7,812
Earnings per share	**0.47**	0.17

The consolidated results of operations for the three months ended September 30 includes the following significant items:

In thousands, except per share	After-tax Gain (loss)	Diluted EPS
2008		
Timberland sales	**$ 2,371**	**$ 0.05**
Acquisition integration related costs	**(240)**	**(0.01)**
2007		
Environmental remediation	$(12,286)	$(0.27)
Acquisition integration related costs	(322)	(0.01)
Timberland sales	1,415	0.03

The above items increased earnings by $2.1 million, or $0.04 per diluted share, in the third quarter of 2008. In the comparable period a year ago, the above items decreased earnings by $11.2 million, or $0.25 per diluted share.

Business Units The following table sets forth profitability information by business unit and the composition of consolidated income before income taxes:

Business Unit Performance	For the three months ended September 30,							
In thousands, except net tons sold	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net sales	**$226,028**	$207,894	**$113,794**	$83,965	**$**	$	**$339,822**	$291,859
Energy sales, net	**2,885**	2,491					**2,885**	2,491
Total revenue	**228,913**	210,385	**113,794**	83,965			**342,707**	294,350
Cost of products sold	**192,110**	180,739	**96,114**	68,327	**(2,689)**	(1,596)	**285,535**	247,470
Gross profit (loss)	**36,803**	29,646	**17,680**	15,638	**2,689**	1,596	**57,172**	46,880

SG&A	**13,961**	14,988	**9,329**	7,452	**1,512**	19,757	**24,802**	42,197
Gains on dispositions of plant, equipment and timberlands					**(3,975)**	(2,301)	**(3,975)**	(2,301)
Total operating income (loss)	**22,842**	14,658	**8,351**	8,186	**5,152**	(15,860)	**36,345**	6,984
Non-operating income (expense)					**(4,338)**	(6,477)	**(4,338)**	(6,477)
Income (loss) before income taxes	**$ 22,842**	$ 14,658	**$ 8,351**	$ 8,186	**$ 814**	$ (22,337)	**$ 32,007**	$ 507
Supplementary Data								
Net tons sold	**200,072**	190,505	**21,530**	17,823			**221,602**	208,328
Depreciation, depletion and amortization expense	**$ 9,007**	$ 9,084	**$ 6,700**	$ 5,345	**$**	$	**$ 15,707**	$ 14,429
Capital expenditures	**4,156**	3,269	**11,275**	1,798			**15,431**	5,067

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The following table summarizes sales and costs of products sold for the three months ended September 30, 2008 and 2007.

Sales and Costs of Products Sold

	Three months ended September 30		
In thousands	**2008**	2007	Change
Net sales	**$339,822**	$291,859	$47,963
Energy sales net	**2,885**	2,491	394
Total revenues	**342,707**	294,350	48,357
Costs of products sold	**285,535**	247,470	38,065
Gross profit	**$ 57,172**	$ 46,880	$10,292
Gross profit as a percent of Net sales	**16.8%**	16.1%	

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

	Percent of Total	
	2008	2007
Business Unit		
Specialty Papers	**66.5%**	71.2%
Composite Fibers	**33.5**	28.8
Total	**100.0%**	100.0%

Net sales totaled $339.8 million for the third quarter of 2008, an increase of $48.0 million, or 16.4%, compared to the same period a year ago.

In the Specialty Papers business unit, net sales increased $18.1 million, or 8.7%, compared to the third quarter of 2007 primarily due to higher average selling prices together with strong shipping volumes in the envelope and engineered product markets. Higher average selling prices contributed $12.5 million to Specialty Papers revenue increase during the third quarter of 2008. Operating income increased $8.2 million, or 55.8%, reflecting significant productivity improvements at the Chillicothe facility and higher selling prices. These factors were partially offset by $13.2 million of higher energy and raw material input costs.

Net sales in the Composite Fibers business unit increased $29.8 million, or 35.5% and operating income was up 2%, in the comparison. Net sales increased primarily due to the November 2007 Caerphilly acquisition, additional food and beverage volumes and higher selling prices. On a constant currency basis, higher average selling prices contributed $6.5 million to operating income in the third quarter 2008 and the translation of foreign currencies benefited net sales by $5.5 million. The cost of raw materials, primarily pulp and energy, were $6.2 million higher than a year ago. In addition, the Caerphilly acquisition was slightly dilutive to third quarter 2008 earnings. Operating income for the third quarter 2008 increased slightly compared to a year ago. However, the 2008 third quarter s results included $0.7 million of accelerated depreciation recorded on paper machine components to be replaced in connection with the previously announced $38 million machine rebuild to be completed in late 2009 and the third quarter 2007 results benefited from $1.4 million in non-recurring energy tax credits and an insurance recovery.

