

GLATFELTER P H CO
Form 10-Q
November 09, 2010

Table of Contents

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

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

or

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, 2010
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 No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

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

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

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

As of October 31, 2010, P. H. Glatfelter Company had 45,859,616 shares of common stock outstanding.

P. H. GLATFELTER COMPANY
REPORT ON FORM 10-Q
For the QUARTERLY PERIOD ENDED
SEPTEMBER 30, 2010
Table of Contents

	Page	
<u>PART I FINANCIAL INFORMATION</u>		
<u>Item</u>		
<u>1</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2010 and 2009 (unaudited)</u>	2
	<u>Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009 (unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 (unaudited)</u>	4
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	5
<u>Item</u>		
<u>2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item</u>		
<u>3</u>	<u>Quantitative and Qualitative Disclosures About Market Risks</u>	33
<u>Item</u>		
<u>4</u>	<u>Controls and Procedures</u>	33
<u>PART II OTHER INFORMATION</u>		
<u>Item</u>		
<u>1</u>	<u>Legal Proceedings</u>	34
<u>Item</u>		
<u>6</u>	<u>Exhibits</u>	34
<u>SIGNATURES</u>		34

Table of Contents**PART I****Item 1 Financial Statements**

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

<i>In thousands, except per share</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2010	2009	2010	2009
Net sales	\$ 379,097	\$ 312,358	\$ 1,079,153	\$ 882,889
Energy and related sales net	3,312	2,132	8,834	6,194
Total revenues	382,409	314,490	1,087,987	889,083
Costs of products sold	326,669	232,025	952,571	704,303
Gross profit	55,740	82,465	135,416	184,780
Selling, general and administrative expenses	27,782	29,303	91,299	80,364
Gains on dispositions of plant, equipment and timberlands, net	(150)	(9)	(318)	(681)
Operating income	28,108	53,171	44,435	105,097
Non-operating income (expense)				
Interest expense	(6,565)	(4,528)	(19,045)	(14,798)
Interest income	232	318	570	1,583
Other net	(251)	204	(3,868)	86
Total other income (expense)	(6,584)	(4,006)	(22,343)	(13,129)
Income before income taxes	21,524	49,165	22,092	91,968
Income tax (benefit) provision	(17,913)	3,171	(17,074)	14,566
Net income	\$ 39,437	\$ 45,994	\$ 39,166	\$ 77,402
Earnings per share				
Basic	\$ 0.86	\$ 1.01	\$ 0.85	\$ 1.70
Diluted	0.85	1.00	0.85	1.69
Cash dividends declared per common share	0.09	0.09	0.27	0.27
Weighted average shares outstanding				
Basic	45,950	45,699	45,898	45,649
Diluted	46,286	45,865	46,330	45,712

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

GLATFELTER

-2-

Table of Contents

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

<i>In thousands</i>	September 30 2010	December 31 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 63,333	\$ 135,420
Accounts receivable net	160,859	119,319
Inventories	193,808	168,370
Prepaid expenses and other current assets	65,060	96,947
Total current assets	483,060	520,056
Plant, equipment and timberlands net	623,783	470,632
Other assets	225,892	199,606
Total assets	\$ 1,332,735	\$ 1,190,294
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	\$	\$ 13,759
Short-term debt	1,026	3,888
Accounts payable	98,876	63,604
Dividends payable	4,191	4,170
Environmental liabilities	608	440
Other current liabilities	104,104	100,249
Total current liabilities	208,805	186,110
Long-term debt	332,058	236,936
Deferred income taxes	89,962	96,668
Other long-term liabilities	164,583	159,876
Total liabilities	795,408	679,590
Commitments and contingencies		
Shareholders equity		
Common stock	544	544
Capital in excess of par value	49,004	46,746
Retained earnings	738,427	711,765

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Accumulated other comprehensive loss	(124,311)	(119,885)
	663,664	639,170
Less cost of common stock in treasury	(126,337)	(128,466)
Total shareholders' equity	537,327	510,704
Total liabilities and shareholders' equity	\$ 1,332,735	\$ 1,190,294

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

GLATFELTER

-3-

Table of Contents

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

<i>In thousands</i>	Nine months ended September 30	
	2010	2009
Operating activities		
Net income	\$ 39,166	\$ 77,402
Adjustments to reconcile to net cash provided by operations:		
Depreciation, depletion and amortization	48,802	45,823
Pension expense, net of unfunded benefits paid	6,422	5,045
Deferred income tax provision (benefit)	(12,755)	(18,599)
Gains on dispositions of plant, equipment and timberlands, net	(318)	(681)
Share-based compensation	4,333	3,704
Alternative fuel mixture credits, net of credits applied to taxes due		(34,888)
Change in operating assets and liabilities		
Accounts receivable	(18,606)	197
Inventories	1,358	33,645
Prepaid and other current assets	35,868	5,245
Accounts payable	20,731	1,492
Environmental matters	11	(7,383)
Accruals and other current liabilities	(5,904)	8,220
Other	4,272	292
Net cash provided by operating activities	123,380	119,514
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	(23,269)	(16,704)
Proceeds from disposals of plant, equipment and timberlands, net	333	728
Proceeds from timberland installment sale note receivable		37,850
Acquisition of Concert Industries Corp., net of cash acquired	(229,080)	
Net cash (used) provided by investing activities	(252,016)	21,874
Financing activities		
Proceeds from \$100 million 7 % note offering, net of original issue discount	95,000	
Payments of note offering and credit facility costs	(5,297)	
Net repayments of revolving credit facility		(1,623)
Net repayments of short term debt	(2,979)	(2,640)
Repayment of Note payable, due March 2013		(34,000)
Principal repayments 2011 Term Loan	(14,000)	(12,000)
Payments of dividends	(12,556)	(12,433)
Proceeds from stock options exercised and other	147	
Net cash provided (used) by financing activities	60,315	(62,696)
Effect of exchange rate changes on cash	(3,766)	5,314

Net decrease in cash and cash equivalents	(72,087)	84,006
Cash and cash equivalents at the beginning of period	135,420	32,234
Cash and cash equivalents at the end of period	\$ 63,333	\$ 116,240

Supplemental cash flow information

Cash paid (received) for		
Interest	\$ 11,788	\$ 9,523
Income taxes	(43,004)	16,175

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

GLATFELTER

-4-

Table of Contents

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 fiber-based engineered products. Headquartered in York, Pennsylvania, our manufacturing facilities are located in Spring Grove, Pennsylvania; Chillicothe and Freemont, Ohio; Gatineau, Quebec, Canada; Gloucestershire (Lydney), England; Caerphilly, Wales; Gernsbach and Falkenhagen, 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 unaudited condensed consolidated financial statements (financial statements) include the accounts of Glatfelter and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2009 Annual Report on Form 10-K (2009 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 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. ACQUISITION

On February 12, 2010, we completed the acquisition of all the issued and outstanding stock of Concert Industries Corp. (Concert), a manufacturer of highly absorbent cellulose based airlaid non-woven materials, for cash totaling \$231.9 million based on the currency exchange rates on the closing date, and net of a post-closing working capital adjustment. Concert, with approximately 590 employees, has operations located in Gatineau, Quebec, Canada and Falkenhagen, Brandenburg, Germany. Annual revenues totaled \$203.0 million in 2009.

Concert manufactures highly absorbent cellulose based airlaid non-woven materials used in products such as feminine hygiene and adult incontinence products, pre-moistened cleaning wipes, food pads, napkins and tablecloths, and baby wipes. The acquisition of Concert affords us the opportunity to grow with the industry leaders in feminine hygiene and adult incontinence products. We believe that our acquisition of Concert provides us with an industry-leading global business that sells highly specialized, engineered fiber-based products to niche markets with substantial barriers to entry.

The share purchase agreement provides for, among other terms, i) an adjustment to the purchase price based on final working capital as of the closing balance sheet, which has yet to be fully agreed to; and ii) indemnification provisions for claims that may arise, including among others, uncertain tax positions and other third party claims.

During the second quarter of 2010, we and the sellers reached agreement on certain working capital related adjustments that reduced the purchase price by \$3.9 million. In addition, as a result of further evaluation of asset appraisals, contingencies and other factors, in accordance with FASB ASC 805, Business Combinations, we have determined that certain retrospective adjustments to the February 12, 2010 provisional allocation of the purchase price to assets acquired and liabilities assumed were required.

GLATFELTER

-5-

Table of Contents

The following summarizes the impact of the adjustments recorded in the second and third quarters of 2010 and retrospectively reflected in the financial statements. This provisional purchase price allocation is based on information currently available to management:

<i>In thousands</i>	As originally presented	Adjustment	Adjusted
Assets			
Cash	\$ 2,792	\$	\$ 2,792
Accounts receivable	24,703		24,703
Inventory	28,034		28,034
Prepaid and other current assets	5,941	(1,327)	4,614
Plant, equipment and timberlands	177,253	8,068	185,321
Intangible assets	3,138	1,902	5,040
Deferred tax assets and other assets	20,738	(6,572)	14,166
Total	262,599	2,071	264,670
Liabilities			
Accounts payable and accrued expenses	25,322	591	25,913
Deferred tax liabilities	1,267	2,166	3,433
Other long term liabilities	212	3,240	3,452
Total	26,801	5,997	32,798
Total purchase price	\$235,798	\$(3,926)	\$231,872

The adjustments set forth above did not materially impact previously reported results of operations, earnings per share, or cash flows.

We are in the process of finalizing potential additional working capital adjustments and final valuations of assets acquired, including plant and equipment and intangible assets, certain contingencies and the impact on taxes of any final adjustments to such valuations, all necessary to account for the Concert transaction in accordance with the acquisition method of accounting set forth in FASB ASC 805. Accordingly, the provisional purchase price allocation set forth above is based on all information available to us at the present time and is subject to change, and such changes could be material.

For purposes of allocating the total purchase price, assets acquired and liabilities assumed are recorded at their estimated fair market value. The allocation set forth above is based on management's estimate of the fair value using valuation techniques such as discounted cash flow models, appraisals and similar methodologies. The amount allocated to intangible assets represents the estimated value of technology and customer sales contracts and relationships. Deferred tax assets reflect the estimated value of future tax deductions acquired in the transaction.

Acquired property plant and equipment are being depreciated on a straight-line basis with estimated remaining lives ranging from 5 years to 40 years. Intangible assets are being amortized on a straight-line basis over an estimated remaining life of 11 to 20 years reflecting the expected future value.

During the first nine months of 2010, we incurred legal, professional and advisory costs directly related to the Concert acquisition totaling \$7.2 million. All such costs are presented under the caption "Selling, general and administrative expenses" in the accompanying condensed consolidated statements of income. Deferred financing fees incurred in connection with issuing debt related to the acquisition totaled \$3.1 million through September 30, 2010. The unamortized fees are recorded in the accompanying consolidated balance sheet under the caption "Other assets".

