

GLATFELTER P H CO  
Form 10-Q  
November 09, 2011  
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**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, 2011

Commission file number 1-3560

**P. H. Glatfelter Company**

(Exact name of registrant as specified in its charter)

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<b>Pennsylvania</b> (State or other jurisdiction of incorporation or organization)	<b>23-0628360</b> (IRS Employer Identification No.)
<b>96 South George Street, Suite 500</b> <b>York, Pennsylvania 17401</b> (Address of principal executive offices)	<b>(717) 225-4711</b> (Registrant's telephone number, including area code)
<b>N/A</b> (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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated  Accelerated

Non-accelerated  Smaller reporting company

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

As of October 31, 2011, P. H. Glatfelter Company had 43,614,880 shares of common stock outstanding.

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**P. H. GLATFELTER COMPANY AND**

**SUBSIDIARIES**

**REPORT ON FORM 10-Q**

**For the QUARTERLY PERIOD ENDED**

**SEPTEMBER 30, 2011**

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**Table of Contents****PART I****Item 1 Financial Statements****P. H. GLATFELTER COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

<i>In thousands, except per share</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Net sales	\$ 416,493	\$ 379,097	\$ 1,211,249	\$ 1,079,153
Energy and related sales net	2,840	3,312	7,887	8,834
Total revenues	419,333	382,409	1,219,136	1,087,987
Costs of products sold	364,417	326,669	1,066,553	952,571
Gross profit	54,916	55,740	152,583	135,416
Selling, general and administrative expenses	31,430	27,782	94,520	91,299
Gains on dispositions of plant, equipment and timberlands, net	(698)	(150)	(3,902)	(318)
Operating income	24,184	28,108	61,965	44,435
Other non-operating income (expense)				
Interest expense	(6,456)	(6,565)	(19,377)	(19,045)
Interest income	134	232	491	570
Other net	(137)	(251)	(405)	(3,868)
Total other non-operating expense	(6,459)	(6,584)	(19,291)	(22,343)
Income (loss) before income taxes	17,725	21,524	42,674	22,092
Income tax provision (benefit)	4,699	(17,913)	9,721	(17,074)
Net income (loss)	\$ 13,026	\$ 39,437	\$ 32,953	\$ 39,166
<b>Earnings (loss) per share</b>				
Basic	\$ 0.29	\$ 0.86	\$ 0.72	\$ 0.85
Diluted	0.28	0.85	0.71	0.85
<b>Cash dividends declared per common share</b>	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
<b>Weighted average shares outstanding</b>				
Basic	45,299	45,950	45,813	45,898
Diluted	45,839	46,286	46,341	46,330

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

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

(unaudited)

<i>In thousands</i>	September 30 2011	December 31 2010
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 98,251	\$ 95,788
Accounts receivable net	156,925	141,208
Inventories	208,010	201,077
Prepaid expenses and other current assets	52,847	64,617
Total current assets	516,033	502,690
<b>Plant, equipment and timberlands net</b>	<b>606,048</b>	<b>608,170</b>
<b>Other assets</b>	<b>227,946</b>	<b>230,887</b>
Total assets	\$ 1,350,027	\$ 1,341,747
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities</b>		
Short-term debt	\$	\$ 798
Accounts payable	103,386	98,594
Dividends payable	4,033	4,190
Environmental liabilities	250	248
Other current liabilities	100,941	109,316
Total current liabilities	208,610	213,146
<b>Long-term debt</b>	<b>332,741</b>	<b>332,224</b>
<b>Deferred income taxes</b>	<b>104,754</b>	<b>94,918</b>
<b>Other long-term liabilities</b>	<b>145,300</b>	<b>149,017</b>
Total liabilities	791,405	789,305
<b>Commitments and contingencies</b>		
<b>Shareholders equity</b>		
Common stock	544	544
Capital in excess of par value	50,553	48,145
Retained earnings	769,986	749,453
Accumulated other comprehensive loss	(112,524)	(121,247)
	708,559	676,895
Less cost of common stock in treasury	(149,937)	(124,453)
Total shareholders equity	558,622	552,442
Total liabilities and shareholders equity	\$ 1,350,027	\$ 1,341,747

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

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

(unaudited)