Non-Cash Pension Income Non-cash pension income results from the over-funded status of our pension plans. The amount of pension income recognized each year is determined using various actuarial assumptions and certain other factors, including the fair value of our pension assets as of the beginning of the year. The following summarizes non-cash pension income for each of the third quarters of 2008 and 2007:

	Three months ended September 30		
In thousands	**2008**	2007	Change
Recorded as:			
Costs of products sold	**$2,749**	$1,779	$ 970
SG&A expense	**1,230**	1,446	(216)
Total	**$3,979**	$3,225	$ 754

Selling, general and administrative (SG&A) expenses decreased by $17.4 million in the quarter-to-quarter comparison and totaled $24.8 million in the third quarter of 2008. The decrease was largely due to a $20.0 million charge recorded in the third quarter of 2007 to increase the reserve for the environmental matter at the Fox River. In the quarter-to-quarter comparison, before the effect of this charge, SG&A increased $2.6 million primarily due to the inclusion of the Caerphilly acquisition and currency translation adjustments.

Interest expense in the third quarter of 2008 totaled $5.7 million, a decline of $1.9 million compared with the same quarter of 2007. The decrease in interest expense was due to lower debt outstanding together with a lower interest rate environment.

Income taxes For the third quarter of 2008, we recorded a provision for income taxes of $10.3 million and the effective tax rate was 32.3%. In the third quarter of 2007, we recorded a benefit for income taxes totaling $7.3 million on pre tax income of $0.5 million. The 2007 income tax benefits include, among other adjustments, a $5.3 million deferred income tax benefit related to the reduction of German corporate income tax.

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Foreign Currency During the third quarter of 2008, Euro functional currency operations generated approximately 19.3% of our sales and 19.4% of operating expenses and British Pound Sterling operations represented 11.4% of net sales and 11.5% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on third quarter 2008 reported results compared to third quarter 2007:

In thousands	Three months ended September 30
	Favorable (unfavorable)
Net sales	**$ 5,526**
Costs of products sold	**(4,031)**
SG&A expenses	**(334)**
Income taxes and other	**188**
Net income	**$ 1,349**

The above table only presents the financial reporting impact of foreign currency translations. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires expenditures for new or enhanced equipment, for environmental compliance matters and to support our business strategy and research and development efforts. The following table summarizes cash flow information for each of the periods presented.

In thousands	Nine months ended September 30 **2008**	2007
Cash and cash equivalents at beginning of period	**$ 29,833**	$ 21,985
Cash provided by (used for)		
Operating activities	**17,759**	57,763
Investing activities	**(21,559)**	(7,190)
Financing activities	**(9,344)**	(56,199)
Effect of exchange rate changes on cash	**(742)**	1,461
Net cash used	**(13,886)**	(4,165)
Cash and cash equivalents at end of period	**$ 15,947**	$ 17,820

Cash provided from operating activities declined $40.0 million in the comparison as the benefits of improved results of operations were more than offset by increased accounts receivables related to higher volumes and higher selling prices, the use of $12.5 million of cash to fund
environmental matters and the payment of $18.2 million of taxes in 2008 compared with a $0.9 million of tax refund in the same period of 2007.

The net change in investing cash flows primarily reflects a $21.6 million increase in capital expenditures during the period partially offset by a $7.2 million increase in proceeds from timberland sales. For all of 2008, capital expenditures are expected to total $52 million to $57 million.

We recently announced our intentions to invest $38 million in state-of-the-art inclined wire and through air drying technology to upgrade another paper machine at our Gernsbach, Germany facility. This investment is expected to be made in the second half of 2009 and will likely be funded from existing cash balances and available borrowing capacity under our current credit facility.

During the first nine months of 2008 and 2007, cash dividends paid on common stock totaled approximately $12.3 million in each period. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

Changes in cash flows from financing activity in the comparison resulted primarily from net debt repayments in first nine months of 2007 totaling $45.4 million, compared to net borrowings in the current year totaling $1.8 million. In January 2008, we completed a $36.7 million borrowing collateralized by a promissory note that we received in connection with the a 2007 installment timberland sale.

