

GLATFELTER P H CO  
Form 10-Q  
November 06, 2009

**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, 2009  
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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(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 .

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As of October 31, 2009, P. H. Glatfelter Company had 45,596,601 shares of common stock outstanding.

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**P. H. GLATFELTER COMPANY**  
**REPORT ON FORM 10-Q**  
**for the QUARTERLY PERIOD ENDED**  
**SEPTEMBER 30, 2009**  
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**PART I****Item 1 Financial Statements**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
<i>In thousands, except per share</i>	<b>2009</b>	2008	<b>2009</b>	2008
Net sales	<b>\$ 312,358</b>	\$ 339,822	<b>\$ 882,889</b>	\$ 965,545
Energy sales net	<b>2,132</b>	2,885	<b>6,194</b>	7,612
Total revenues	<b>314,490</b>	342,707	<b>889,083</b>	973,157
Costs of products sold	<b>232,025</b>	285,535	<b>704,303</b>	839,329
Gross profit	<b>82,465</b>	57,172	<b>184,780</b>	133,828
Selling, general and administrative expenses	<b>29,303</b>	24,802	<b>80,364</b>	74,314
Reversal of shutdown and restructuring charges				(856)
Gains on dispositions of plant, equipment and timberlands, net	<b>(9)</b>	(3,975)	<b>(681)</b>	(18,477)
Operating income	<b>53,171</b>	36,345	<b>105,097</b>	78,847
Non-operating income (expense)				
Interest expense	<b>(4,528)</b>	(5,654)	<b>(14,798)</b>	(17,626)
Interest income	<b>318</b>	1,170	<b>1,583</b>	4,131
Other net	<b>204</b>	146	<b>86</b>	317
Total other income (expense)	<b>(4,006)</b>	(4,338)	<b>(13,129)</b>	(13,178)
Income before income taxes	<b>49,165</b>	32,007	<b>91,968</b>	65,669
Income tax provision	<b>3,171</b>	10,345	<b>14,566</b>	21,176
Net income	<b>\$ 45,994</b>	\$ 21,662	<b>\$ 77,402</b>	\$ 44,493
<b>Earnings per share</b>				
Basic	<b>\$ 1.01</b>	\$ 0.48	<b>\$ 1.70</b>	\$ 0.98
Diluted	<b>1.00</b>	0.47	<b>1.69</b>	0.97
<b>Cash dividends declared per common share</b>	<b>\$ 0.09</b>	\$ 0.09	<b>\$ 0.27</b>	\$ 0.27
<b>Weighted average shares outstanding</b>				
Basic	<b>45,699</b>	45,279	<b>45,649</b>	45,221
Diluted	<b>45,865</b>	45,650	<b>45,712</b>	45,669

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

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

<i>In thousands</i>	<b>September 30 2009</b>	December 31 2008
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 116,240	\$ 32,234
Accounts receivable net	136,215	132,635
Inventories	163,340	193,354
Prepaid expenses and other current assets	66,713	33,596
Total current assets	<b>482,508</b>	391,819
<b>Plant, equipment and timberlands net</b>	<b>477,093</b>	493,564
<b>Other assets</b>	<b>134,636</b>	171,926
Total assets	<b>\$ 1,094,237</b>	\$ 1,057,309
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 13,759	\$ 13,759
Short-term debt	3,150	5,866
Accounts payable	62,926	59,750
Dividends payable	4,164	4,089
Environmental liabilities	989	5,734
Other current liabilities	107,934	100,904
Total current liabilities	<b>192,922</b>	190,102
<b>Long-term debt</b>	<b>246,828</b>	293,660
<b>Deferred income taxes</b>	<b>77,971</b>	90,158
<b>Other long-term liabilities</b>	<b>142,144</b>	140,682
Total liabilities	<b>659,865</b>	714,602
<b>Commitments and contingencies</b>		
<b>Shareholders equity</b>		
Common stock	544	544
Capital in excess of par value	47,260	45,806
Retained earnings	669,947	605,001

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Accumulated other comprehensive loss	<b>(153,111)</b>	(176,133)
	<b>564,640</b>	475,218
Less cost of common stock in treasury	<b>(130,268)</b>	(132,511)
Total shareholders' equity	<b>434,372</b>	342,707
Total liabilities and shareholders' equity	<b>\$ 1,094,237</b>	\$ 1,057,309

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

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

<i>In thousands</i>	<b>Nine months ended</b>	
	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities</b>		
Net income	\$ 77,402	\$ 44,493
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	45,823	46,374
Pension expense (income)	5,045	(11,944)
Reversal of shutdown and restructuring charges		(856)
Deferred income tax provision	(18,599)	4,366
Gains on dispositions of plant, equipment and timberlands, net	(681)	(18,477)
Stock-based compensation	3,704	3,575
Alternative fuel mixture credits, net of credits applied to taxes due	(34,888)	
Change in operating assets and liabilities:		
Accounts receivable, net	197	(34,768)
Inventories	33,645	(1,215)
Prepaid expenses and other current assets	5,245	5,925
Accounts payable	1,492	(11,482)
Environmental matters	(7,383)	(12,503)
Accruals and other current liabilities	8,220	2,906
Other	292	1,365
Net cash provided by operating activities	<b>119,514</b>	<b>17,759</b>
<b>Investing activities</b>		
Expenditures for purchases of plant, equipment and timberlands	(16,704)	(40,839)
Proceeds from disposals of plant, equipment and timberlands, net	728	19,280
Proceeds from timberland installment sale note receivable	37,850	
Net cash provided (used) by investing activities	<b>21,874</b>	<b>(21,559)</b>
<b>Financing activities</b>		
Net repayments of revolving credit facility	(1,623)	(25,000)
Net repayments of short term debt	(2,640)	(846)
Repayment of Note payable, due March 2013	(34,000)	
Proceeds from Term Loan, due January 2013		36,695
Principal repayments 2011 Term Loan	(12,000)	(9,000)
Payment of dividends	(12,433)	(12,343)
Proceeds from stock options exercised and other		1,150
Net cash used by financing activities	<b>(62,696)</b>	<b>(9,344)</b>
Effect of exchange rate changes on cash	5,314	(742)



Net increase (decrease) in cash and cash equivalents	<b>84,006</b>	(13,886)
Cash and cash equivalents at the beginning of period	<b>32,234</b>	29,833
Cash and cash equivalents at the end of period	<b>\$ 116,240</b>	\$ 15,947

**Supplemental cash flow information**

Cash paid for		
Interest	<b>\$ 9,523</b>	\$ 12,182
Income taxes	<b>16,175</b>	18,239

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

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

unaudited

**1. ORGANIZATION**

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

**2. ACCOUNTING POLICIES**

**Basis of Presentation** The 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 have evaluated all subsequent events through November 6, 2009, the date the financial statements were issued.

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 2008 Annual Report on Form 10-K ( 2008 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. RECENT PRONOUNCEMENTS**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 168, The FASB Accounting Standards Codification ( ASC ) and the Hierarchy of GAAP, a replacement of SFAS No. 162 ( SFAS 162 ) as codified under ASC 105 Generally Accepted Accounting Principles . SFAS No. 168 became the source of authoritative GAAP recognized by the FASB. SFAS No. 168 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The issuance of SFAS No. 168 requires references to authoritative US GAAP to coincide with the appropriate section of the ASC. Accordingly, this standard did not have an impact on our financial condition or results of operations.

On December 30, 2008, the FASB issued FSP FAS 132(R)-1 *Employers Disclosures about Postretirement Benefit Plan Assets* ( FSP FAS 132(R)-1 ) as codified under ASC 715-20 *Defined Benefit Plans General*. This standard, which will be effective for us beginning December 31, 2009, will require more detailed disclosures about pension plan assets, our investment strategies, major categories of plan assets, concentrations of risk within the plan, and valuation techniques used to measure fair value. The adoption of FSP FAS 132(R)-1 is not expected to have a material impact on our consolidated financial position or results of operations.

**4. ALTERNATIVE FUEL MIXTURE CREDITS**

The U.S. Internal Revenue Code provides 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, is 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.

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For the period May 18, 2009 through September 30, 2009, we earned an additional \$45.8 million of alternative fuel mixture credits for which a claim has yet to be submitted to the IRS. Of this amount, \$10.9 million was used to reduce estimated interim tax payments. We intend to claim 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.

According to the Internal Revenue Code, the tax credit is scheduled to expire on December 31, 2009. However, there can be no assurances that the incentive program for alternative fuel mixtures will continue in effect or that its provisions, including taxes applicable to the credits, will not be changed, or that we will be successful in receiving future credits under the program.