In addition, in connection with the Concert acquisition, we entered into a series of forward foreign currency contracts to hedge the acquisition's Canadian dollar purchase price. All contracts were settled for cash during the first

quarter of 2010 and resulted in a \$3.4 million loss, net of realized currency translation gains, which is presented under the caption Other-net in the accompanying condensed consolidated statements of income for the nine months ended September 30, 2010.

Our results of operations for the first nine months of 2010 include the results of Concert prospectively since the acquisition was completed on February 12, 2010. All such results are reported herein as the Advanced Airlaid Materials business unit, a new reportable segment. Net sales and operating income of Concert included in our consolidated results of operations totaled \$58.0 million and \$1.2 million, respectively, for the third quarter of 2010. Net sales and operating income were \$138.1 million and \$3.4 million, respectively, for the first nine months of 2010.

GLATFELTER

-6-

Table of Contents

The table below summarizes pro forma financial information as if the acquisition and related financing transaction occurred as of January 1, 2009:

<i>In thousands, except per share</i>	Three months ended September 30	
	2010	2009
Pro forma		
Net sales	\$ 379,097	\$ 368,035
Net income	39,844	52,477
Diluted earnings per share	0.86	1.14

<i>In thousands, except per share</i>	Nine months ended September 30	
	2010	2009
Pro forma		
Net sales	\$ 1,104,802	\$ 1,035,210
Net income	51,036	85,951
Diluted earnings per share	1.10	1.88

For purposes of presenting the above pro forma financial information, non-recurring legal, professional and transaction costs directly related to the acquisition have been eliminated. This unaudited pro forma financial information above is not necessarily indicative of what the operating results would have been had the acquisition been completed at the beginning of the respective period nor is it indicative of future results.

4. GAINS ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

Sales of timberlands and other assets in the first nine months of 2010 and 2009 are summarized in the following table:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain (loss)
2010			
Timberlands	71	\$ 182	\$ 168
Other	n/a	151	150
		\$ 333	\$ 318
2009			
Timberlands	189	\$ 728	\$ 699
Other	n/a		(18)
		\$ 728	\$ 681

5. ALTERNATIVE FUEL MIXTURE CREDITS

The U.S. Internal Revenue Code provided a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to \$0.50 per gallon of alternative fuel contained in the mixture,

was refundable to the taxpayer. We began mixing black liquor and diesel fuel in late February 2009 and filed an application to be registered as an alternative fuel mixer with the Internal Revenue Service in March 2009. On May 11, 2009, we were notified by the Internal Revenue Service that our application to be registered as an alternative fuel mixer was approved. We subsequently filed an excise tax refund claim for the alternative fuel mixture consumed at our Spring Grove, PA and Chillicothe, OH facilities during the period February 20, 2009 through May 17, 2009 and received a payment from the Internal Revenue Service (IRS) on June 30, 2009 in the amount of \$29.7 million.

For the period May 18, 2009 through September 30, 2009, we earned an additional \$45.8 million of alternative fuel mixture credits. Of this amount, \$10.9 million was used to reduce estimated interim tax payments. We claimed the balance of this amount as a non-taxable income tax credit in connection with the filing of our 2009 federal corporate income tax return.

The accompanying condensed consolidated statement of income for the three months and nine months ended September 30, 2009 includes \$33.0 million and \$73.8 million, respectively, recorded as a credit to cost of products sold representing alternative fuel mixture credits earned through September 30, 2009, net of associated expenses. On an after-tax basis, we recognized \$32.9 million of alternative fuel mixture credits during the third quarter of 2009 and \$63.3 million in the nine months ended September 30, 2009.

GLATFELTER

-7-

Table of Contents**6. EARNINGS PER SHARE**

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

<i>In thousands, except per share</i>	Three months ended September 30	
	2010	2009
Net income	\$39,437	\$45,994
Weighted average common shares outstanding used in basic EPS	45,950	45,699
Common shares issuable upon exercise of dilutive stock options and restricted stock awards	336	166
Weighted average common shares outstanding and common share equivalents used in diluted EPS	46,286	45,865
Earnings per share		
Basic	\$ 0.86	\$ 1.01
Diluted	0.85	1.00

<i>In thousands, except per share</i>	Nine months ended September 30	
	2010	2009
Net income	\$39,166	\$77,402
Weighted average common shares outstanding used in basic EPS	45,898	45,649
Common shares issuable upon exercise of dilutive stock options and restricted stock awards	432	63
Weighted average common shares outstanding and common share equivalents used in diluted EPS	46,330	45,712
Earnings per share		
Basic	\$ 0.85	\$ 1.70
Diluted	0.85	1.69

The following table sets forth the number of potential common shares that have been excluded from the computation of diluted earnings per share for the indicated period due to their anti-dilutive nature.

	2010	2009
Three months ended September 30	1,531,675	1,244,410
Nine months ended September 30	1,519,175	2,287,620

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, 2010 and December 31, 2009, we had \$44.5 million, including acquisition accounting adjustments, and \$40.1 million, respectively, of gross unrecognized tax benefits. As of September 30, 2010, if such benefits were to be recognized, approximately \$40.6 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

Jurisdiction	Open tax year		Examination in progress	
United States				
Federal	2007	2009		N/A
State	2005	2009	2004 & 2006	2008
Canada (1)	2005	2007	2008	2009
Germany (1)	2007	2009	2003	2009
France	2006	2009		N/A
United Kingdom	2006	2009		N/A
Philippines		N/A	2007	2009

(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 limitation, it is reasonably possible our gross unrecognized tax benefits balance may be reduced within the next twelve months by as much as \$16.2 million. Substantially all of this relates to tax positions taken in Germany and the United Kingdom.

GLATFELTER

Table of Contents

We recognize interest and penalties related to uncertain tax positions as income tax expense. Interest expense recognized in the third quarter of 2010 totaled \$0.2 million and \$0.1 million in the third quarter of 2009. The comparable amounts for the first nine months of 2010 and 2009 were \$0.7 million and \$0.7 million, respectively. As of September 30, 2010, accrued interest payable was \$4.9 million, including acquisition accounting adjustments, and as of December 31, 2009, accrued interest payable was \$3.8 million. We did not record any penalties associated with uncertain tax positions during the first nine months of 2010 or 2009.

Cellulosic Biofuel Production Credit In March 2010, our application to be registered as a cellulosic biofuel producer was approved by the Internal Revenue Service. The U.S. Internal Revenue Code provides a non refundable tax credit equal to \$1.01 per gallon for taxpayers that produce cellulosic biofuel. In a memorandum dated June 28, 2010, the Internal Revenue Service issued guidance concluding that black liquor sold or used before January 1, 2010, qualifies for the cellulosic biofuel producer credit (CBPC) and no further certification of eligibility was needed.

In connection with the filing of our 2009 income tax return, we claimed \$23.1 million, net of taxes, of CBPC, and as a result we expect to receive \$14.8 million of a cash tax refund during the fourth quarter. The CBPC claimed is attributable to black liquor produced and burned from January 1, 2009 through February 20, 2009, the date we began mixing black liquor and diesel fuel to qualify for alternative fuel mixture credits.

8. STOCK-BASED COMPENSATION

The P. H. Glatfelter Amended and Restated Long Term Incentive Plan (the LTIP) provides for the issuance of up to 5,500,000 shares of Glatfelter common stock to eligible participants in the form of restricted stock units, restricted stock awards, non-qualified stock options, performance shares, incentive stock options and performance units.

Restricted Stock Units (RSU) Awards of RSUs are made under our LTIP. The RSUs vest based solely on the passage of time on a graded scale over a three, four, and five-year period. The following table summarizes RSU activity during the first nine months of the indicated periods:

<i>Units</i>	2010	2009
Beginning balance	564,037	486,988
Granted	202,589	205,360
Forfeited	(19,953)	(6,000)
Restriction lapsed/shares delivered	(31,323)	(5,747)
Ending balance	715,350	680,601

The following table sets forth RSU compensation expense for the periods indicated:

<i>In thousands</i>	September 30	
	2010	2009
Three months ended	\$ 436	\$ 448
Nine months ended	1,274	1,175

GLATFELTER

Table of Contents

Stock Only Stock Appreciation Rights (SOSARs) Under terms of the SOSAR, the recipients receive the right to a payment in the form of shares of common stock equal to the difference, if any, in the fair market value of one share of common stock at the time of exercising the SOSAR and the strike price. The SOSARs vest ratably over a three year period and have a term of ten years.

The following table sets forth information related to outstanding SOSARS.

SOSARS	2010		2009	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	1,762,020	\$ 11.84	718,810	\$ 14.63
Granted	455,050	13.81	1,043,210	9.91
Exercised				
Canceled/forfeited	(64,420)	11.71		
Outstanding at Sept 30,	2,152,650	\$ 13.04	1,762,020	\$ 11.84
SOSAR Grants				
Weighted average grant date fair value per share	\$ 4.67		\$ 2.83	
Aggregate grant date fair value (in thousands)	\$ 2,117		\$ 2,957	
Black-Scholes Assumptions				
Dividend yield	2.60%		3.63%	
Risk free rate of return	2.51		2.26	
Volatility	42.32		40.59	
Expected life	6 yrs		6 yrs	

The following table sets forth SOSAR compensation expense for the periods indicated:

<i>In thousands</i>	September 30	
	2010	2009
Three months ended	\$ 486	\$ 596
Nine months ended	1,671	1,293

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.