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

In thousands	**Sept. 30, 2008**	Dec. 31, 2007
Revolving credit facility, due April 2011	**$ 7,314**	$ 35,049
Term Loan, due April 2011	**34,000**	43,000
$7^{1/8}$% Notes, due May 2016	**200,000**	200,000
Term Loan, due January 2013	**36,695**	
Note payable, due March 2013	**34,000**	34,000
Total long-term debt	**312,009**	312,049
Less current portion	**(13,071)**	(11,008)
Long-term debt, excluding current portion	**$298,938**	$301,041

The significant terms of the debt obligations are set forth in Item 1 Financial Statements and Supplementary Data, Note 12. At the end of the third quarter we had $180 million of borrowing capacity available under our revolving credit agreement. Although we do not have immediate intentions to make additional use of the facility, we believe this agreement and the banks that are party to it would provide us with ready access to funds should we need it.

We are subject to loss contingencies resulting from regulation by various federal, state, local and foreign governmental authorities with respect to the environmental impact of mills we operate, or have operated. To comply with environmental laws and regulations, we have incurred substantial capital and operating expenditures in past years. We anticipate that environmental regulation of our operations will continue to become more burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 1 Financial Statements Note 14 for a summary of significant environmental matters.

We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, sales of timberland, our existing credit facility or other bank lines of credit and other long-term debt. However, as discussed in Item 1 Financial Statements Note 14, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

Our credit agreement, as amended, contains a number of customary compliance covenants. In addition, the $7^{1}/_{8}\%$ Notes contain a cross default provision that in the event of a default under the credit agreement, the $7^{1}/_{8}\%$ Notes would become currently due. As of September 30, 2008, we met all of the requirements of our debt covenants.

Off-Balance-Sheet Arrangements As of September 30, 2008 and December 31, 2007, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments to which we are a party and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 Financial Statements.

Outlook In the Specialty Papers business unit, we expect softening demand in the fourth quarter due primarily to normal seasonality and, to a lesser extent, overall economic conditions. As a result, shipments during the fourth quarter are expected to be slightly lower than the same period in 2007. Costs are expected to moderate slightly in the fourth quarter, driven by cost reductions in oil and other commodities. However, the expiration of certain raw material contracts at the end of 2008 is expected to negatively impact production costs in the upcoming year.

Within the Composite Fibers business unit, we expect a continuation of strong demand for food and beverage and technical specialty products. We anticipate hard wood fiber costs in this business unit to decline slightly. Other input costs, including abaca fiber, synthetic fibers, natural gas and others costs tied to the energy markets, are expected to remain at present levels into the second quarter of 2009 due to supply agreements that are currently in place.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

	Year Ended December 31					At September 30, 2008	
Dollars in thousands	2008	2009	2010	2011	2012	Carrying Value	Fair Value
Long-term debt							
Average principal outstanding							
At fixed interest rates Bond	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$159,805
At fixed interest rate SunTrust Note	$ 34,000	$ 34,000	$ 34,000	$ 34,000	$ 34,000	$ 34,000	$ 34,171
At variable interest rates	$ 76,633	$ 68,378	$ 54,618	$ 40,810	$ 36,695	$ 78,009	$ 78,009

						$312,009	$271,985
Weighted-average interest rate							
On fixed rate debt							
Bond	7.13%	7.13%	7.13%	7.13%	7.13%		
On fixed rate debt							
Note payable	3.10	3.10	3.10	3.10	3.10		
On variable rate debt	4.65	4.66	4.66	4.46	4.33		

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At September 30, 2008, we had long-term debt outstanding of $312.0 million, of which $78.0 million or 25.0 % was

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at variable interest rates.

The table above presents average principal outstanding and related interest rates for the next five years. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities.

Variable-rate debt outstanding represents borrowings under (i) credit facility that incur interest based on the domestic prime rate or a Eurocurrency rate, at our option, plus a margin; (ii) the term loan that matures in April 2011, under which we are required to make quarterly repayments and (iii) the 2008 Term Loan that bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.2%per annum. At September 30, 2008, the weighted average interest rate paid on variable rate debt was 4.65%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by $0.8 million.

We are subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. Dollar. During the first nine months of 2008, Euro functional currency operations generated approximately 20.7% of our sales and 19.9% of operating expenses and British Pound Sterling operations represented 10.9% of net sales and 11.3% of operating expenses.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Our chief executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2008, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Changes in Internal Controls There were no changes in our internal control over financial reporting during the three months ended September 30, 2008, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

ITEM 6. EXHIBITS

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

10.1	Separation Agreement and General Release entered into between Jeffrey J. Norton and P. H. Glatfelter Company dated as of October 25, 2008, filed herewith.
31.1	Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

SIGNATURES

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

P. H. GLATFELTER COMPANY
(Registrant)

November 10, 2008

By /s/ David C. Elder
David C. Elder
Corporate Controller

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