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

During the first nine months of 2009 and 2008, we completed sales of timberlands as summarized by the following table:

<i>Dollars in thousands</i>	<b>Acres</b>	<b>Proceeds</b>	<b>Gain</b>
<b>2009</b>			
Timberlands	<b>189</b>	<b>\$ 728</b>	<b>\$ 699</b>
Other	<b>n/a</b>		<b>(18)</b>
	<b>189</b>	<b>\$ 728</b>	<b>\$ 681</b>
<b>2008</b>			
Timberlands	4,561	\$19,280	\$18,646
Other	n/a		(169)
	4,561	\$19,280	\$18,477

#### 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>	<b>Three months ended</b>	
	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
Net income	<b>\$45,994</b>	\$21,662
Weighted average common shares outstanding used in basic EPS	<b>45,699</b>	45,279
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	<b>166</b>	371
Weighted average common shares outstanding and common share equivalents used in diluted EPS	<b>45,865</b>	45,650
Earnings per share		

Basic	\$ 1.01	\$ 0.48
Diluted	1.00	0.47

<i>In thousands, except per share</i>	<b>Nine months ended September 30</b>	
	<b>2009</b>	2008
Net income	<b>\$77,402</b>	\$44,493
Weighted average common shares outstanding used in basic EPS	<b>45,649</b>	45,221
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	<b>63</b>	448
Weighted average common shares outstanding and common share equivalents used in diluted EPS	<b>45,712</b>	45,669
Earnings per share		
Basic	<b>\$ 1.70</b>	\$ 0.98
Diluted	<b>1.69</b>	0.97

Approximately 1,244,410 and 674,534 of potential common shares have been excluded from the computation of diluted earnings per share for the three month period ended September 30, 2009 and 2008, respectively, due to their anti-dilutive nature. The amounts excluded for the nine month period ended September 30, 2009 and 2008, were 2,287,620 and 674,534, respectively.

## **7. INCOME TAXES**

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

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As of September 30, 2009 and December 31, 2008, we had \$28.7 million and \$29.2 million, respectively, of gross unrecognized tax benefits. As of September 30, 2009, if such benefits were to be recognized, approximately \$25.1 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

Jurisdiction	Open Tax Year	
	Examination in progress	Not under examination
United States		2007 and 2008
Federal	N/A	2004 2008
State	2004	
International		2007 and 2008
Germany (1)	2003 2006	2006 2008
France	N/A	2006 2008
United Kingdom	N/A	2006 2008
Philippines	2005 2008	N/A

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may change within the next twelve months by as much as \$7.6 million. Substantially all of this relates to tax positions taken in the U.S. and in Germany.

On July 14, 2009, we received notification that the IRS examination of our federal returns for the tax years 2004 through 2006 was completed. Accordingly, we recognized a benefit in the third quarter of 2009 of \$0.6 million, net, of previously unrecognized tax benefits related to uncertain tax positions for these periods.

We recognize interest and penalties related to uncertain tax positions as income tax expense. Interest expense recognized in the third quarter of 2009 and first nine months of 2009 totaled \$0.1 million and \$0.7 million, respectively. Accrued interest was \$3.4 million and \$2.6 million as of September 30, 2009 and December 31, 2008, respectively. We did not record any penalties associated with uncertain tax positions during the third quarters of 2009 or 2008.

## 8. STOCK-BASED COMPENSATION

On April 29, 2009, our shareholders approved the P. H. Glatfelter Amended and Restated Long Term Incentive Plan (the LTIP ) to authorize, among other things, the issuance of up to 5,500,000 shares of Glatfelter common stock to

eligible participants. The LTIP provides for the issuance 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 RSU 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 2009:

<i>Units</i>	<b>2009</b>
Beginning balance	<b>486,988</b>
Granted	<b>205,360</b>
Forfeited	<b>(6,000)</b>
Restriction lapsed/shares delivered	<b>(5,747)</b>
Ending balance	<b>680,601</b>

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

<i>In thousands</i>	<b>September 30</b>	
	<b>2009</b>	2008
Three months ended	<b>\$ 448</b>	\$ 470
Nine months ended	<b>1,175</b>	1,324

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**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	2009	
	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	718,810	\$ 14.63
Granted	1,043,210	9.91
Exercised		
Canceled		
Outstanding at Sept 30,	1,762,020	\$ 11.84
<b>2009 SOSAR Grants</b>		
Weighted average grant date fair value per share	\$ 2.83	
Aggregate grant date fair value ( <i>in thousands</i> )	\$ 2,957	
Black-Scholes Assumptions		
Dividend yield	3.63%	
Risk free rate of return	2.26%	
Volatility	40.59%	
Expected life	6 yrs	

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

<i>In thousands</i>	September 30	
	2009	2008
Three months ended	\$ 596	\$ 387
Nine months ended	1,293	1,123

## 9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

<i>In thousands</i>	Three months ended September 30	
	2009	2008
<b>Pension Benefits</b>		
Service cost	\$ 2,158	\$ 1,907
Interest cost	5,861	5,897
Expected return on plan assets	(9,884)	(12,445)
Amortization of prior service cost	537	571
Amortization of unrecognized loss	3,186	91



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Net periodic benefit cost (income)	<b>\$ 1,858</b>	\$ (3,979)
<b>Other Benefits</b>		
Service cost	<b>\$ 654</b>	\$ 503
Interest cost	<b>878</b>	825
Expected return on plan assets	<b>(122)</b>	(216)
Amortization of prior service cost	<b>(308)</b>	(337)
Amortization of unrecognized loss	<b>519</b>	359
Net periodic benefit cost	<b>\$ 1,621</b>	\$ 1,134

<i>In thousands</i>	<b>Nine months ended September 30</b>	
	<b>2009</b>	2008
<b>Pension Benefits</b>		
Service cost	<b>\$ 6,475</b>	\$ 6,435
Interest cost	<b>17,582</b>	17,646
Expected return on plan assets	<b>(29,663)</b>	(38,077)
Amortization of prior service cost	<b>1,610</b>	1,768
Amortization of unrecognized loss	<b>9,559</b>	284
Net periodic benefit cost (income)	<b>\$ 5,563</b>	\$(11,944)
<b>Other Benefits</b>		
Service cost	<b>\$ 1,963</b>	\$ 1,564
Interest cost	<b>2,634</b>	2,401
Expected return on plan assets	<b>(365)</b>	(633)
Amortization of prior service cost	<b>(925)</b>	(933)
Amortization of unrecognized loss	<b>1,556</b>	981
Net periodic benefit cost	<b>\$ 4,863</b>	\$ 3,380

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<i>In millions</i>	<b>Sept. 30, 2009</b>	Dec. 31, 2008
<b>Pension Plan Assets</b>		
Fair value at end of period	<b>\$472.0</b>	\$400.6

The fair value of the plans' assets declined approximately 29% during 2008. As a result, during 2009 we expect to recognize net pension expense totaling approximately \$7.3 million, on a pre-tax basis. As of December 31, 2008, approximately 63% of the pension plan assets were invested in publicly-traded equity securities and the balance was comprised of cash and fixed rate debt instruments.

As of December 31, 2008, our pension plans were overfunded by \$14.3 million. We will not be required to make contributions to our qualified pension plans during 2009.

#### 10. COMPREHENSIVE INCOME

The following table sets forth comprehensive income and its components:

<i>In thousands</i>	<b>Three months ended September 30</b>	
	<b>2009</b>	2008
Net income	<b>\$ 45,994</b>	\$ 21,662
Foreign currency translation adjustments	<b>7,892</b>	(29,510)
Amortization of unrecognized pension liability, net of tax	<b>2,465</b>	466
Comprehensive income	<b>\$ 56,351</b>	\$ (7,382)

<i>In thousands</i>	<b>Nine months ended September 30</b>	
	<b>2009</b>	2008
Net income	<b>\$ 77,402</b>	\$ 44,493
Foreign currency translation adjustment	<b>15,945</b>	(14,669)
Amortization of unrecognized pension liability, net of tax	<b>7,077</b>	1,370
Comprehensive income	<b>\$ 100,424</b>	\$ 31,194

#### 11. INVENTORIES

Inventories, net of reserves, were as follows:

<i>In thousands</i>	<b>Sept. 30, 2009</b>	Dec. 31, 2008
Raw materials	<b>\$ 46,822</b>	\$ 49,083
In-process and finished	<b>70,516</b>	97,390
Supplies	<b>46,002</b>	46,881
Total	<b>\$ 163,340</b>	\$ 193,354

**12. LONG-TERM DEBT**

Long-term debt is summarized as follows:

<i>In thousands</i>	<b>Sept. 30, 2009</b>	Dec. 31, 2008
Revolving credit facility, due April 2011	<b>\$ 5,892</b>	\$ 6,724
Term Loan, due April 2011	<b>18,000</b>	30,000
Term Loan, due January 2013	<b>36,695</b>	36,695
Note payable, due March 2013		34,000
7 <sup>1</sup> / <sub>8</sub> % Notes, due May 2016	<b>200,000</b>	200,000
Total long-term debt	<b>260,587</b>	307,419
Less current portion	<b>(13,759)</b>	(13,759)
Long-term debt, net of current portion	<b>\$246,828</b>	\$293,660

On April 3, 2006, we, along with certain of our subsidiaries as borrowers and certain of our subsidiaries as guarantors, entered into a credit agreement with certain financial institutions. Pursuant to the credit agreement, we may borrow, repay and reborrow revolving credit loans in an aggregate principal amount not to exceed \$200 million outstanding at any time. All borrowings under our credit facility are unsecured. The revolving credit commitment expires on April 2, 2011.