<i>In thousands</i>	Three months ended September 30	
	2010	2009
Pension Benefits		
Service cost	\$ 2,415	\$ 2,158
Interest cost	5,897	5,861
Expected return on plan assets	(10,046)	(9,884)

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Amortization of prior service cost	614	537
Amortization of unrecognized loss	3,314	3,186
Net periodic benefit cost	\$ 2,194	\$ 1,858

Other Benefits

Service cost	\$ 730	\$ 654
Interest cost	843	878
Expected return on plan assets	(134)	(122)
Amortization of prior service cost	(305)	(308)
Amortization of unrecognized loss	385	519
Net periodic benefit cost	\$ 1,519	\$ 1,621

**Nine months ended
September 30**

In thousands

2010 2009

Pension Benefits

Service cost	\$ 7,108	\$ 6,475
Interest cost	17,950	17,582
Expected return on plan assets	(30,190)	(29,663)
Amortization of prior service cost	1,845	1,610
Amortization of unrecognized loss	10,218	9,559
Net periodic benefit cost	\$ 6,931	\$ 5,563

Other Benefits

Service cost	\$ 2,189	\$ 1,963
Interest cost	2,528	2,634
Expected return on plan assets	(403)	(365)
Amortization of prior service cost	(917)	(925)
Amortization of unrecognized loss	1,154	1,556
Net periodic benefit cost	\$ 4,551	\$ 4,863

**September
30,
2010**

In millions

Dec. 31,
2009

Pension Plan Assets

Fair value of plan assets at end of period	\$ 499.1	\$485.7
--	-----------------	---------

GLATFELTER

Table of Contents**10. COMPREHENSIVE INCOME**

The following table sets forth comprehensive income and its components:

<i>In thousands</i>	Three months ended September 30	
	2010	2009
Net income	\$ 39,437	\$ 45,994
Foreign currency translation adjustments	22,887	7,892
Amortization of unrecognized retirement obligations, net of tax	2,409	2,465
Comprehensive income	\$ 64,733	\$ 56,351

<i>In thousands</i>	Nine months ended September 30	
	2010	2009
Net income	\$ 39,166	\$ 77,402
Foreign currency translation adjustments	(11,922)	15,945
Amortization of unrecognized retirement obligations, net of tax	7,496	7,077
Comprehensive income	\$ 34,740	\$ 100,424

11. INVENTORIES

Inventories, net of reserves, were as follows:

<i>In thousands</i>	Sept. 30, 2010	Dec. 31, 2009
Raw materials	\$ 54,417	\$ 44,150
In-process and finished	86,460	78,340
Supplies	52,931	45,880
Total	\$193,808	\$168,370

12. LONG-TERM DEBT

Long-term debt is summarized as follows:

<i>In thousands</i>	Sept. 30, 2010	Dec. 31, 2009
Revolving credit facility, due April 2011	<i>n/a</i>	\$
Revolving credit facility, due May 2014	\$	
Term Loan, due April 2011		14,000
7 % Notes, due May 2016	200,000	200,000
7 % Notes, due May 2016 - net of original issue discount	95,363	
Term Loan, due January 2013	36,695	36,695

Total long-term debt	332,058	250,695
Less current portion		(13,759)
Long-term debt, net of current portion	\$332,058	\$236,936

On April 29, 2010, we entered into a new four-year, \$225 million, multi-currency, revolving credit agreement with a consortium of banks. The new agreement replaced and terminated our revolving credit agreement due April 2011 and matures May 31, 2014.

For all US dollar denominated borrowings under the new agreement, the interest rate is either, at our option, (a) the bank's base rate plus an applicable margin (the base rate is the greater of the bank's prime rate, the federal funds rate plus 50 basis points, or the daily LIBOR rate plus 100 basis points); or (b) daily LIBOR rate plus an applicable margin ranging from 175 basis points to 275 basis points according to our corporate credit rating determined by S&P and Moody's. For non-US dollar denominated borrowings, interest is based on (b) above.

The credit agreement contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios, each as defined in the credit agreement, including: i) maximum net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio; and ii) a consolidated EBITDA to interest expense ratio. A breach of these requirements would give rise to certain remedies under the credit agreement, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

On April 28, 2006 we completed an offering of \$200.0 million aggregate principal amount of our 7% Senior Notes due 2016 (7% Notes). Net proceeds from this offering totaled approximately \$196.4 million, after deducting the commissions and other fees and expenses relating to the offering. The proceeds were primarily used to redeem \$150.0 million aggregate principal amount of our then outstanding 6⁷/₈% notes due July 2007, plus the payment of applicable redemption premium and accrued interest.

On February 5, 2010, we issued an additional \$100 million in aggregate principal amount of 7% Notes due 2016 (together with the April 28, 2006 offering, the Senior Notes). The notes were issued at 95.0% of the principal amount. Net proceeds from this offering after deducting offering fees and expenses, were used to fund, in part, the Concert acquisition. The original issue discount is being accreted as a charge to income on the effective interest method.

Interest on the Senior Notes accrues at the rate of 7% per annum and is payable semiannually in arrears on May 1 and November 1.

The Senior Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity or a default under the credit agreement that accelerates the debt outstanding

GLATFELTER

Table of Contents

thereunder. As of September 30, 2010, we were not aware of any violations of our debt covenants.

In November 2007, we sold approximately 26,000 acres of timberland. In connection with that transaction, we formed GPW Virginia Timberlands LLC (GPW Virginia) as an indirect, wholly owned and bankruptcy-remote subsidiary of ours. GPW Virginia received as consideration for the timberland sold in that transaction a \$43.2 million, interest-bearing note that matures in 2027 from the buyer, Glawson Investments Corp. (Glawson), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The Glawson note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc. In January 2008, GPW Virginia monetized the Glawson note receivable by entering into a \$36.7 million term loan agreement (the 2008 Term Loan) with a financial institution. The 2008 Term Loan is secured by all of the assets of GPW Virginia, including the Glawson note receivable, the related letter of credit and additional notes with an aggregate principal amount of \$9.2 million that we issued in favor of GPW Virginia (the Company Note). The 2008 Term Loan bears interest at a six month reserve adjusted LIBOR rate plus a margin rate of 1.20% per annum. Interest on the 2008 Term Loan is payable semiannually. The principal amount of the 2008 Term Loan is due on January 15, 2013, but GPW Virginia may prepay the 2008 Term Loan at any time, in whole or in part, without premium or penalty. During the first nine months of 2010, GPW Virginia received aggregate interest income of \$0.8 million under the Glawson note receivable and the Company Note and, in turn, interest expense of \$0.5 million under the 2008 Term Loan.

Under terms of the above transaction, minimum credit ratings must be maintained by the letter of credit issuing bank. An event of default is deemed to have occurred under the debt instrument governing the Note Payable unless actions are taken to cure such default within 60 days from the date such credit rating falls below the specified minimum. Potential remedial actions include: (i) amending the terms of the applicable debt instrument; (ii) a replacement of the letter of credit with an appropriately rated institution; or (iii) repaying the Note Payable.

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, 2010 and December 31, 2009, we had \$6.7 million and \$5.7 million, respectively, of letters of credit issued to us by certain financial institutions. Such letters of credit reduce amounts available under our revolving credit facility. The letters of credit outstanding as of September 30, 2010, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

13. ASSET RETIREMENT OBLIGATION

During 2008, we recorded \$11.5 million, net present value, of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, lagoons were used to dispose of residual waste material. Closure of the lagoons will be accomplished by filling the lagoons, installing a non-permeable liner which will be covered with soil to construct the required cap over the lagoons. The amount referred to above, in addition to an upward revision in the fourth quarter of 2009, was accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the consolidated balance sheet. The amount capitalized is being depreciated as a charge to operations on the straight-line basis in relation to the expected closure period. Following is a summary of activity recorded during the first nine months of 2010 and 2009:

<i>In thousands</i>	2010	2009
Balance at January 1,	\$11,292	\$11,606
Accretion	457	472
Payments	(1,008)	(1,697)
Balance at September 30,	\$10,741	\$10,381

Of the total liability at September 30, 2010, \$1.5 million is recorded in the accompanying consolidated balance sheet, under the caption Other current liabilities and \$9.2 million is recorded under the caption Other long-term

liabilities.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL DERIVATIVES

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

<i>In thousands</i>	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate bonds	\$ 295,363	\$ 300,250	\$ 200,000	\$ 196,750
Variable rate debt	36,695	38,525	50,695	51,209
Total	\$ 332,058	\$ 338,775	\$ 250,695	\$ 247,959

As of September 30, 2010, we had \$300.0 million of 7 % fixed rate debt, \$100.0 million of which is recorded

GLATFELTER

-12-

Table of Contents

net of unamortized original issue discount. This fixed rate debt is publicly registered, but is thinly traded, and therefore, market prices are not readily available. Accordingly, the values set forth above are based on debt instruments with similar characteristics, or Level 2. The fair value of the remaining debt instruments was estimated using discounted cash flow models based on interest rates obtained from readily available, independent sources, or Level 3.

As part of our overall risk management practices, we enter into foreign exchange forward contracts primarily designed to mitigate the impact changes in currency exchange rates have on intercompany financing transactions. All such contracts are not designated as hedges for financial accounting purposes and, accordingly, changes in value of the foreign exchange forward contract and the offsetting underlying intercompany transactions are reflected in the accompanying statement of operations under the caption *Other net*. The fair values of the foreign exchange forward contracts are considered to be Level 2 and are recorded in the accompanying consolidated balance sheet under the caption *Prepaid and other current assets* and *Other current liabilities*.

As of September 30, 2010, we had the following outstanding foreign exchange forward contracts, all of which have original maturities of one month and mature on October 29, 2010:

<i>In millions</i>	Notional
Sell euro for US dollar	62.0
Buy euro for US dollar	1.1
Buy euro for British pound	4.5
Sell GBP for US dollar	£ 2.3
Sell Canadian dollar for US dollar	C\$ 6.0
Sell Philippine peso for US dollar	PHP247.0

The net fair value of the contracts set forth above was a liability of \$0.9 million at September 30, 2010.

15. 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 in 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 (the Natural Resources Trustees or Trustees) 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

GLATFELTER

-13-

Table of Contents

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.

As is discussed more fully below in this Note 15, the current state of our exposure to liability for contamination at the Site is as follows:

(a) EPA has ordered us and other parties, including Appleton Papers Inc. (API) and NCR Corporation (NCR) to implement the remedy in OU2-5;

(b) a federal district court has ruled that neither API nor NCR may recover in contribution from either us or any other of the paper recyclers ordered by EPA to clean up the Site any costs of response or any NRDs that either of them incur or pay in connection with the Site; NCR and API have stated their intention to appeal this ruling;

(c) we have completed the remedy in OU1 in conjunction with WTM I Company (WTM I) and with some financial contribution from Menasha Corporation (Menasha) and API/NCR; we have also made payments toward NRDs and other costs of response at the site;

(d) the same federal district court is currently considering whether we and WTM I have a right to recover those response costs and payments of NRDs described in subsection (c) above from NCR and API; and

(e) the United States and the State of Wisconsin have commenced a lawsuit against us and eleven other parties in federal district court seeking to recover from each of the defendants, jointly and severally, all of the governments' past costs of response, a declaration as to liability for all of the governments' future costs of response, and compensation for natural resource damages, as well as injunctive relief to require remedial action with respect to Operable Units 2-5 as called for by the order referred to in subsection (a) above.

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 and in June 2007.

EPA amended the RODs for OUs 2-5 in June 2007 to require less dredging and more capping and covering of sediments containing PCBs. The governments have concluded that these methods will result in a reduction in the costs for this portion of the cleanup. Others disagree. Likewise, in June 2008, EPA also amended the ROD for OU1.

The governments' lawsuit may allow for litigation over the selection of the remedy. If that issue were to be litigated, and if we were to be successful in modifying the remedy, our exposure could be reduced materially.

NRD Assessment. The Natural Resources Trustees have engaged in work to assess NRDs at and arising from the Site. The United States and the State of Wisconsin allege in their lawsuit that various documents prepared by the Trustees taken together constitute a required NRD Assessment under the regulations. We disagree. The Trustees' 2009 estimate of NRDs and associated costs ranges from \$287 million to \$423 million, some of which has already been satisfied. With specific respect to NRD claims, we and others contended that the Trustees' claims are barred or otherwise defensible on a number of legal bases including that the applicable three year statute of limitations has expired.