In addition, on April 3, 2006, pursuant to the credit agreement, we received a term loan in the principal amount of \$100 million. Quarterly repayments of principal outstanding under the term loan began on March 31, 2007 with the final principal payment due on April 2, 2011. In addition, if certain prepayment events occur, such as the incurrence of additional indebtedness in excess of \$30.0 million in the aggregate, or the issuance of additional equity; we must repay a specified portion of the term loan within five days of the prepayment event.

We have the right to prepay the term loan and revolving credit borrowings in whole or in part without premium or penalty, subject to timing conditions related to the interest rate option chosen.

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

The credit agreement 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, create liens on assets, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and

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ratios, each as defined in the credit agreement, including a consolidated minimum net worth test and a maximum debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio. A breach of these requirements, of which we were not aware of any at September 30, 2009, 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.

On April 28, 2006, we completed an offering of \$200.0 million aggregate principal amount of our 7<sup>1</sup>/<sub>8</sub>% Senior Notes due 2016. 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 6<sup>7</sup>/<sub>8</sub>% notes due July 2007, plus the payment of applicable redemption premium and accrued interest.

Interest on these Senior Notes accrues at the rate of 7<sup>1</sup>/<sub>8</sub>% per annum and is payable semiannually in arrears on May 1 and November 1.

Prior to May 1, 2011, we may redeem all, but not less than all, of the notes at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, plus a make-whole premium. On or after May 1, 2011, we may redeem some or all of the notes at specified redemption prices.

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

In November 2007, we sold timberlands and as consideration received a \$43.2 million, 20-year interest bearing note receivable from the timberland buyer (the Glawson Note ). In January 2008, we monetized the Glawson Note. In this transaction, we entered into a new \$36.7 million term loan agreement (the 2008 Term Loan ) with a financial institution. The 2008 Term Loan matures in January 2013 and bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.20% per annum. This is secured by, among other assets, the Glawson Note together with a letter of credit issued in our favor by Royal Bank of Scotland, plc. backing the collectability of the Glawson Note.

The Glawson Note is recorded in the accompanying condensed consolidated balance sheets under the caption Other long-term assets.

On March 21, 2003, we sold timberlands and received as consideration a \$37.9 million 10-year interest bearing note receivable from the timberland buyer Sustainable Conservation, Inc. (the Sustainable Note ). We pledged this note as collateral under a \$34.0 million promissory note payable to a financial institution (the Note Payable ). The Note Payable, as amended was scheduled to mature in March 2013 and was secured by a letter of credit issued in our favor by SunTrust Bank backing the collectability of the Sustainable Note.

Under terms of each of the above transactions, minimum credit ratings must be maintained by the respective financial institution issuing the letters of credit. If, after 60 days from the date such credit rating falls below the specified minimum, an event of default is deemed to have occurred under the respective debt instrument owed by us to the financial institution unless actions are taken to cure such default. 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.

On April 23, 2009, the credit rating of the financial institution that issued the letter of credit behind the Sustainable Note fell below the required minimum level. To avoid the occurrence of an event of default associated with the credit downgrade of SunTrust, on June 10, 2009, we, Sustainable Conservation and SunTrust agreed to collapse the transaction, the effect of which was: i) the acceleration of the maturity date of the Sustainable Note to June 10, 2009; (ii) satisfaction in full of the \$37.9 million Sustainable Note owed to us; and (iii) the satisfaction in full of the \$34 million indebtedness owed by us to SunTrust under the Term Loan Agreement. As a result, we received net proceeds of approximately \$3.5 million, after transaction costs.

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, 2009 and December 31, 2008, we had \$5.8 million and \$12.1 million, respectively, of letters of credit issued to us by certain financial institutions. The letters of credit outstanding as of September 30, 2009, provide financial assurances primarily 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.

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**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 our Spring Grove, PA facility. Historically, the lagoons were used to dispose of residual waste material. Closure of the lagoons, which is expected to occur over the next eight years, will be accomplished by filling the lagoons and installing a non-permeable liner which will be covered with soil to construct the required cap over the lagoons. The amount referred to above was accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the condensed 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. The amount accrued represented the discounted present value of the expected cash flows to be incurred during the closure period. The present value of the discounted cash flows is being accreted as a charge to earnings on the effective interest method. Following is a summary of activity recorded during the first nine months of 2009:

<i>In thousands</i>	<b>Liability</b>
Balance at December 31, 2008	<b>\$ 11,606</b>
Accretion	<b>472</b>
Payments	<b>(1,697)</b>
Balance at September 30, 2009	<b>\$ 10,381</b>

Of the total liability at September 30, 2009, \$1.7 million is recorded in the accompanying condensed consolidated balance sheet, under the caption "Other current liabilities" and \$8.7 million is recorded under the caption "Other long-term liabilities."

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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>	<b>September 30, 2009</b>		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate Bonds	\$ 200,000	\$ 187,750	\$200,000	\$167,727
Fixed rate note payable			34,000	36,164
Variable rate debt	60,587	61,349	73,419	75,202
Total	\$ 260,587	\$ 249,099	\$307,419	\$279,093

We have \$200.0 million of 7<sup>1</sup>/<sub>8</sub>% fixed rate debt that is publicly registered, but is thinly traded, and therefore, market prices are not readily available. Accordingly, the values set forth above were derived from independent pricing service's algorithm based on debt instruments with similar characteristics. 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.

**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 on the bed of the Fox River, apparently from a number of sources at municipal and industrial facilities along the upstream and downstream portions of the Site. The Governments have identified manufacturing and recycling of NCR®-brand carbonless copy paper as the principal source of that contamination.

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

Our liabilities, if any, for this contamination primarily arise under the federal Comprehensive Environmental, Response, Compensation and Liability Act ( CERCLA or Superfund ). The Governments have sought to recover response actions or response

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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 state in a judicially or administratively approved settlement agreement obtains protection from contribution claims for matters addressed in the settlement.

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

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

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

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

**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. The supporting documentation provided by EPA has not yet allowed us fully to evaluate this demand, and, accordingly we are unable to reasonably estimate our potential liability.

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

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

Notably, in April 2004, the United States District Court for the Eastern District of Wisconsin entered a consent decree (OU1 Consent Decree) in *United States v. P.H. Glatfelter Co.*, No. 2:03-cv-949, under which we and WTM I Corp. have been implementing the remedy in OU1, dividing costs evenly in addition to a \$7 million contribution from



Menasha Corp. and a \$10 million contribution that the United States contributed from a separate settlement in *United States v. Appleton Papers Inc.*, No. 2:01-cv-816, obligating NCR and Appleton Papers to contribute to certain NRD projects. In June 2008, the parties entered into an amendment to the OU1 Consent Decree ( Amended OU1 Consent Decree ). That amendment allowed for implementation of the amended remedy for OU1 and committed us and WTM I to

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implement that remedy without a cost limitation on that commitment. We and WTM I have substantially completed the amended remedy for OU1. We anticipate that the remaining tasks, other than monitoring and maintenance, will be completed by the second quarter of 2010.

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 demanding 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 have paid this amount.