Past Costs Demand. By letter dated January 15, 2009, EPA demanded that we and six other parties reimburse EPA for approximately \$17.6 million in costs that EPA claims it incurred as necessary costs of response not subject to any other agreement in this matter. In response, we and the other parties which were contacted notified the EPA that the supporting documentation provided by EPA did not allow us fully to evaluate this demand and we requested that the EPA provide additional supporting information for the claimed costs. EPA has not yet responded to this request.

The governments allege in their lawsuit that the United States has incurred more than \$16.5 million in unreimbursed response costs for the Site and that the State of Wisconsin has incurred certain other, unspecified, unreimbursed responses costs. Accordingly we are unable to estimate reasonably our potential liability for these costs.

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

GLATFELTER

-14-

Table of Contents

paid both by us and by others. The procedural context of any work done, costs incurred, and damages paid also impact our ultimate exposure.

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. We have divided costs evenly, but have received a \$7 million contribution from Menasha Corp. and a \$10 million contribution that the United States taken from a separate settlement in *United States v. Appleton Papers Inc.*, No. 2:01-cv-816, that obligated NCR and Appleton Papers to contribute to certain NRD projects. In June 2008, the parties entered into an amendment to the OU1 Consent Decree (*Amended OU1 Consent Decree*). This amendment allowed for implementation of the amended remedy for OU1 and committed us and WTM I to implement that remedy without a cost limitation on that commitment. We and WTM I have substantially completed the amended remedy for OU1 other than monitoring and maintenance.

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. Shortly following issuance of the UAO, Appleton Papers Inc. and NCR Corp. commenced litigation against us and others, as described below. Accordingly, we have no vehicle for complying with the UAO s overall requirements other than answering a judgment in the litigation, and we have so informed EPA. However, in February 2009, the EPA sent a demand to each of the respondents on the UAO other than WTM I seeking payment of the government s oversight costs under the UAO for the period from November 2007 through August 2008. In February 2009, we notified the EPA that we believed that its demand could prove distracting to litigation commenced by Appleton Papers and NCR against the other UAO

respondents. In order to remove this distraction, and in the spirit of cooperation, we stated that we would satisfy the EPA s demand, an amount which was insignificant, in full. We paid this amount. Others have satisfied subsequent, insignificant demands by EPA for oversight costs.

Cost estimates. Estimates of the Site remediation change over time as we, or others, gain additional data and experience at the Site. In addition, disagreement exists over the likely costs for some of this work. On February 26, 2010, EPA issued an explanation of Significant Differences a document explaining changes to a remedy (*ESD*), including changes in cost, that are significant but which do not require the issuance of a new Record of Decision. In that ESD, EPA estimated the cost for the OU 2-5 remedy to be \$701 million. EPA estimates costs as a range, in this case from \$491 million to \$1.05 billion. This estimate is slightly different than, but not inconsistent with, an estimate of the total cost for remediation of the Site that the Governments prepared for purposes of justifying a recent *de minimis* settlement with certain parties whose liability at the Site the United States and the Governments believe to be insignificant. That settlement was approved by the federal court in Green Bay on December 16, 2009. In their brief in support of that settlement, the Governments estimated the total past costs incurred at the Site including the OU1 project to be \$200 million. In addition, they estimated the cost of implementing the remedy set forth in the amended ROD for OU2-5 (the downstream portions of the Site) to total between \$600 million and \$700 million exclusive of amounts already spent. For purposes of the settlement, the Governments took the high end of that range and applied a 50% contingency to arrive at a cost estimate for future cleanup work of \$1.05 billion. Based upon independent estimates commissioned by various potentially responsible parties, we have no reason to disagree with the Governments assertion that future costs to implement the amended remedy for OU2-5 are likely to fall between \$700 million and \$1.05 billion.

NRDs. The Trustees have claimed that we are jointly and severally responsible for NRDs with a value between \$176 million and \$333 million. In their recently filed brief, they further claim that this range should be inflated to

2009 dollars and then certain unreimbursed past assessment costs should be added, so that the range of their claim would be \$287 million to \$423 million. We deny (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 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

GLATFELTER

-15-

Table of Contents

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 except as described below.

NCR and Appleton Papers Inc. 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. 2:08-cv-16, seeking to reallocate costs and damages allegedly incurred or paid or to be incurred or paid by NCR or Appleton Papers (the Whiting Litigation). They have to date joined a number of defendants, dismissed some of those, filed a parallel action, and consolidated the two cases. At present, the case involves allocation claims among the two plaintiffs and 28 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 Company, Inc., Fort James Corporation, Kimberly-Clark Corporation, LaFarge North America Inc., Union Pacific Railroad Company, and the United States Army Corps of Engineers. As the result of certain third-party claims, federal agencies other than the Corps of Engineers are also involved in this allocation.

On December 16, 2009, the Court granted motions for summary judgment in our favor on the contribution claims brought by NCR and Appleton Papers Inc. in the Whiting litigation. The Court held that neither NCR nor Appleton Papers may seek contribution from us or other recyclers under CERCLA. The Court made no ruling as to any other allocation, the liability of NCR or Appleton Papers to us for costs we have incurred, or our liability to the governments or Trustees. NCR and Appleton Papers have stated their intention to appeal but an appeal is not yet timely because the Court has not entered a final judgment.

As described above, we have counterclaims against NCR and Appleton Papers Inc. to recover the costs we have incurred and may later incur and the damages we have paid and may later pay in connection with the Fox River site. Other defendants have similar claims. On January 20, 2010, the Court issued an order inviting submissions from the parties as to whether the counterclaims of the defendants, as well as certain additional claims, could be resolved without a trial within approximately six months. On April 3, 2010, we and others, including NCR and Appleton Papers Inc., filed separate motions for summary judgment on the counterclaims of the defendants. In the aggregate, the defendants' motions seek a declaration that NCR and Appleton Papers, Inc. are liable to them for any future costs defendants may come to pay and seek recovery of just less than \$210 million in past costs, plus interest on some of the recovery. Our summary judgment motion sought recovery of \$58.6 million in past costs and the declaration. The Court has not yet ruled on any of the separate motions for summary judgment on the counterclaims of the defendants.

As noted above, on December 16, 2009, the Court approved a *de minimis* party consent decree (Consent Decree) settlement among the United States, the State of Wisconsin, and eleven defendants resolving those defendants' liability for this site. The eleven settling defendants are: George A. Whiting Paper Co.; Green Bay Metropolitan Sewerage District; Green Bay Packaging, Inc.; Heart of the Valley Metropolitan Sewerage District; International Paper Co.; LaFarge North America Inc.; Leicht Transfer and Storage Co.; Neenah Foundry Co.; Procter & Gamble Paper Products Co.; Union Pacific Railroad Co.; and Wisconsin Public Service Corp. (collectively, the Eleven Settling Defendants). The Consent Decree reflects the conclusion by the United States and the State of Wisconsin that each of the Eleven Settling Defendants qualifies for treatment as a *de minimis* party under CERCLA. The Consent Decree requires the Settling Defendants to make a collective payment of \$1,875,000. Those Eleven Settling Defendants have moved for judgment in the Whiting Litigation based upon the protections in the Consent Decree. In addition, the Governments on September 25, 2009, lodged a separate consent decree in the same case that would, if entered, resolve the liabilities of the City of De Pere. Under that consent decree, the City of De Pere would pay \$210,000 to resolve its liability at the Site. That Consent Decree has since been approved and entered. API and NCR have appealed those two

Consent Decrees to the Court of Appeals for the Seventh Circuit at Docket No. 10-2480.

We contend that we are not jointly and severally liable for costs or damages arising from the presence of PCBs downstream of OU1. In addition, we contend that NCR or other sources of NCR®-brand carbonless copy paper that our Neenah Mill recycled bear most of the

GLATFELTER

-16-

Table of Contents

responsibility for costs and damages arising from the presence of PCBs in OU1.

Other Litigation. On October 14, 2010, the United States and the State of Wisconsin filed an action in the United States District Court for the Eastern District of Wisconsin captioned *United States v. NCR Corp.*, No. 1:10-cv-910-WCG (the Government Action), against twelve parties, including us. The Government Action seeks to recover from each of the defendants, jointly and severally, all of the governments' past costs of response, a declaration as to liability for all of the governments' future costs of response, and compensation for natural resource damages, as well as injunctive relief to require remedial action with respect to Operable Units 2-5. Although we have not filed our answer to the Government Action and are in the process of reviewing the Government Action, we continue to believe that we have substantial defenses to the claims included in the Government Action, as well as claims for contribution and counterclaims against other parties including the United States.

Simultaneously with their filing of the Government Action, the United States and Wisconsin provided notice of a proposed settlement of their claims against one of the defendants, Georgia-Pacific Consumer Products LP. The terms of this proposed settlement were set forth in a proposed consent decree. The United States will not move for entry of the consent decree until it has published the proposed consent decree and received public comments on the proposed consent decree. If the United States were to move for entry of the consent decree and were the court to enter the decree as a judgment, that settlement would limit the Company's ability, or any other party's ability, to seek contribution from Georgia-Pacific in this matter. The proposed consent decree calls for payment of \$6 million plus interest to the Wisconsin Department of Natural Resources and \$1 million plus interest to the EPA's Hazardous Substance Response Superfund. Payments made by Georgia-Pacific under that consent decree should offset the governments' recoveries against any other party dollar-for-dollar.

Reserves for the Fox River Site. As of September 30, 2010, our reserve for our claimed liability at the Fox River, including our remediation and ongoing monitoring obligations at OU1, our claimed liability for the remediation of OU2-5, our claimed liability for NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled \$17.0 million. No additional amounts were accrued during 2010 or 2009. Of our total reserve for the Fox River, \$0.6 million is recorded in the accompanying consolidated balance sheets under the caption "Environmental liabilities" and the remaining is recorded under the caption "Other long term liabilities."

Under the OU1 Consent Decree which was signed in 2004, we contributed \$27.0 million to past and future costs and NRDs. Since the initial funding, we contributed an additional total of \$15.5 million pursuant to various supplements or amendments to the OU1 Consent Decree. No payments were required to be made since January 2009. WTM I has contributed parallel amounts. These funds were placed into an escrow account from which we and WTM I pay for work on the project. As required by the Amended Consent Decree, in a quarterly report submitted to EPA in November 2009, we and WTM I concluded that the amounts in the escrow account would be sufficient to pay for the estimated cost of the work at OU1, including operation, maintenance, and other post-construction expenses. However, there can be no assurance that these amounts will in fact suffice. WTM I has filed a bankruptcy petition in the Bankruptcy Court in Richmond. There can be no assurance should additional amounts be required to complete the project that WTM I will be able to fulfill its obligation to pay half the additional cost.