**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. The Governments estimate that the total cost of implementing the amended remedy in OU1 will be approximately \$102 million. Because we have completed a significant amount of work in this portion of the river, we believe the costs of completing the remedial actions specified in the amended ROD can be completed for this amount. The United States and the State of Wisconsin recently prepared an estimate of the total liabilities associated with this Site for purposes of justifying a settlement with certain parties whose shares of liability the United States and the State believe to be *de minimis*. That settlement is awaiting approval by the federal court in Green Bay in a case captioned *United States v. George A. Whiting Paper Co.*, No. 09-cv-00692. In their brief in support of their motion to enter the *de minimis* consent decree, the Governments estimate the total past costs incurred at the Site including the OU1 project to be \$200 million. In addition, they estimate 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 claim 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 figure 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 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.

NCR and Appleton Papers Inc. have commenced litigation in the United States District Court for the Eastern District of Wisconsin captioned *Appleton Papers Inc. v. George A. Whiting Paper Co.*, No. 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

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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. That litigation may be expected to result in an allocation of responsibility, at least as among these parties, or a determination that some or all of them are not jointly and severally liable for some costs.

As noted above, the United States and the State of Wisconsin have lodged a proposed *de minimis* party consent decree ( Consent Decree ) with the court asking that the Court approve a settlement with eleven defendants to resolve their liability for this site. On October 7, 2009, the United States and the State of Wisconsin formally requested that the Court approve the Consent Decree. 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 of 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. If approved by the Court, the Consent Decree would remove these parties from the litigation. 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 DePere. Under that consent decree, the City of DePere would pay \$210,000 to resolve its liability at the Site.

The court has entered a case management order segmenting the Whiting Litigation for discovery and trial. The first phase of the Whiting Litigation, addressing a single set of issues, is currently scheduled for trial beginning in January 2010. NCR and Appleton Papers as well as multiple defendants have filed motions for summary judgment with the Court on various issues implicated in the first phase of the trial. It is uncertain when and how the Court will rule on these motions. Resolution of the limited issues prescribed by the Court in the first phase of the Whiting Litigation could adjudicate the entire case or it may resolve those issues sufficiently that the parties can then settle their remaining disputes.

However, there can be no assurance that the first phase of the Whiting Litigation will result, directly or indirectly, in a judgment or settlement disposing of all claims among the parties.

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

**Reserves for the Fox River Site.** As of September 30, 2009, 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 \$17.8 million. No additional amounts were accrued during the first nine months of 2009 and 2008. Of our total reserve for the Fox River, \$1.0 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remaining \$16.8 million 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. We later contributed \$6.0 million under an agreed supplement to the OU1 Consent Decree and have since contributed an additional \$9.5 million under the Amended Consent Decree. This amount includes \$6.5 million contributed in January 2009. WTM I has contributed parallel amounts. These funds are 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 2008, 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 indicates that PCBs did not leave OU1 in concentrations that could have caused or contributed to the need for cleanup in OU2-5. Others, including the EPA and

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other PRPs, disagree with us and, as a result, the EPA has issued a UAO to us and to others to perform the OU2-5 work. NCR and Appleton Papers have commenced the Whiting Litigation and have joined us and others as defendants. Additional litigation associated with the remediation of the Site is likely. As illustrated by the Whiting Litigation, we believe that there are additional potentially responsible parties other than the PRPs who were named in the UAO or who have been joined in the Whiting Litigation, including the owners of public wastewater treatment facilities who discharged PCB-contaminated wastewater to the Fox River and entities providing PCB-containing wastepaper to each of the recycling mills.

Even if we are not successful in establishing that we are not liable for the remediation of OU2-5, we do not believe that we would be allocated a significant percentage share of liability in any equitable allocation of the remediation costs and other potential damages associated with OU2-5. The accompanying consolidated financial statements do not include reserves for defense costs for the Whiting Litigation 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 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 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 OU1 Consent Decree, the amount and timing of future expenditures for environmental compliance, cleanup, remediation and personal injury, NRDs and property damage liabilities cannot be ascertained with any certainty due to, among other things, the unknown extent and nature of any contamination, the response actions that may ultimately be required, the availability of remediation equipment, and landfill space, and the number and financial resources of any other PRPs.

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

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

While the Amended OU1 Consent Decree provides a negotiated framework for resolving both our and WTM I's liability for the remediation of OU1, it does not resolve our exposure at the Site. The OU1 Consent Decree does not address response costs necessary to remediate the remainder of the Site and only addresses NRDs and claims for reimbursement of government expenses to a limited extent. Because CERCLA imposes strict, and often joint and several liability, uncertainty persists regarding our exposure with respect to the remainder of the Fox River site. In addition, as mentioned previously, EPA has issued a UAO to us and others calling for further work in OU2-5, and Appleton Papers and NCR have commenced the Whiting Litigation that may become more complicated and involve

additional parties. We cannot predict the outcome of the Whiting Litigation or any other litigation or regulatory actions related to this matter.

**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

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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.

All remedial work in OU-1 has been completed and we and WTM I are in the process of decommissioning and performing the restoration of the staging area from which the remediation activity occurred and completing all required reports for the project. We believe that these activities can be completed with the funds that remain in the OU1 Escrow Account.

**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 managing the completion of the remaining remedial work at OU1 and/or should the United States seek to enforce the UAO for OU2-5 against us which requires us either to perform directly or to contribute significant amounts towards the performance of that work, 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.

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**16. SEGMENT INFORMATION**

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

<b>Business Unit Performance</b>	For the three months ended September 30							
	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
<i>Dollars in thousands</i>	2009	2008	2009	2008	2009	2008	2009	2008
Net sales	\$211,635	\$226,028	\$100,723	\$113,794	\$	\$	\$312,358	\$339,822
Energy sales, net	2,131	2,885			1		2,132	2,885
Total revenue	213,766	228,913	100,723	113,794	1		314,490	342,707
Cost of products sold	178,060	192,110	85,746	96,114	(31,781)	(2,689)	232,025	285,535
Gross profit	35,706	36,803	14,977	17,680	31,782	2,689	82,465	57,172
SG&A	14,852	13,961	9,176	9,329	5,275	1,512	29,303	24,802
Gains on dispositions of plant, equipment and timberlands					(9)	(3,975)	(9)	(3,975)
Total operating income	20,854	22,842	5,801	8,351	26,516	5,152	53,171	36,345
Nonoperating income (expense)					(4,006)	(4,338)	(4,006)	(4,338)
Income before income taxes	\$ 20,854	\$ 22,842	\$ 5,801	\$ 8,351	\$ 22,510	\$ 814	\$ 49,165	\$ 32,007
<b>Supplementary Data</b>								
Net tons sold	199,860	200,072	20,181	21,530			220,041	221,602
Depreciation, depletion and amortization	\$ 10,623	\$ 9,007	\$ 6,150	\$ 6,700	\$	\$	\$ 16,773	\$ 15,707
Capital expenditures	2,077	4,156	3,152	11,275			5,229	15,431
<b>Business Unit Performance</b>	For the nine months ended September 30							
<i>Dollars in thousands</i>	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Net sales	\$595,606	\$634,270	\$287,283	\$331,274	\$	\$ 1	\$882,889	\$965,545
Energy sales, net	6,193	7,612			1		6,194	7,612
Total revenue	601,799	641,882	287,283	331,274	1	1	889,083	973,157
Cost of products sold	528,207	566,334	246,122	280,972	(70,026)	(7,977)	704,303	839,329
Gross profit	73,592	75,548	41,161	50,302	70,027	7,978	184,780	133,828
SG&A	40,777	41,940	26,298	29,038	13,289	3,336	80,364	74,314
Reversal of shutdown and restructuring charges						(856)		(856)
					(681)	(18,477)	(681)	(18,477)

Gains on dispositions of  
plant, equipment and  
timberlands

Total operating income	<b>32,815</b>	33,608	<b>14,863</b>	21,264	<b>57,419</b>	23,975	<b>105,097</b>	78,847
Nonoperating income (expense)					<b>(13,129)</b>	(13,178)	<b>(13,129)</b>	(13,178)
Income before income taxes	<b>\$ 32,815</b>	\$ 33,608	<b>\$ 14,863</b>	\$ 21,264	<b>\$ 44,290</b>	\$ 10,797	<b>\$ 91,968</b>	\$ 65,669

### Supplementary Data

Net tons sold	<b>556,214</b>	564,983	<b>59,445</b>	65,225			<b>615,659</b>	630,208
Depreciation, depletion and amortization	<b>\$ 28,372</b>	\$ 26,619	<b>\$ 17,451</b>	\$ 19,755	\$	\$	<b>\$ 45,823</b>	\$ 46,374
Capital expenditures	<b>9,095</b>	14,586	<b>7,509</b>	26,253	<b>100</b>		<b>16,704</b>	40,839

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 pension income or expense, alternative fuel mixture credits, charges related to the Fox River environmental reserves, restructuring 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 papermaking businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption "Other and Unallocated." This presentation is aligned with the management and operating structure of our company. It is also on this basis that the Company's performance is evaluated internally and by the Company's Board of Directors.