We believe that we have strong defenses to liability for remediation of OU2-5 including the existence of ample data that indicate 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, and filed the Government Action seeking, in part, the same relief. NCR and Appleton Papers commenced the Whiting Litigation and joined us and others as defendants, but did not prevail. Additional claims are likely to be filed in the litigation associated with the remediation of the Site.

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 defense costs for the Whiting Litigation, the Government Action, or any future defense costs related to our involvement at the Fox River which could be significant.

In setting our reserve for the Fox River, we have assessed our legal defenses, including our successful defenses to the allegations made 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

GLATFELTER

-17-

Table of Contents

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 Amended OUI 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. Based in part upon the Court's December 16, 2009 ruling and the Court's January 10, 2010 order in the Whiting Litigation, we continue to believe that a volumetric allocation would not constitute an equitable allocation of the potential liability for the contamination at the Fox River. We contend that other factors, such as the location of contamination, the location of discharge, and a party's role in causing discharge, must be considered in order for the allocation to be equitable.

The Wisconsin DNR and FWS have each published studies, the latter in draft form, estimating the amount of PCBs discharged by each identified PRP's facility 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 the Neenah Facility's volumetric contribution is significantly lower than the estimates set forth in these studies.

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 Court's December 16, 2009 ruling in the Whiting Litigation as well as the volume, nature and location of the various discharges of PCBs at the Site and the relationship of those discharges to identified contamination, we believe our allocable share of liability at the Site is less than our share of costs under the Interim Cost Sharing Agreements.

Range of Reasonably Possible Outcomes. Our analysis of the range of reasonably possible outcomes is derived from all available information, including but not limited to 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 cost estimates and the aggregate amounts accrued for the Fox River matter by amounts that are insignificant or that could range up to \$265 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. The summary judgment in our favor in the *Whiting Litigation*, if sustained on appeal, suggests that outcomes in the upper end of the monetary range have become somewhat less probable, while increases in cost estimates for some of the work may militate in the opposite direction.

Summary. Our current assessment is that we will be able to manage this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our loan covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or damages 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. If we are not successful in obtaining

acknowledgment that the remedial work at OU1 has been substantially completed and/or should a court grant the United States relief which requires us either to perform directly or to contribute significant amounts towards remedial action at Operable Units 2-5 or to natural resource damages, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.

GLATFELTER

-18-

Table of Contents**16. SEGMENT INFORMATION**

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

<i>In millions</i>	Three months ended September 30									
	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net sales	\$ 217.3	\$ 211.6	\$ 103.7	\$ 100.7	\$ 58.0	\$	\$	\$	\$ 379.1	\$ 312.4
Energy and related sales, net	3.3	2.1							3.3	2.1
Total revenue	220.6	213.8	103.7	100.7	58.0				382.4	314.5
Cost of products sold	184.3	178.1	85.6	85.7	54.9		1.8	(31.8)	326.7	232.0
Gross profit	36.3	35.7	18.2	15.0	3.1		(1.8)	31.8	55.7	82.5
SG&A	13.4	14.9	8.5	9.2	1.9		4.1	5.3	27.8	29.3
Gains on dispositions of plant, equipment and timberlands							(0.2)		(0.2)	
Total operating income (loss)	22.9	20.8	9.7	5.8	1.2		(5.7)	26.5	28.1	53.2
Non-operating income (expense)							(6.6)	(4.0)	(6.6)	(4.0)
Income (loss) before income taxes	\$ 22.9	\$ 20.8	\$ 9.7	\$ 5.8	\$ 1.2	\$	\$ (12.3)	\$ 22.5	\$ 21.5	\$ 49.2
Supplementary Data										
Net tons sold	195.4	199.9	22.8	20.2	22.1				240.3	220.1
Depreciation, depletion and amortization	\$ 8.9	\$ 10.6	\$ 5.7	\$ 6.1	\$ 2.0	\$	\$	\$	\$ 16.6	\$ 16.8
Capital expenditures	5.1	2.1	2.7	3.2					7.8	5.2

<i>In millions</i>	Nine months ended September 30									
	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net sales	\$ 651.3	\$ 634.6	\$ 311.1	\$ 302.1	\$ 174.0	\$	\$	\$	\$ 1,136.0	\$ 1,038.7
Energy and related sales, net	9.9	7.1							9.9	7.1
Total revenue	661.2	641.7	311.1	302.1	174.0				1,145.9	1,045.8
Cost of products sold	514.3	500.1	258.6	253.7	154.9		11.8	(61.8)	817.6	761.1
Gross profit	146.9	141.6	52.5	48.4	19.1		(11.8)	61.8	328.3	284.7
SG&A	48.4	50.9	26.3	27.2	10.9		14.1	15.3	98.7	103.6
Gains on dispositions of plant, equipment and timberlands							(0.2)		(0.2)	
Total operating income (loss)	98.5	90.7	26.2	21.2	8.2		(16.1)	46.5	129.2	181.1
Non-operating income (expense)							(6.6)	(4.0)	(6.6)	(4.0)
Income (loss) before income taxes	\$ 98.5	\$ 90.7	\$ 26.2	\$ 21.2	\$ 8.2	\$	\$ (22.7)	\$ 42.5	\$ 122.6	\$ 177.1
Supplementary Data										
Net tons sold	587.4	599.9	62.8	60.2	62.1				710.3	660.1
Depreciation, depletion and amortization	\$ 26.9	\$ 28.6	\$ 14.7	\$ 16.1	\$ 7.0	\$	\$	\$	\$ 56.6	\$ 56.8
Capital expenditures	15.1	7.1	8.7	10.2					23.8	17.3

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Net sales	\$ 633.8	\$ 595.6	\$ 307.2	\$ 287.3	\$ 138.1	\$	\$	\$ 1,079.2	\$ 882.9
Energy and related sales, net	8.8	6.2						8.8	6.2
Total revenue	642.6	601.8	307.2	287.3	138.1			1,088.0	889.1
Cost of products sold	560.9	528.2	255.8	246.1	130.4	5.6	(70.0)	952.6	704.3
Gross profit	81.7	73.6	51.5	41.2	7.8	(5.6)	70.0	135.4	184.8
SG&A	40.1	40.8	26.6	26.3	4.4	20.2	13.3	91.3	80.4
Gains on dispositions of plant, equipment and timberlands						(0.3)	(0.7)	(0.3)	(0.7)
Total operating income (loss)	41.6	32.8	24.9	14.9	3.4	(25.4)	57.4	44.4	105.1
Non-operating income (expense)						(22.3)	(13.1)	(22.3)	(13.1)
Income (loss) before income taxes	\$ 41.6	\$ 32.8	\$ 24.9	\$ 14.9	\$ 3.4	\$ (47.8)	\$ 44.3	\$ 22.1	\$ 92.0
Supplementary Data									
Net tons sold	576.3	556.2	67.1	59.4	53.2			696.6	615.6
Depreciation, depletion and amortization	\$ 26.2	\$ 28.4	\$ 17.6	\$ 17.5	\$ 5.0	\$	\$	\$ 48.8	\$ 45.8
Capital expenditures	13.8	9.1	6.0	7.5	3.5		0.1	23.3	16.7

The mathematical accuracy of certain amounts set forth above may be impacted by the rounding of the individual line items.

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 net pension income or expense, acquisition and integration related charges, unusual items, certain corporate level costs, and the effects of asset dispositions. Management believes that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption "Other and Unallocated." This presentation is aligned with the management and operating structure of our company. It is also on this basis that our performance is evaluated

internally and by our Board of Directors.

GLATFELTER

-19-

Table of Contents**17. GUARANTOR FINANCIAL STATEMENTS**

Our 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, and Glatfelter Holdings, 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.

**Condensed Consolidating Statement of Income for the
three months ended September 30, 2010**

<i>In thousand</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$217,335	\$13,086	\$161,762	\$(13,086)	\$379,097
Energy and related sales net	3,312				3,312
Total revenues	220,647	13,086	161,762	(13,086)	382,409
Costs of products sold	187,526	11,579	140,643	(13,079)	326,669
Gross profit	33,121	1,507	21,119	(7)	55,740
Selling, general and administrative expenses	16,506	591	10,685		27,782
Gains on dispositions of plant, equipment and timberlands, net	(123)		(27)		(150)
Operating income	16,738	916	10,461	(7)	28,108
Non-operating income (expense)					
Interest expense	(6,254)		(311)		(6,565)
Interest income	(52)	2,036	(1,282)	(470)	232
Other income (expense) net	9,195	27	14	(9,487)	(251)
Total other income (expense)	2,889	2,063	(1,579)	(9,957)	(6,584)
Income (loss) before income taxes	19,627	2,979	8,882	(9,964)	21,524
Income tax provision (benefit)	(19,810)	492	1,585	(180)	(17,913)
Net income	\$ 39,437	\$ 2,487	\$ 7,297	\$ (9,784)	\$ 39,437

**Condensed Consolidating Statement of Income for the
three months ended September 30, 2009**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$211,635	\$12,816	\$100,723	\$(12,816)	\$312,358
Energy and related sales net	2,132				2,132

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Total revenues	213,767	12,816	100,723	(12,816)	314,490
Costs of products sold	147,464	11,568	85,808	(12,815)	232,025
Gross profit	66,303	1,248	14,915	(1)	82,465
Selling, general and administrative expenses	19,495	566	9,242		29,303
Gains on dispositions of plant, equipment and timberlands, net	(8)	(1)			(9)
Operating income	46,816	683	5,673	(1)	53,171
Non-operating income (expense)					
Interest expense	(4,148)		(380)		(4,528)
Interest income	1,230	1,115	(202)	(1,825)	318
Other income (expense) net	339	45	86	(266)	204
Total other income (expense)	(2,579)	1,160	(496)	(2,091)	(4,006)
Income (loss) before income taxes	44,237	1,843	5,177	(2,092)	49,165
Income tax provision (benefit)	(1,757)	929	4,699	(700)	3,171
Net income (loss)	\$ 45,994	\$ 914	\$ 478	\$ (1,392)	\$ 45,994

GLATFELTER

-20-

Table of Contents**Condensed Consolidating Statement of Income for the
nine months ended September 30, 2010**

<i>In thousand</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$633,778	\$37,440	\$445,375	\$(37,440)	\$1,079,153
Energy and related sales net	8,834				8,834
Total revenues	642,612	37,440	445,375	(37,440)	1,087,987
Costs of products sold	571,217	32,272	386,354	(37,272)	952,571
Gross profit	71,395	5,168	59,021	(168)	135,416
Selling, general and administrative expenses	56,088	1,759	33,452		91,299
Gains on dispositions of plant, equipment and timberlands, net	(123)	(168)	(27)		(318)
Operating income	15,430	3,577	25,596	(168)	44,435
Non-operating income (expense)					
Interest expense	(18,059)		(986)		(19,045)
Interest income	(777)	5,456	(3,339)	(770)	570
Other income (expense) net	16,870	(1,290)	3,225	(22,673)	(3,868)
Total other income (expense)	(1,966)	4,166	(1,100)	(23,443)	(22,343)
Income (loss) before income taxes	13,464	7,743	24,496	(23,611)	22,092
Income tax provision (benefit)	(25,702)	2,046	6,944	(362)	(17,074)
Net income (loss)	\$ 39,166	\$ 5,697	\$ 17,552	\$(23,249)	\$ 39,166