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**17. GUARANTOR FINANCIAL STATEMENTS**

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

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

**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 sales net	2,132				2,132
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) losses 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

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

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$226,027	\$12,024	\$113,795	\$(12,024)	\$339,822
Energy sales net	2,885				2,885

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

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**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 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) losses on dispositions of plant, equipment and timberlands, net	20	(701)			(681)
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

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

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$634,270	\$ 34,017	\$331,275	\$(34,017)	\$965,545
Energy sales net	7,612				7,612
Total revenues	641,882	34,017	331,275	(34,017)	973,157
Costs of products sold	559,042	33,211	281,486	(34,410)	839,329
Gross profit	82,840	806	49,789	393	133,828
Selling, general and administrative expenses	42,506 (856)	1,505	30,303		74,314 (856)

Reversal of shutdown and restructuring charges					
(Gains) losses on dispositions of plant, equipment and timberlands, net	140	(18,648)	31		(18,477)
Operating income	41,050	17,949	19,455	393	78,847
Non-operating income (expense)					
Interest expense	(15,144)	(11)	(2,471)		(17,626)
Interest income	19,965	9,583	(1,817)	(23,600)	4,131
Other income (expense) net	13,673	(331)	(604)	(12,421)	317
Total other income (expense)	18,494	9,241	(4,892)	(36,021)	(13,178)
Income (loss) before income taxes	59,544	27,190	14,563	(35,628)	65,669
Income tax provision (benefit)	15,051	10,835	4,238	(8,948)	21,176
Net income (loss)	\$ 44,493	\$ 16,355	\$ 10,325	\$ (26,680)	\$ 44,493

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**Condensed Consolidating Balance Sheet as of September 30, 2009**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 45,204	\$ 279	\$ 70,757	\$	\$ 116,240
Other current assets	329,117	300,674	200,919	(464,442)	366,268
Plant, equipment and timberlands net	258,641	7,101	211,351		477,093
Other assets	524,966	178,468	74,167	(642,965)	134,636
<b>Total assets</b>	<b>\$1,157,928</b>	<b>\$486,522</b>	<b>\$557,194</b>	<b>\$(1,107,407)</b>	<b>\$1,094,237</b>
<b>Liabilities and Shareholders Equity</b>					
Current liabilities	\$ 351,980	\$ 58,658	\$228,728	\$ (446,444)	\$ 192,922
Long-term debt	210,133		36,695		246,828
Deferred income taxes	54,064	16,058	27,443	(19,594)	77,971
Other long-term liabilities	107,379	13,972	9,454	11,339	142,144
<b>Total liabilities</b>	<b>723,556</b>	<b>88,688</b>	<b>302,320</b>	<b>(454,699)</b>	<b>659,865</b>
Shareholders equity	434,372	397,834	254,874	(652,708)	434,372
<b>Total liabilities and shareholders equity</b>	<b>\$1,157,928</b>	<b>\$486,522</b>	<b>\$557,194</b>	<b>\$(1,107,407)</b>	<b>\$1,094,237</b>

**Condensed Consolidating Balance Sheet as of December 31, 2008**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 8,860	\$ 756	\$ 22,618	\$	\$ 32,234
Other current assets	266,899	256,834	88,288	(252,436)	359,585
Plant, equipment and timberlands net	277,215	7,470	208,879		493,564
Other assets	510,144	175,927	(29,767)	(484,378)	171,926
<b>Total assets</b>	<b>\$1,063,118</b>	<b>\$440,987</b>	<b>\$290,018</b>	<b>\$(736,814)</b>	<b>\$1,057,309</b>
<b>Liabilities and Shareholders Equity</b>					
Current liabilities	\$ 336,182	\$ 17,072	\$ 85,668	\$(248,820)	\$ 190,102
Long-term debt	222,965		70,695		293,660
Deferred income taxes	53,976	24,615	26,272	(14,705)	90,158
Other long-term liabilities	107,288	13,838	8,941	10,615	140,682

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Total liabilities	720,411	55,525	191,576	(252,910)	714,602
Shareholders' equity	342,707	385,462	98,442	(483,904)	342,707
Total liabilities and shareholders' equity	\$1,063,118	\$440,987	\$290,018	\$(736,814)	\$1,057,309

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**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					
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) proceeds from 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

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

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	\$ 26,109	\$ 2,882	\$ 12,368	\$(23,600)	\$ 17,759
Investing activities					
Purchase of plant, equipment and timberlands	(13,146)	(1,440)	(26,253)		(40,839)
		19,280			19,280

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Proceeds from disposal plant, equipment and timberlands					
Repayments from (advances of) intercompany loans, net	2,800	(19,178)	(9,158)	25,536	
Return (contributions) of intercompany capital, net		24,997		(24,997)	
Total investing activities	(10,346)	23,659	(35,411)	539	(21,559)
Financing activities					
Net (repayments of) proceeds from indebtedness	(36,001)		37,850		1,849
Payment of dividends to shareholders	(12,343)				(12,343)
(Repayments) borrowings of intercompany loans, net	30,936	(2,800)	(2,600)	(25,536)	
Return of intercompany capital, net			(24,997)	24,997	
Payment of intercompany dividends		(23,600)		23,600	
Proceeds from stock options exercised	1,150				1,150
Total financing activities	(16,258)	(26,400)	10,253	23,061	(9,344)
Effect of exchange rate on cash	(735)		(7)		(742)
Net increase (decrease) in cash	(1,230)	141	(12,797)		(13,886)
Cash at the beginning of period	6,693	162	22,978		29,833
Cash at the end of period	\$ 5,463	\$ 303	\$ 10,181	\$	\$ 15,947

## 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 2008 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, including the impact of any unplanned market-related downtime, for, or the pricing of, our products;
- 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 and Composite Fibers products;
- v. our ability to renew our electricity sales agreement at acceptable margins in relation to our current coal supply contract;
- vi. the impact of competition, changes in industry paper production capacity, including the construction of new mills, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- vii. the impairment of financial institutions as a result of the current credit market conditions 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. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation;
- xiii. adverse results in litigation; and
- xiv. our ability to finance, consummate and integrate future acquisitions.

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

**Overview** Our results of operations for the first nine months of 2009 when compared with the same period of 2008 were impacted by the weak global economic conditions. Overall volumes shipped by Specialty Papers declined 1.6% and Composite Fibers declined 8.9% in the period-to-period comparison. As a result of the soft demand for most of our products and our efforts to reduce inventory, during the second quarter of 2009, we incurred significant market-related downtime at many of our facilities which adversely affected results of operations. This downtime continued within our Composite Fibers business unit into the third quarter, although to a lesser extent. In the first nine months of 2009, we generated \$119.5 million of cash from operations, including alternative fuel mixture credits, and we reduced inventories through close monitoring of supply and demand. During 2009, we registered two of our facilities with the U.S. Internal Revenue Service as alternative fuel mixers based on their use of black liquor as an alternative fuel source. Our results of operations in the first nine months of 2009 included, on a pre-tax basis, \$75.6 million of alternative fuel mixture credits, of which \$29.7 million was received in cash and another \$10.9 million was used to offset interim estimated tax payments. We intend to realize the remaining \$34.9 million of credits in the form of non-taxable refundable income tax credits.

Specialty Papers' operating income totaled \$32.8 million and \$33.6 million for the first nine months of 2009 and 2008, respectively. During of the first nine months of 2009, the weak economic environment adversely affected demand in all markets served by Specialty Papers. As a result of weak demand and our efforts to reduce inventory, this unit incurred market related downtime totaling 19,400 tons of paper. During the year, we reduced Specialty Papers' inventories by 29.2%.

Our Composite Fibers business unit's operating income declined to \$14.9 million from \$21.3 million in the first nine months of 2008. Volumes shipped during the first nine months of 2009 declined 8.9% compared to 2008 as a result of the weak economic environment and our customers' actions to reduce their inventory levels. Demand for tea and coffee filter papers, this unit's largest product line, declined by 5.0% primarily due to weak order patterns and customers' inventory destocking primarily in Russia, Eastern Europe and other related regions. As a result of weak demand and our inventory reduction efforts, during the first nine months of 2009 we incurred unscheduled downtime totaling 6,480 tons of paper, or 9% of the unit's total capacity for the period.