**Condensed Consolidating Statement of Income for the
nine months ended September 30, 2009**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$595,606	\$35,306	\$287,283	\$(35,306)	\$ 882,889
Energy and related sales net	6,194				6,194
Total revenues	601,800	35,306	287,283	(35,306)	889,083
Costs of products sold	461,449	32,016	246,301	(35,463)	704,303
Gross profit	140,351	3,290	40,982	157	184,780
Selling, general and administrative expenses	51,819	1,639	26,906		80,364
Gains on dispositions of plant, equipment and timberlands, net	20	(701)			(681)

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Operating income	88,512	2,352	14,076	157	105,097
Non-operating income (expense)					
Interest expense	(12,867)	(5)	(1,926)		(14,798)
Interest income	745	4,023	(310)	(2,875)	1,583
Other income (expense) net	7,464	1,274	(92)	(8,560)	86
Total other income (expense)	(4,658)	5,292	(2,328)	(11,435)	(13,129)
Income (loss) before income taxes	83,854	7,644	11,748	(11,278)	91,968
Income tax provision (benefit)	6,452	3,169	5,979	(1,034)	14,566
Net income (loss)	\$ 77,402	\$ 4,475	\$ 5,769	\$(10,244)	\$ 77,402

GLATFELTER

-21-

Table of Contents**Condensed Consolidating Balance Sheet as of September 30, 2010**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	\$ 32,208	\$ 445	\$ 30,680	\$	\$ 63,333
Other current assets	269,385	447,644	214,479	(511,781)	419,727
Plant, equipment and timberlands net	244,396	6,952	372,435		623,783
Other assets	811,694	166,456	106,678	(858,936)	225,892
Total assets	\$1,357,683	\$621,497	\$724,272	\$(1,370,717)	\$1,332,735
Liabilities and Shareholders Equity					
Current liabilities	\$ 330,107	\$ 42,077	\$360,681	\$ (524,060)	\$ 208,805
Long-term debt	295,363		36,695		332,058
Deferred income taxes	71,123	13,811	44,668	(39,640)	89,962
Other long-term liabilities	123,763	13,663	13,031	14,126	164,583
Total liabilities	820,356	69,551	455,075	(549,574)	795,408
Shareholders' equity	537,327	551,946	269,197	(821,143)	537,327
Total liabilities and shareholders' equity	\$1,357,683	\$621,497	\$724,272	\$(1,370,717)	\$1,332,735

Condensed Consolidating Balance Sheet as of December 31, 2009

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	\$ 76,970	\$ 985	\$ 57,465	\$	\$ 135,420
Other current assets	275,490	260,834	148,090	(299,778)	384,636
Plant, equipment and timberlands net	255,886	6,921	207,825		470,632
Other assets	600,116	145,304	75,731	(621,545)	199,606
Total assets	\$1,208,462	\$414,044	\$489,111	\$(921,323)	\$1,190,294
Liabilities and Shareholders Equity					
Current liabilities	\$ 301,908	\$ 1,357	\$179,273	\$ (296,428)	\$ 186,110
Long-term debt	200,241		36,695		236,936

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Deferred income taxes	71,035	15,347	26,284	(15,998)	96,668
Other long-term liabilities	124,574	13,531	9,654	12,117	159,876
Total liabilities	697,758	30,235	251,906	(300,309)	679,590
Shareholders' equity	510,704	383,809	237,205	(621,014)	510,704
Total liabilities and shareholders' equity	\$1,208,462	\$414,044	\$489,111	\$ (921,323)	\$1,190,294

GLATFELTER

-22-

Table of Contents**Condensed Consolidating Statement of Cash Flows for
the nine months ended September 30, 2010**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	\$(67,569)	\$ 135,481	\$ 56,238	\$ (770)	\$ 123,380
Investing activities					
Purchase of plant, equipment and timberlands	(13,297)	(518)	(9,454)		(23,269)
Proceeds from disposal plant, equipment and timberlands	124	182	27		333
Repayments from (advances of) intercompany loans, net	(8,049)	(134,715)	5,393	137,371	
Acquisition of Concert Industries Corp., net of cash acquired			(229,080)		(229,080)
Total investing activities	(21,222)	(135,051)	(233,114)	137,371	(252,016)
Financing activities					
Net (repayments of) proceeds from indebtedness	75,703		(2,979)		72,724
Payment of dividends to shareholders	(12,556)				(12,556)
(Repayments) borrowings of intercompany loans, net	(19,265)	(200)	156,836	(137,371)	
Proceeds from stock options and other	147				147
Payment of intercompany dividends		(770)		770	
Total financing activities	44,029	(970)	153,857	(136,601)	60,315
Effect of exchange rate on cash			(3,766)		(3,766)
Net decrease in cash	(44,762)	(540)	(26,785)		(72,087)
Cash at the beginning of period	76,970	985	57,465		135,420
Cash at the end of period	\$ 32,208	\$ 445	\$ 30,680	\$	\$ 63,333

**Condensed Consolidating Statement of Cash Flows for
the nine months ended September 30, 2009**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	\$ 67,340	\$ 5,990	\$ 49,059	\$ (2,875)	\$ 119,514
Investing activities					

Edgar Filing: GLATFELTER P H CO - Form 10-Q

Purchase of plant, equipment and timberlands	(9,057)	(138)	(7,509)		(16,704)
Proceeds from disposal plant, equipment and timberlands		728			728
Proceeds from installment note receivable			37,850		37,850
Repayments from (advances of) intercompany loans, net	5,135	1,018		(6,153)	
Total investing activities	(3,922)	1,608	30,341	(6,153)	21,874
Financing activities					
Net repayments of indebtedness	(13,623)		(36,640)		(50,263)
Payment of dividends to shareholders	(12,433)				(12,433)
(Repayments) borrowings of intercompany loans, net	(1,018)	(5,200)	65	6,153	
Payment of intercompany dividends		(2,875)		2,875	
Total financing activities	(27,074)	(8,075)	(36,575)	9,028	(62,696)
Effect of exchange rate on cash			5,314		5,314
Net increase (decrease) in cash	36,344	(477)	48,139		84,006
Cash at the beginning of period	8,860	756	22,618		32,234
Cash at the end of period	\$ 45,204	\$ 279	\$ 70,757	\$	\$ 116,240

GLATFELTER

-23-

Table of Contents

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2009 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. variations in demand for our products including the impact of any unplanned market-related downtime, or variations in product pricing;
- ii. changes in the cost or availability of raw materials we use, in particular pulpwood, market pulp, pulp substitutes, caustic soda and abaca fiber;
- iii. changes in energy-related costs and commodity raw materials with an energy component;
- iv. our ability to develop new, high value-added Specialty Papers, Composite Fibers and Advanced Airlaid Material products;
- v. the impact of exposure to volatile market-based pricing for sales of excess electricity;
- vi. the impact of competition, changes in industry production capacity, including the construction of new mills, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- vii. the impairment of financial institutions and any resulting impact on us, our customers or our vendors;
- viii. the gain or loss of significant customers and/or on-going viability of such customers;
- ix. 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;
- x. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- xi. geopolitical events, including war and terrorism;
- xii. disruptions in production and/or increased costs due to labor disputes;

- xiii. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities;
- xiv. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation;
- xv. adverse results in litigation; and
- xvi. our ability to finance, consummate and integrate current or future acquisitions.

Introduction We manufacture, both domestically and internationally, a wide array of specialty papers and fiber-based engineered products. We manage our business along three business units: i) Specialty Papers with revenues earned from the sale of carbonless papers and forms, book publishing, envelope & converting, and engineered products; ii) Composite Fibers with revenue from the sale of food & beverage filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and technical specialties; and iii) Advanced Airlaid Materials with revenue from the sale of airlaid non-woven fabric like materials used in feminine hygiene products, adult incontinence products, cleaning pads and wipes, food pads, napkins and tablecloths, and baby wipes.

Overview On February 12, 2010, we completed the acquisition of Concert Industries Corp. (Concert), a manufacturer of highly absorbent cellulose based airlaid non-woven materials with annual revenue in 2009 of \$203 million. Our results of operations for the first nine months of 2010 include the results of Concert prospectively since the acquisition was completed.

GLATFELTER

-24-

Table of Contents

Our reported results of operations for the first nine months of 2010 when compared with the same period of 2009 are lower primarily due to the amount of tax-related credits recorded in each period associated with cellulosic or alternative fuel mixtures. For the first nine months of 2010 net income included \$23.1 million benefit from cellulosic biofuel credits compared to \$63.3 million alternative fuel mixture credits for the first nine months of 2009.

In addition, our 2010 year to date results include an aggregate of \$10.4 million, after-tax, of acquisition and integration costs, together with a loss on forward foreign currency contracts that hedged the Canadian dollar purchase price, of the Concert acquisition. The loss on the hedged purchase price was \$3.4 million, net of realized currency translation gains, and is presented under the caption *Other-net* in the accompanying condensed consolidated statements of income for the nine months ended September 30, 2010.

Operationally, our results were favorably affected by higher volumes shipped associated with improving demand in many of the markets served by our businesses and the inclusion of Concert. Higher average selling prices offset the adverse affect of rising input costs, particularly purchased pulp. Our results for the first nine months of 2009 were adversely impacted by market related downtime in both the Specialty Papers and Composite Fibers business units related to the weak economic environment. During 2010, demand for our products improved and, as a results, we did not incur market related downtime.

RESULTS OF OPERATIONS

*Nine months ended September 30, 2010 versus the
Nine months ended September 30, 2009*

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	Nine months ended September 30	
	2010	2009
Net sales	\$1,079,153	\$882,889
Gross profit	135,416	184,780
Operating income	44,435	105,097
Net income	39,166	77,402
Earnings per share	0.85	1.69

The consolidated results of operations for the nine months ended September 30, 2010 and 2009 include the following significant items:

<i>In thousands, except per share</i>	After-tax Gain (loss)	Diluted EPS
	2010	
Cellulosic biofuel/alternative fuel mixture credit	\$23,100	\$ 0.50
Acquisition and integration costs	(8,728)	(0.18)
Foreign currency hedge on acquisition price	(1,673)	(0.04)
	2009	
Cellulosic biofuel/alternative fuel mixture credit	\$63,308	\$ 1.38

The above items increased earnings by \$12.7 million, or \$0.28 per diluted share, in first nine months of 2010 and increased earnings by \$63.3 million, or \$1.38 per diluted share, in the first nine months of 2009.

Business Units

Nine months ended September 30

<i>In millions</i>	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net sales	\$633.8	\$595.6	\$307.2	\$287.3	\$138.1	\$	\$	\$	\$1,079.2	\$882.9
Energy and related sales, net	8.8	6.2							8.8	6.2
Total revenue	642.6	601.8	307.2	287.3	138.1				1,088.0	889.1
Cost of products sold	560.9	528.2	255.8	246.1	130.4		5.6	(70.0)	952.6	704.3
Gross profit	81.7	73.6	51.5	41.2	7.8		(5.6)	70.0	135.4	184.8
SG&A	40.1	40.8	26.6	26.3	4.4		20.2	13.3	91.3	80.4
Gains on dispositions of plant, equipment and timberlands							(0.3)	(0.7)	(0.3)	(0.7)
Total operating income (loss)	41.6	32.8	24.9	14.9	3.4		(25.4)	57.4	44.4	105.1
Non-operating income (expense)							(22.3)	(13.1)	(22.3)	(13.1)
Income (loss) before income taxes	\$ 41.6	\$ 32.8	\$ 24.9	\$ 14.9	\$ 3.4	\$	\$(47.8)	\$ 44.3	\$ 22.1	\$ 92.0
Supplementary Data										
Net tons sold	576.3	556.2	67.1	59.4	53.2				696.6	615.6
Depreciation, depletion and amortization	\$ 26.2	\$ 28.4	\$ 17.6	\$ 17.5	\$ 5.0	\$	\$	\$	\$ 48.8	\$ 45.8
Capital expenditures	13.8	9.1	6.0	7.5	3.5			0.1	23.3	16.7

The mathematical accuracy of certain amounts set forth above may be impacted by the rounding of the individual line items.

GLATFELTER

Table of Contents

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 net pension income or expense, acquisition and integration related charges, unusual items, certain corporate level costs, and the effects of asset dispositions. Management believes that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is aligned with the management and operating structure of our company. It is also on this basis that our performance is evaluated internally and by our Board of Directors.

Sales and Costs of Products Sold

<i>In thousands</i>	Nine months ended September 30		Change
	2010	2009	
Net sales	\$ 1,079,153	\$ 882,889	\$ 196,264
Energy and related sales net	8,834	6,194	2,640
Total revenues	1,087,987	889,083	198,904
Costs of products sold	952,571	704,303 ⁽¹⁾	248,268
Gross profit	\$ 135,416	\$ 184,780	\$ (49,364)
Gross profit as a percent of Net sales	12.5%	20.9%	

(1) Includes \$73.8 million of alternative fuel mixture credits.

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

<i>Percent of Total</i>	Nine months ended September 30	
	2010	2009
Business Unit		
Specialty Papers	58.7%	67.5%
Composite Fibers	28.5	32.5
Advanced Airlaid Material	12.8	
Total	100.0%	100.0%

Net sales for the first nine months of 2010 were \$1,079.2 million, a 22.2% increase compared with \$882.9 million for the same period of 2009, reflecting stronger business activity in the our Specialty Papers and Composite Fibers business units and the inclusion of Concert, now operated and reported as Advanced Airlaid Materials business unit.

In the Specialty Papers business unit, net sales for the first nine months of 2010 increased \$38.2 million, or 6.4%, to \$633.8 million. The increase was primarily due to higher volumes shipped and a \$15.3 million benefit from higher selling prices.

Specialty Papers' operating profit in the first nine months of 2010 improved by \$8.8 million compared with the same period of 2009 primarily due to higher selling prices, a 3.6% increase in volumes shipped and the lack of market related downtime. These favorable factors were partially offset by higher maintenance costs primarily associated with the annual mill outages and with unplanned production interruptions.

We sell excess power generated by the Spring Grove, PA facility. In addition, two of our facilities are registered generators of renewable energy credits (RECs). The following table summarizes this activity for the first nine months of 2010 and 2009:

<i>In thousands</i>	2010	2009	Change
Energy sales	\$11,520	\$15,268	\$(3,748)
Costs to produce	(7,912)	(9,074)	1,162
Net	3,608	6,194	(2,586)
Renewable energy credits	5,226		5,226
Total	\$ 8,834	\$ 6,194	\$ 2,640

GLATFELTER

-26-

Table of Contents

Prior to March 31, 2010, all energy sales were made pursuant to a long-term contract that expired at the end of the first quarter 2010. We continue to sell power but at market rates, the forward pricing for which is approximately 35% below the expired contract rate. We expect increased volatility and lower overall profitability.

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

In Composite Fibers, net sales for the first nine months of 2010 were \$307.2 million, an increase of \$20.0 million, or 6.9%, from the same period of 2009. The improvement reflects strengthening demand in each of its product lines as volumes shipped increased 12.9%. On a constant currency basis, average selling prices were lower by \$2.0 million, and the translation of foreign currencies unfavorably affected net sales by approximately \$8.3 million.

Lower raw material and energy costs, primarily natural gas, favorably affected this business unit's profitability by \$4.0 million. In addition, improving market conditions and business development increased production volumes eliminating market-driven down time. On a net basis, Composite Fibers' operating profit increased \$10.0 million, or 67.6%, in the period-to-period comparison.

Results for Advanced Airlaid Materials are included from February 12, 2010, the date of the Concert acquisition. This business unit's results were unfavorably affected by rising input costs that outpaced the timing of increases in selling prices. In addition, results were adversely impacted by operating inefficiencies and by \$1.4 million as a result of charging cost of products sold for the write-up of acquired inventory to fair value.

Pension Expense The following table summarizes the amounts of pension expense recognized for the periods indicated:

<i>In thousands</i>	Nine months ended		Change
	2010	2009	
<i>Recorded as:</i>			
Costs of products sold	\$5,294	\$3,756	\$1,538
SG&A expense	1,637	1,807	(170)
Total	\$6,931	\$5,563	\$1,368

The amount of pension expense 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 primary reason for the increase in pension expense in the comparison is due to changes in discount rates used.

Selling, general and administrative (SG&A) expenses totaled \$91.3 million, a \$10.9 million increase primarily due to acquisition and integration related costs associated with the Concert transaction and \$4.4 million of SG&A from the inclusion of the acquired operations.

Income taxes For the first nine months of 2010, we recorded an income tax benefit of \$17.1 million on \$22.1 million of pretax income. The comparable amounts in the same period of 2009 were income tax expense of \$14.6 million on \$92.0 million of pretax income. The benefit in 2010 was due to \$23.1 million of cellulosic biofuel credits, net, recorded as an income tax benefit in the third quarter of 2010 as further discussed below. In addition, the 2010 year to date results of operations includes \$14.8 million of acquisition and integration costs, most of which are non-deductible. The higher tax provision in 2009 was primarily due to the \$75.6 million of alternative fuel mixture credit earned in that period.

Cellulosic Biofuel Production Credit In March 2010, our application to be registered as a cellulosic biofuel producer was approved by the Internal Revenue Service. The U.S. Internal Revenue Code provides a non refundable tax credit equal to \$1.01 per gallon for taxpayers that produce cellulosic biofuel. In a memorandum dated June 28, 2010, the Internal Revenue Service issued guidance concluding that black liquor sold or used before January 1, 2010,

qualifies for the cellulosic biofuel producer credit (CBPC) and no further certification of eligibility was needed.

In connection with the filing of our 2009 income tax return, we claimed \$23.1 million, net of taxes, of CBPC, and as a result we expect to receive \$14.8 million of a cash tax refund during the fourth quarter. The CBPC claimed is attributable to black liquor produced and burned from January 1, 2009 through February 20, 2009, the date we began mixing black liquor and diesel fuel to qualify for alternative fuel mixture credits.

GLATFELTER

-27-

Table of Contents

In October 2010, the IRS issued further guidance concluding that both the alternative fuel mixture credit and the cellulosic bio-fuel production credit can be claimed in the same year, but only for different volumes of black liquor.

We are in the process of evaluating opportunities, if any, to claim additional credits from qualifying activities.

Foreign Currency We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the first nine months of 2010, Euro functional currency operations generated approximately 24.9% of our sales and 23.8% of operating expenses and British Pound Sterling operations represented 8.8% of net sales and 8.6% 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 the first nine months of 2010 reported results compared to the first nine months 2009:

In thousands	Nine months ended September 30
	Favorable (unfavorable)
Net sales	\$ (8,255)
Costs of products sold	5,785
SG&A expenses	422
Income taxes and other	292
Net income	\$ (1,756)

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.

GLATFELTER

-28-

Gains on
dispositions of
plant, equipment
and timberlands

Total operating income (loss)	22.9	20.8	9.7	5.8	1.2	(5.7)	26.5	28.1	53.2
Non-operating income (expense)						(6.6)	(4.0)	(6.6)	(4.0)

Income (loss) before income taxes	\$ 22.9	\$ 20.8	\$ 9.7	\$ 5.8	\$ 1.2	\$ (12.3)	\$ 22.5	\$ 21.5	\$ 49.2
---	----------------	---------	---------------	--------	---------------	------------------	---------	----------------	---------

**Supplementary
Data**

Net tons sold	195.4	199.9	22.8	20.2	22.1			240.3	220.1
Depreciation, depletion and amortization	\$ 8.9	\$ 10.6	\$ 5.7	\$ 6.1	\$ 2.0	\$	\$	\$ 16.6	\$ 16.8
Capital expenditures	5.1	2.1	2.7	3.2				7.8	5.2

The mathematical accuracy of certain amounts set forth above may be impacted by the rounding of the individual line items.

GLATFELTER

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

<i>In thousands</i>	Three months ended September 30		Change
	2010	2009	
Net sales	\$379,097	\$312,358	\$ 66,739
Energy and related sales net	3,312	2,132	1,180
Total revenues	382,409	314,490	67,919
Costs of products sold	326,669	232,025 ⁽¹⁾	94,644
Gross profit	\$ 55,740	\$ 82,465	(26,725)
Gross profit as a percent of Net sales	14.7%	26.4%	

(1) Includes \$33.0 million of alternative fuel mixture credits.

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

<i>Percent of Total</i>	Three months ended September 30	
	2010	2009
Business Unit		
Specialty Papers	57.3%	67.8%
Composite Fibers	27.4	32.2
Advanced Airlaid Material	15.3	
Total	100.0	100.0%

Net sales for the third quarter of 2010 were \$379.1 million, a 21.4% increase compared with \$312.4 million for the third quarter of 2009, reflecting stronger market conditions for Composite Fibers and Specialty Papers products, as well as the top-line contributions of the Advanced Airlaid Materials business unit.

In the Specialty Papers business unit, 2010 third quarter net sales increased \$5.7 million, or 2.7%, to \$217.3 million. The increase was primarily due to a \$12.4 million benefit from higher average selling prices partially offset by lower volumes in the quarter-over-quarter comparison.