In addition, our after-tax consolidated results of operations in 2008 included \$17.8 million of lower gains than in 2009 from the sale of timberlands. We also recorded \$5.6 million of pension expense in the first nine months of 2009 compared with pension income of \$11.9 million in the year-earlier quarter.

## **RESULTS OF OPERATIONS**

### *Nine Months Ended September 30, 2009 versus the Nine Months Ended September 30, 2008*

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	<b>Nine months ended September 30</b>	
	<b>2009</b>	<b>2008</b>
Net sales	<b>\$ 882,889</b>	\$ 965,545
Gross profit	<b>184,780</b>	133,828
Operating income	<b>105,097</b>	78,847
Net income	<b>77,402</b>	44,493
Diluted earnings per share	<b>1.69</b>	0.97

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

<i>In thousands, except per share</i>		<b>After-tax Gain (loss)</b>	<b>Diluted EPS</b>
	<b>2009</b>		
Alternative fuel mixture credit		<b>\$63,308</b>	<b>\$ 1.38</b>
	<b>2008</b>		
Timberland sales		\$11,027	\$ 0.24
Reversal of shutdown and restructuring charges		527	0.01
Acquisition integration related costs		(828)	(0.02)

The above items increased earnings by \$63.3 million, or \$1.38 per diluted share, in the first nine months of 2009. In the comparable period a year ago, the above items increased earnings by \$10.7 million, or \$0.23 per diluted share.

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<i>Dollars in thousands</i>	For the nine months ended September 30							
	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Net sales	<b>\$595,606</b>	\$634,270	<b>\$287,283</b>	\$331,274	\$	\$ 1	<b>\$882,889</b>	\$965,545
Energy sales, net	<b>6,193</b>	7,612			<b>1</b>		<b>6,194</b>	7,612
Total revenue	<b>601,799</b>	641,882	<b>287,283</b>	331,274	<b>1</b>	1	<b>889,083</b>	973,157
Cost of products sold	<b>528,207</b>	566,334	<b>246,122</b>	280,972	<b>(70,026)</b>	(7,977)	<b>704,303</b>	839,329
Gross profit	<b>73,592</b>	75,548	<b>41,161</b>	50,302	<b>70,027</b>	7,978	<b>184,780</b>	133,828
SG&A	<b>40,777</b>	41,940	<b>26,298</b>	29,038	<b>13,289</b>	3,336	<b>80,364</b>	74,314
Shutdown and restructuring charges						(856)		(856)
Gains on dispositions of plant, equipment and timberlands					<b>(681)</b>	(18,477)	<b>(681)</b>	(18,477)
Total operating income	<b>32,815</b>	33,608	<b>14,863</b>	21,264	<b>57,419</b>	23,975	<b>105,097</b>	78,847
Nonoperating income (expense)					<b>(13,129)</b>	(13,178)	<b>(13,129)</b>	(13,178)
Income before income taxes	<b>\$ 32,815</b>	\$ 33,608	<b>\$ 14,863</b>	\$ 21,264	<b>\$ 44,290</b>	\$ 10,797	<b>\$ 91,968</b>	\$ 65,669
<b>Supplementary Data</b>								
Net tons sold	<b>556,214</b>	564,983	<b>59,445</b>	65,225			<b>615,659</b>	630,208
Depreciation, depletion and amortization	<b>\$ 28,372</b>	\$ 26,619	<b>\$ 17,451</b>	\$ 19,755	\$	\$	<b>\$ 45,823</b>	\$ 46,374
Capital expenditures	<b>9,095</b>	14,586	<b>7,509</b>	26,253	<b>100</b>		<b>16,704</b>	40,839

**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 pension income or expense, alternative fuel mixture credits, charges related to the Fox River environmental reserves, restructuring 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 papermaking businesses, the profitability of

business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is aligned with the management and operating structure of our company. It is also on this basis that the Company's performance is evaluated internally and by the Company's Board of Directors.

### Sales and Costs of Products Sold

<i>In thousands</i>	Nine months ended September 30		Change
	2009	2008	
Net sales	<b>\$882,889</b>	\$965,545	\$ (82,656)
Energy sales net	<b>6,194</b>	7,612	(1,418)
Total revenues	<b>889,083</b>	973,157	(84,074)
Costs of products sold	<b>704,303 <sup>(1)</sup></b>	839,329	(135,026)
Gross profit	<b>\$184,780</b>	\$133,828	\$ 50,952
Gross profit as a percent of Net sales	<b>20.9%</b>	13.9%	

(1) Includes \$73.8 million of alternative fuel mixture credits, net of related expenses.

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

<b>Business Unit</b>	Percent of Total	
	2009	2008
Specialty Papers	<b>67.5%</b>	65.7%
Composite Fibers	<b>32.5</b>	34.3
Total	<b>100.0%</b>	100.0%

Net sales totaled \$882.9 million for the first nine months of 2009, a decrease of \$82.7 million, or 8.6%, compared to the same period a year ago.

In the Specialty Papers business unit, net sales for the first nine months of 2009 decreased \$38.7 million to \$595.6 million. Operating income totaled \$32.8 million, a slight decline from \$33.6 million compared to the same period a year ago. Operating income was adversely impacted by the costs of unplanned downtime at the Spring Grove and Chillicothe facilities totaling approximately \$8.8 million in the first nine months of 2009 compared to the same period of 2008. In addition, this unit recorded \$1.4 million of

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accelerated depreciation related to the write down of certain equipment in the first nine months of 2009. Operating income was also negatively impacted by lower volumes shipped and mix changes between carbonless papers and uncoated papers.

In Composite Fibers, net sales were \$287.3 million for the first nine months of 2009, a decline of \$44.0 million from the year-earlier period. Operating income declined by \$6.4 million in the comparison to \$14.9 million. Total volumes shipped by this business unit declined 8.9% led by lower shipments of composite laminates and food & beverage paper products, which declined 24.4% and 5.0%, respectively. The translation of foreign currencies adversely impacted net sales by \$32.0 million; however, higher average selling prices contributed \$7.2 million.

Energy and raw material costs in the Composite Fibers business unit were \$4.3 million higher in the first nine months of 2009 than in the same period a year ago. Market-related downtime adversely impacted operating results by \$6.6 million in the first nine months of 2009 compared to the same period of 2008.

**Alternative Fuel Mixture Credits** The U.S. Internal Revenue Code provides 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, is refundable to the taxpayer. 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 received a payment from the Internal Revenue Service on June 30, 2009 in the amount of \$29.7 million 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. For the third quarter of 2009, we earned \$33.0 million of alternative fuel mixture credits for which no cash was received as we intend to claim a refundable income tax credit in connection with the filing of our 2009 federal corporate income tax return. Since we began mixing and burning eligible alternative fuels, we have earned \$75.6 million of alternative fuel mixture credits of which \$29.7 million has been received in cash, \$10.9 million was used to reduce estimated interim tax payments and \$34.9 million will be claimed as refundable income tax credits.

According to the Internal Revenue Code, the tax credit is scheduled to expire on December 31, 2009. However, there can be no assurances that the incentive program for alternative fuel mixtures will continue in effect or that its provisions, including taxes applicable to the credits, will not be changed, or that we will be successful in receiving future credits under the program.

**Pension Expense/Income** Pension expense or income results from the over-funded status of our pension plans. The following summarizes the amounts of pension expense or income recognized for the first nine months of 2009 compared to the same period of 2008:

<i>In thousands</i>	Nine months ended		Change
	2009	2008	
<i>Recorded as:</i>			
Costs of products sold	<b>\$(3,756)</b>	\$ 8,214	\$(11,970)
SG&A expense	<b>(1,807)</b>	3,730	(5,537)
Total (expense) income	<b>\$(5,563)</b>	\$11,944	\$(17,507)

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. As discussed in Item 1 Financial Statements Note 9, the fair value of the plans' assets declined approximately 29% during 2008. As a result, during 2009 we expect to recognize net pension expense totaling approximately \$7.3 million, on a pre-tax basis. However, we do not expect to be required to make cash contributions to our qualified defined benefit pension plans in 2009.

**Selling, general and administrative ( SG&A )** SG&A expenses increased \$6.1 million in the period-to-period comparison and totaled \$80.4 million for the first nine months of 2009. The increase was primarily due the



\$5.5 million effect of recording \$1.8 million of pension expense in the first nine months of 2009 compared with \$3.7 million of pension income in the same period of 2008.