Specialty Papers 2010 third quarter-operating profit increased \$2.1 million compared with the prior-year quarter as the benefit of higher selling prices was partially offset by \$5.8 million of higher raw material costs and \$5.6 million of unfavorable operating and production activities primarily due to a press roll failure.

The following table summarizes sales of excess power and related items for the third quarters of 2010 and 2009:

<i>In thousands</i>	2010	2009	Change
Energy sales	\$ 3,850	\$ 5,127	\$(1,277)
Costs to produce	(2,651)	(2,995)	344
Net	1,199	2,132	(933)
Renewable energy credits	2,113		2,113

Total	\$ 3,312	\$ 2,132	\$ 1,180
-------	----------	----------	----------

In Composite Fibers, 2010 third quarter net sales were \$103.7 million, an increase of \$3.0 million, or 3.0%, from the third quarter of 2009. The improvement in Composite Fibers net sales reflects strengthening demand in all of its product lines as volumes shipped increased 13.2%. Net sales increased despite an \$8.5 million adverse impact from the translation of foreign currencies and a \$0.9 million impact of lower selling prices.

Composite Fibers operating profit increased \$3.9 million, or 67.2%, in the quarter-to-quarter comparison. Improved market conditions and business development initiatives increased shipping volumes eliminating the need for market-driven down time together benefiting operating profit by \$2.5 million. In addition, improved operating efficiencies contributed \$3.6 million more than offset the net negative impact of higher fiber prices.

Advanced Airlaid Materials operating income was negatively impacted by an increase in fluff pulp costs and a lag in related cost pass through arrangements. Operating income was also adversely impacted by operating inefficiencies and a less favorable mix of products sold.

Pension Expense The following table summarizes the amounts of pension expense recognized for the periods indicated:

<i>In thousands</i>	Three months ended September 30		Change
	2010	2009	
<i>Recorded as:</i>			
Costs of products sold	\$1,703	\$1,254	\$ 449
SG&A expense	491	604	(113)
Total	\$2,194	\$1,858	\$ 336

The amount of pension expense or 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.

GLATFELTER

-30-

Table of Contents

Selling, general and administrative (SG&A) expenses in the third quarter of 2010 totaled \$27.8 million, a \$1.5 million decrease compared to the same quarter of 2009, as the additional SG&A related to the inclusion of the Concerts results in 2010 were offset by lower incentive compensation, legal and professional costs.

Income taxes For the third quarter of 2010, we recorded an income tax benefit of \$17.9 million on \$21.5 million of pretax income. The comparable amounts in the third quarter of 2009 were income tax expense of \$3.2 million on \$49.2 million of pretax income. The benefit in 2010 was due to \$23.1 million of cellulosic biofuel credits, net, recorded in the third quarter of 2010. The higher tax provision in 2009 was primarily due to the \$33.0 million of alternative fuel mixture credit earned in that period.

Foreign Currency We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the third quarter of 2010, Euro functional currency operations generated approximately 26.1% of our sales and 25.7% of operating expenses and British Pound Sterling operations represented 8.4% of net sales and 8.2% 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 of 2010 reported results compared to the third quarter of 2009:

In thousands	Three months ended September 30
	Favorable (unfavorable)
Net sales	\$ (8,547)
Costs of products sold	6,704
SG&A expenses	574
Income taxes and other	220
Net income	\$ (1,049)

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 significant expenditures for new or enhanced equipment, for environmental compliance matters, to support our research and development efforts and for our business strategy. The following table summarizes cash flow information for each of the years presented:

In thousands	Nine months ended September 30	
	2010	2009
Cash and cash equivalents at beginning of period	\$ 135,420	\$ 32,234
Cash provided by (used for)		
Operating activities	123,380	119,514
Investing activities	(252,016)	21,874
Financing activities	60,315	(62,696)
Effect of exchange rate changes on cash	(3,766)	5,314
Net cash (used) provided	(72,087)	84,006

Cash and cash equivalents at end of period	\$ 63,333	\$116,240
--	------------------	------------------

As of September 30, 2010, we had \$63.3 million in cash and cash equivalents and \$218.3 million available under our revolving credit agreement. At the end of 2009, we had \$135.4 million of cash and \$194.3 million available under our revolving credit agreement. Since the refinancing of the revolving credit agreement in April 2010 and the collection of the \$54.6 million tax refund discussed below, we have not had any outstanding balances under the revolving credit agreement.

Operating cash flow improved by \$3.9 million in the first nine months of 2010 compared to the same period of 2009. Net cash provided by working capital and other items declined \$4.0 million in comparison primarily due to cash used for accounts receivable and less cash generated from inventory reductions. In addition, operating cash flow in the first nine months of 2010 benefited from the collection of a \$54.9 million tax refund related to alternative fuel mixture credits. In 2009 we funded an environmental payment associated with the Fox River matter using \$6.5 million in cash.

GLATFELTER

-31-

Table of Contents

Net cash used by investing activities totaled \$252.0 million in the first nine months of 2010 reflecting the Concert acquisition. Capital expenditures totaled \$23.3 million and \$16.7 million in the first nine months of 2010 and 2009, respectively.

Net cash provided by financing activities totaled \$60.3 million in the first nine months of 2010, reflecting increased borrowings to fund the Concert acquisition including the proceeds, net of debt issue costs and original issue discount, from the issuance of \$100.0 million of senior notes, at 95% of par. In the comparable period of 2009 net cash used for financing activities totaled \$62.7 million, primarily reflecting reductions of debt including \$34.0 million repaid in connection with the unwinding of the 2003 timberland installment sale.

During the first nine months of 2010 and 2009 cash dividends paid on common stock totaled \$12.6 million and \$12.4 million, respectively. 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.

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

<i>In thousands</i>	Sept. 30, 2010	Dec. 31, 2009
Revolving credit facility, due April 2011	<i>n/a</i>	\$
Revolving credit facility, due May 2014	\$	\$
Term Loan, due April 2011		14,000
7 % Notes, due May 2016	200,000	200,000
7 % Notes, due May 2016 - net of original issue discount	95,363	
Term Loan, due January 2013	36,695	36,695
Total long-term debt	332,058	250,695
Less current portion		(13,759)
Long-term debt, net of current portion	\$332,058	\$236,936

The significant terms of the debt obligations are set forth in Item 1 Financial Statements Note 12. Although we do not have immediate intentions to make use of our credit facility, we believe this agreement, and the banks that are party to it, provides us with ready access to liquidity 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 15 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, our credit facility or other bank lines of credit and other long-term debt. However, as discussed in Item 1 Financial Statements Note 15, 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 contains a number of customary compliance covenants. A breach of these requirements 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. In addition, the Senior Notes contain cross default provisions that could result in all such notes becoming due

and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity or a default under the credit agreement, that accelerates the debt outstanding thereunder. As of September 30, 2010, we were not aware of any breach of any such requirements.

Off-Balance-Sheet Arrangements As of September 30, 2010 and December 31, 2009, 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.

GLATFELTER

-32-

Table of Contents

Outlook For Specialty Papers, we expect shipping volumes in the fourth quarter of 2010 to be approximately five percent less than the third quarter of 2010 reflecting normal seasonality. Selling prices and input costs are expected to remain substantially unchanged in the same comparison; however, our mix of products sold is expected to be less favorable due to normal market softening in the fourth quarter. In addition, we expect Specialty Papers fourth quarter 2010 results relative to the 2010 third quarter to be adversely impacted by normal seasonal downtime, lower energy sales approximating \$1 million, and additional LIFO related charges approximating \$1 million.

For Composite Fibers, the Company anticipates shipping volumes, selling prices and input costs in the fourth quarter of 2010 to be relatively in line with the third quarter of 2010. We also expect contracted energy prices to be higher, along with a slightly extended normal seasonal outage in December for maintenance work and inventory alignment as it enters 2011.

Shipping volumes for the Advanced Airlaid Materials business unit in the fourth quarter of 2010 are expected to be approximately 5% lower than the third quarter and input costs are expected to remain in line. Selling prices are expected to be approximately \$1.4 higher in the fourth quarter as we will contractually pass on the impact of the higher input costs from prior periods. Input costs are expected to be generally in line with third-quarter 2010 levels.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

<i>Dollars in thousands</i>	2010	Year Ended December 31				2014	At September 30, 2010	
		2011	2012	2013	Carrying Value		Fair Value	
Long-term debt								
Average principal outstanding								
At fixed interest rates								
Bond	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 295,363	\$ 300,250	
At variable interest rates								
rates	36,695	36,695	36,695	1,407		36,695	38,525	
						\$ 332,058	\$ 338,775	
Weighted-average interest rate								
On fixed rate debt								
Bond	7.13%	7.13%	7.13%	7.13%	7.13%			
On variable rate debt	1.66	1.66	1.66	1.66				

The table above presents average principal outstanding and related interest rates for the next five years. The amounts set forth above for fixed rate bonds represent the coupon rate. Such amounts include \$100.0 million of bonds issued at a 5% original issue discount resulting in an 8.16% yield. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities. Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At September 30, 2010, we had long-term debt outstanding of \$332.1 million, of which \$36.7 million or 11.1% was at a variable interest rate.

Variable-rate debt outstanding represents a cash collateralized borrowing incurred in connection with the 2007 timberland installment sale that accrues interest based on 6 month LIBOR plus a margin. At September 30, 2010, the interest rate paid on variable rate debt was 1.66%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$0.4 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 2010, Euro

functional currency operations generated approximately 24.9% of our sales and 23.8% of operating expenses and British Pound Sterling operations represented 8.8% of net sales and 8.6% 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, 2010, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Changes in Internal Controls On February 12, 2010, we completed the acquisition of Concert Industries Corp. We are in the process of incorporating Concert's internal controls into our control structure. We consider the ongoing integration of Concert a material change in our internal control over financial reporting.

GLATFELTER

-33-

Table of Contents

PART II

ITEM 1. LEGAL PROCEEDINGS

As more fully described herein in Part I, Item 1 Financial Statements Note 15 (Note 15), on October 14, 2010, the United States and the State of Wisconsin in an action captioned United States v. NCR Corp., No. 1:10-cv-910-WCG (the Action), commenced litigation against twelve parties, including us, in the United States District Court for the Eastern District of Wisconsin. The Action seeks to recover on claims under Superfund arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay Wisconsin (the Site). The United States and Wisconsin seek to recover from each of the defendants, jointly and severally, all of the governments past costs of response, a declaration as to liability for all of the governments future costs of response, and compensation for natural resource damages, as well as injunctive relief to require remedial action with respect to certain portions of the Site known as Operable Units 2-5.

For a complete discussion of this Action and the Site, refer to Note 15.

ITEM 6. EXHIBITS

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

- 31.1 Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) 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(a) 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 9, 2010

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

GLATFELTER

-34-

Table of Contents

EXHIBIT INDEX

- 31.1 Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) 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(a) 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.

GLATFELTER

-35-