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**Gain on Sales of Plant, Equipment and Timberlands** During the first nine months of 2009 and 2008, we completed sales of timberlands which are summarized by the following table:

<i>Dollars in thousands</i>	<b>Acres</b>	<b>Proceeds</b>	<b>Gain</b>
<b>2009</b>			
Timberlands	<b>189</b>	<b>\$ 728</b>	<b>\$ 699</b>
Other	<b>n/a</b>		<b>(18)</b>
	<b>189</b>	<b>\$ 728</b>	<b>\$ 681</b>
<b>2008</b>			
Timberlands	4,561	\$ 19,280	\$ 18,646
Other	n/a		(169)
	4,561	\$ 19,280	\$ 18,477

**Income taxes** Our results of operations for the first nine months of 2009 reflect an effective tax rate of 15.8% compared to 32.2% in the same period a year ago. The decline in the effective tax rate is primarily due to \$75.6 million of alternative fuel mixture credits taxed at a lower effective tax rate, \$45.8 million of which are non-taxable, and from a lower proportion of timberland gains, which are taxed at a higher effective tax rate.

**Foreign Currency** We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The local currency in Germany and France is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the first nine months of 2009, Euro functional currency operations generated approximately 19.5% of our sales and 18.6% of operating expenses and British Pound Sterling operations represented 10.3% of net sales and 10.5% of operating expenses. The translation of results from these international operations into U.S. dollars is impacted by changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on first nine months of 2009 reported results compared to the first nine months of 2008:

<i>In thousands</i>	Nine months ended September 30
	<b>Favorable (unfavorable)</b>
Net sales	<b>\$ (31,990)</b>
Costs of products sold	<b>31,330</b>
SG&A expenses	<b>3,922</b>
Income taxes and other	<b>119</b>
Net income	<b>\$ 3,381</b>

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.



**Three Months Ended September 30, 2009 versus the  
Three Months Ended September 30, 2008**

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	<b>Three months ended September 30</b>	
	<b>2009</b>	2008
Net sales	<b>\$312,358</b>	\$339,822
Gross profit	<b>82,465</b>	57,172
Operating income	<b>53,171</b>	36,345
Net income	<b>45,994</b>	21,662
Diluted earnings per share	<b>1.00</b>	0.47

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

<i>In thousands, except per share</i>	<b>2009</b>	<b>After-tax Gain (loss)</b>	<b>Diluted EPS</b>
	Alternative fuel mixture credit		<b>\$32,890</b>
	2008		
Timberland sales and related transaction costs		\$ 2,371	\$ 0.05
Acquisition integration		(240)	(0.01)

The above items increased earnings by \$32.9 million, or \$0.72 per diluted share, and \$2.1 million, or \$0.04 per diluted share, in the third quarters of 2009 and 2008, respectively.

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

<i>Dollars in thousands</i>	For the three months ended September 30							
	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008
Net sales	<b>\$211,635</b>	\$226,028	<b>\$100,723</b>	\$113,794	\$	\$	<b>\$312,358</b>	\$339,822
Energy sales, net	<b>2,131</b>	2,885			<b>1</b>		<b>2,132</b>	2,885
Total revenue	<b>213,766</b>	228,913	<b>100,723</b>	113,794	<b>1</b>		<b>314,490</b>	342,707
Cost of products sold	<b>178,060</b>	192,110	<b>85,746</b>	96,114	<b>(31,781)</b>	(2,689)	<b>232,025</b>	285,535
Gross profit	<b>35,706</b>	36,803	<b>14,977</b>	17,680	<b>31,782</b>	2,689	<b>82,465</b>	57,172
SG&A	<b>14,852</b>	13,961	<b>9,176</b>	9,329	<b>5,275</b>	1,512	<b>29,303</b>	24,802

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Gains on dispositions of plant, equipment and timberlands					<b>(9)</b>	(3,975)	<b>(9)</b>	(3,975)
Total operating income	<b>20,854</b>	22,842	<b>5,801</b>	8,351	<b>26,516</b>	5,152	<b>53,171</b>	36,345
Nonoperating income (expense)					<b>(4,006)</b>	(4,338)	<b>(4,006)</b>	(4,338)
Income before income taxes	<b>\$ 20,854</b>	\$ 22,842	<b>\$ 5,801</b>	\$ 8,351	<b>\$ 22,510</b>	\$ 814	<b>\$ 49,165</b>	\$ 32,007

**Supplementary Data**

Net tons sold	<b>199,860</b>	200,072	<b>20,181</b>	21,530			<b>220,041</b>	221,602
Depreciation, depletion and amortization	<b>\$ 10,623</b>	\$ 9,007	<b>\$ 6,150</b>	\$ 6,700	\$	\$	<b>\$ 16,773</b>	\$ 15,707
Capital expenditures	<b>2,077</b>	4,156	<b>3,152</b>	11,275			<b>5,229</b>	15,431

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The following table summarizes sales and costs of products sold for the three months ended September 30, 2009 and 2008.

**Sales and Costs of Products Sold**

<i>In thousands</i>	Three months ended September 30		Change
	2009	2008	
Net sales	\$ 312,358	\$ 339,822	\$(27,464)
Energy sales net	2,132	2,885	(753)
Total revenues	314,490	342,707	(28,217)
Costs of products sold	232,025 <sup>(1)</sup>	285,535	(53,510)
Gross profit	\$ 82,465	\$ 57,172	\$ 25,293
Gross profit as a percent of Net sales	26.4%	16.8%	

(1) Includes \$33.0 million of alternative fuel mixture credits, net of related expenses.

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

<b>Business Unit</b>	Percent of Total	
	2009	2008
Specialty Papers	67.8%	66.5%
Composite Fibers	32.2	33.5
Total	100.0%	100.0%

Net sales totaled \$312.4 million for the third quarter of 2009, a decrease of \$27.5 million, or 8.1%, compared to the same period a year ago.

Specialty Papers net sales totaled \$211.6 million for the third quarter of 2009, a decline of 6.4 percent compared to the 2008 third quarter. The decline in net sales in the quarterly comparison was primarily due to lower average selling prices impacting sales by \$7.5 million and changes in the mix of products sold. Total volumes shipped were essentially unchanged in the quarter over quarter comparison. Lower input costs benefited operating results by \$6.1 million in the comparison.

Specialty Papers operating income totaled \$20.9 million and \$22.8 million for the third quarters of 2009 and 2008, respectively. The third quarter 2009 operating results for Specialty Papers were negatively impacted by lower energy sales and by \$1.4 million of accelerated depreciation related to the write down of certain equipment no longer used by the unit.

We successfully reduced Specialty Papers inventories by 15.2% during the third quarter of 2009 in line with our strategies to maximize cash generated from operations by controlling inventories and other working capital uses.

Net sales in the Composite Fibers business unit decreased \$13.1 million or 11.5% to \$100.7 million for the 2009 third quarter.

Volumes shipped during the quarter declined 6.3% compared with 2008 as a result of the weak economic environment. Demand for tea and coffee filter papers, this unit's largest product line, declined by 11.2% primarily due to continued inventory destocking by our customers. In addition, demand was off from prior-year levels by 20.1% in composite laminate papers, while metallized products and technical specialties increased 9.7% and 6.5%, respectively. As a result of sluggish demand and inventory reduction efforts, the Company incurred machine downtime totaling the equivalent of 1,700 tons of paper, or 11% of the unit's total quarterly capacity, adversely impacting results by \$1.3 million. On a constant currency basis, higher average selling prices contributed approximately \$0.4 million to net sales; however, the translation of foreign currencies unfavorably affected net sales by approximately \$5.4 million. The Composite Fibers business unit was adversely impacted by higher energy and raw material costs totaling approximately \$1.0 million. Operating income declined to \$5.8 million from \$8.4 million in the year-earlier quarter.

**Alternative Fuel Mixture Credits** The accompanying consolidated statement of income for the three months ended September 30, 2009 includes a credit of \$33.0 million recorded in cost of products sold representing alternative fuel mixture credits earned through September 30, 2009.

**Pension Expense/Income** Pension expense or income results from the over-funded status of our pension plans. The following summarizes the amounts of pension expense or income recognized for the third quarter of 2009 compared to the same period of 2008:

<i>In thousands</i>	Three months ended September 30		Change
	2009	2008	
<i>Recorded as:</i>			
Costs of products sold	<b>\$(1,254)</b>	\$2,749	\$(4,003)
SG&A expense	<b>(604)</b>	1,230	(1,834)
Total	<b>\$(1,858)</b>	\$3,979	\$(5,837)

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.

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**Selling, general and administrative ( SG&A )** SG&A expenses increased by \$4.5 million in the quarter-to-quarter comparison and totaled \$29.3 million in the third quarter of 2009. The increase was primarily due to recording pension expense in 2009 compared with pension income in 2008 together with higher legal and professional fees in the comparison.

**Income taxes** For the third quarter of 2009, results of operations reflect an effective tax rate of 6.5% on pretax income of \$49.2 million compared with 32.3% and \$32.0 million, respectively, in the same period a year ago. The effective rate in the third quarter of 2009 benefited from approximately \$32.8 million of the alternative fuel mixture credits included in pre-tax income that are treated as non-taxable.

**Foreign Currency** We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The local currency in Germany and France is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the third quarter of 2009, Euro functional currency operations generated approximately 19.0% of our sales and 18.3% of operating expenses and British Pound Sterling operations represented 10.5% of net sales and 11.3% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on the third quarter of 2009 reported results compared to the third quarter of 2008:

<i>In thousands</i>	Three months ended
	<b>Favorable (unfavorable)</b>
Net sales	\$ (5,373)
Costs of products sold	5,620
SG&A expenses	655
Income taxes and other	176
Net income	\$ 1,078

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 our business strategy, new or enhanced equipment, environmental compliance matters, and to support our research and development efforts. In addition we have mandatory debt service requirements of both principal and interest. The following table summarizes cash flow information for each of the periods presented:

<i>In thousands</i>	Nine months ended September 30	
	2009	2008
Cash and cash equivalents at beginning of period	\$ 32,234	\$ 29,833
Cash provided by (used for)		
Operating activities	119,514	17,759
Investing activities	21,874	(21,559)
Financing activities	(62,696)	(9,344)
Effect of exchange rate changes on cash	5,314	(742)



Net cash (used) provided	<b>84,006</b>	(13,886)
Cash and cash equivalents at end of period	<b>\$116,240</b>	\$ 15,947

At the end of the 2009 third quarter, we had \$116.2 million in cash and \$188 million available under our revolving credit agreement, which matures in April 2011. Operating cash flow improved by \$101.8 million primarily due to significant reduction in inventories in 2009 and a significant use of cash for accounts receivable in 2008 compared to a slight provision of cash in 2009. In addition, \$29.7 million of cash was received from alternative fuel mixture credits.

Net cash provided from investing activities totaled \$21.9 million in the first nine months of 2009 compared with a net use of \$21.6 million in the first nine months of 2008. The improvement reflects the collection of a \$37.9 million note receivable in connection with the unwinding of the 2003 timberland installment sale; and \$24.1 million from reduced capital expenditures in connection with the deferral of discretionary capital expenditures.

Net cash used for financing activities totaled \$62.7 million for the first nine months of 2009, primarily reflecting reductions of debt including \$34.0 million repaid in connection with the above referenced unwinding of the 2003 timberland installment sale. During the first nine months of 2009 and 2008, cash dividends paid on common stock totaled \$12.4 million and \$12.3 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.

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

<i>In thousands</i>	<b>Sept. 30, 2009</b>	Dec. 31, 2008
Revolving credit facility, due April 2011	<b>\$ 5,892</b>	\$ 6,724
Term Loan, due April 2011	<b>18,000</b>	30,000
Term Loan, due January 2013	<b>36,695</b>	36,695
Note payable, due March 2013		34,000
7 <sup>1</sup> / <sub>8</sub> % Notes, due May 2016	<b>200,000</b>	200,000
Total long-term debt	<b>260,587</b>	307,419
Less current portion	<b>(13,759)</b>	(13,759)
Long-term debt, net of current portion	<b>\$246,828</b>	\$293,660

The significant terms of the debt obligations are set forth in Item 1 Financial Statements Note 12. As of September 30, 2009, we had \$188 million of borrowing capacity available under our revolving credit agreement. Although we do not have immediate intentions to make additional use of the facility, we believe this agreement, and the banks that are party to it, provides us with ready access to liquidity should we need it.

**Alternative Fuel Mixture Credits** The U.S. Internal Revenue Code provides a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. We received a payment from the Internal Revenue Service on June 30, 2009 in the amount of \$29.7 million 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. Since we began mixing and burning eligible alternative fuels, we have earned \$75.6 million of alternative fuel mixture credits of which \$29.7 million has been received in cash, \$10.9 million was used to reduce estimated interim tax payments and \$34.9 million will be claimed as refundable income tax credits.

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 existing 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, as amended, contains a number of customary compliance covenants. A breach of these requirements, of which we were not aware of any at September 30, 2009, 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 7<sup>1</sup>/<sub>8</sub>% Notes contain a cross default provision that in the event of a default under the credit agreement, the 7<sup>1</sup>/<sub>8</sub>% Notes would become payable immediately.

**Off-Balance-Sheet Arrangements** As of September 30, 2009 and December 31, 2008, we had not entered into any off-balance-sheet arrangements.

**Outlook** For Specialty Papers, we expect shipping volumes in the fourth quarter of 2009 to be approximately 10% less than the third quarter reflecting normal seasonality. Selling prices and input costs for most products are expected to be relatively in line with the third quarter.

In the Composite Fibers business unit, we anticipate shipping volumes in the fourth quarter of 2009 to be relatively consistent with the third quarter. Selling prices, input costs and capacity utilization are expected to be in line with the third quarter.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

<i>Dollars in thousands</i>	Year Ended December 31					At September 30, 2009	
	2009	2010	2011	2012	2013	Carrying Value	Fair Value
<b>Long-term debt</b>							
Average principal outstanding							
At fixed interest rates							
Bond	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$187,750
At variable interest rates	58,867	50,268	38,908	36,695	1,407	60,587	61,349
						\$260,587	\$249,099
Weighted-average interest rate							
On fixed rate debt							
Bond	7.13%	7.13%	7.13%	7.13%	7.13%		
On variable rate debt	2.65	2.90	3.40	3.52	3.52		

The table above presents average principal outstanding and related interest rates for the next five years. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities. Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At September 30, 2009, we had long-term debt outstanding of \$260.6 million, of which \$60.6 million or 23.3% was at variable interest rates.

Variable-rate debt outstanding represents borrowings under (i) credit facility that incur interest based on the domestic prime rate or a Eurocurrency rate, at our option, plus a margin; (ii) the term loan that matures in April 2011, under which we are required to make quarterly repayments and (iii) the 2008 Term Loan that bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.2% per annum. At September 30, 2009, the weighted average interest rate paid on variable rate debt was 2.65%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$0.6 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 2009, Euro functional currency operations generated approximately 19.5% of our sales and 18.6% of operating expenses and British Pound Sterling operations represented 10.3% of net sales and 10.5% 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, 2009, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

**Changes in Internal Controls** There were no changes in our internal control over financial reporting during the three months ended September 30, 2009, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



**PART II****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

In its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, the Company inadvertently reported the vote totals for the Company's Amended and Restated Long-Term Incentive Plan as the vote totals for the ratification of Deloitte & Touche LLP and reported vote totals for the ratification of Deloitte & Touche LLP as the vote totals for the Company's Amended and Restated Long-Term Incentive Plan. In each case, the ultimate outcome of the vote that was initially reported was correct. The vote totals for each proposal are restated below.

The Annual Meeting of holders of Glatfelter common stock was held on April 30, 2009 at which shareholders voted on the following matters (with the indicated tabulated results).

- i. The election of three members of the Board of Directors to serve for a term of one year expiring on the date of the 2010 Annual Meeting of Shareholders.

Director Nominee	For	Withheld
George H. Glatfelter II	38,127,310	2,434,352
Ronald J. Naples	37,608,966	2,952,696
Richard L. Smoot	34,571,938	5,989,724

In addition, five directors continued their term after the Annual Meeting. Those directors are Kathleen A. Dahlberg, Richard C. Ill, Lee C. Stewart, Nicholas DeBenedictis and J. Robert Hall.

- ii. A proposal to approve an increase in the number of shares of the Company's common stock that are available to be awarded under the Company's Amended and Restated Long-Term Incentive Plan and to approve the Amended and Restated Long-Term Incentive Plan for purposes of complying with Section 162(m) of the Internal Revenue Code.

For	Against	Abstained	Broker Non Votes
29,610,305	6,486,515	650,603	3,814,239

- iii. the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009.

For	Against	Abstained
37,639,373	2,867,995	54,294

**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.

GLATFELTER

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 6, 2009

By /s/ David C. Elder  
David C. Elder  
Vice President and Corporate Controller

GLATFELTER

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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, 18 U.S.C. Section 1350 Chief Executive Officer, filed herewith.
31.2	Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 Chief Financial Officer, filed herewith.
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 Chief Executive Officer, filed herewith.
32.2	Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 Chief Financial Officer, filed herewith.

GLATFELTER

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