<i>In thousands</i>	Nine months ended September 30	
	2011	2010
<b>Operating activities</b>		
Net income (loss)	\$ 32,953	\$ 39,166
Adjustments to reconcile to net cash provided by operations:		
Depreciation, depletion and amortization	51,779	48,802
Amortization of debt issue costs and original issue discount	2,001	2,098
Pension expense, net of unfunded benefits paid	7,671	6,422
Deferred income tax provision (benefit)	13,111	(12,755)
Gains on dispositions of plant, equipment and timberlands, net	(3,902)	(318)
Share-based compensation	4,301	4,333
Cellulosic biofuel and alternative fuel mixture credits	17,833	54,880
Change in operating assets and liabilities		
Accounts receivable	(16,292)	(18,606)
Inventories	(7,136)	1,358
Prepaid expenses and other current assets	(9,654)	(19,012)
Accounts payable	4,932	20,731
Accruals and other current liabilities	(7,630)	(5,893)
Other	(8,831)	2,174
Net cash provided by operating activities	81,136	123,380
<b>Investing activities</b>		
Expenditures for purchases of plant, equipment and timberlands	(44,642)	(23,269)
Proceeds from disposals of plant, equipment and timberlands, net	4,442	333
Acquisition of Concert Industries Corp., net of cash acquired		(229,080)
Net cash used by investing activities	(40,200)	(252,016)
<b>Financing activities</b>		
Proceeds from \$100 million 7 1/8% note offering, net of original issue discount		95,000
Payments of note offering and credit facility costs		(5,297)
Net borrowings repayments of short term debt	(798)	(2,979)
Repayment of 2011 Term Loan		(14,000)
Payments of dividends	(12,578)	(12,556)
Repurchase of common stock	(26,251)	
Proceeds from stock options exercised and other	132	147
Net cash provided (used) by financing activities	(39,495)	60,315
Effect of exchange rate changes on cash	1,022	(3,766)
Net increase (decrease) in cash and cash equivalents	2,463	(72,087)
Cash and cash equivalents at the beginning of period	95,788	135,420
Cash and cash equivalents at the end of period	\$ 98,251	\$ 63,333
<b>Supplemental cash flow information</b>		
Cash paid (received) for		
Interest	\$ 11,818	\$ 11,788

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Income taxes

(9,447)

(43,004)

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

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**P. H. GLATFELTER COMPANY AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. ORGANIZATION**

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

**2. ACCOUNTING POLICIES**

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

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America ( generally accepted accounting principles or GAAP ). In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2010 Annual Report on Form 10-K ( 2010 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.

**Financial Derivatives and Hedging Activities** We use financial derivatives to manage exposure to changes in foreign currencies. In accordance with Financial Accounting Standards Board Accounting Standards Codification 815 *Derivatives and Hedging* ( ASC 815 ), we record all derivatives on the balance sheet at fair

value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

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

**3. ACQUISITION**

On February 12, 2010, we completed the acquisition of all the issued and outstanding stock of Concert Industries Corp. ( Concert ), a manufacturer of highly absorbent cellulose based airlaid non-woven materials, for cash totaling \$231.1 million based on the currency exchange rates on the closing date, and net of post-closing working capital adjustments. Concert has operations located in Gatineau, Quebec, Canada and Falkenhagen, Brandenburg, Germany. Annual revenues totaled \$203.0 million in 2009.

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

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The share purchase agreement provides for, among other terms, indemnification provisions for claims that may arise, including among others, uncertain tax positions and other third party claims.

During the third and fourth quarters of 2010, we and the sellers reached agreement on post-closing working capital related adjustments that reduced the purchase price by \$4.7 million. In addition, as a result of further evaluation of asset appraisals, contingencies and other factors, in accordance with FASB ASC 805, Business Combinations, we determined that certain adjustments were required to be made to the February 12, 2010 original allocation of the purchase price to assets acquired and liabilities assumed. The adjustments included \$0.6 million recorded in the first quarter of 2011 to reduce the fair value of acquired accounts receivable.

The following summarizes the impact of the adjustments recorded since the original estimated purchase price allocation together with the final purchase price allocation:

<i>In thousands</i>	As originally presented	Cumulative Adjustments	Final
<b>Assets</b>			
Cash	\$ 2,792	\$	\$ 2,792
Accounts receivable	24,703	(583)	24,120
Inventory	28,034		28,034
Prepaid and other current assets	5,941	(1,316)	4,625
Plant, equipment and timberlands	177,253	9,101	186,354
Intangible assets	3,138	1,902	5,040
Deferred tax assets and other assets	20,738	(5,830)	14,908
<b>Total</b>	<b>262,599</b>	<b>3,274</b>	<b>265,873</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	25,322	611	25,933
Deferred tax liabilities	1,267	4,069	5,336
Other long term liabilities	212	3,310	3,522
<b>Total</b>	<b>26,801</b>	<b>7,990</b>	<b>34,791</b>
<b>Total purchase price</b>	<b>\$ 235,798</b>	<b>\$ (4,716)</b>	<b>\$ 231,082</b>

The adjustments set forth above did not materially impact previously reported results of operations, earnings per share, or cash flows and, therefore, were not retrospectively reflected in the condensed consolidated financial statements.

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

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

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

In addition, in connection with the Concert acquisition, we entered into a series of forward foreign currency contracts to hedge the acquisition's Canadian dollar purchase price. All contracts were settled for cash and resulted in a \$3.4 million loss, net of realized currency translation gains,

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which is presented under the caption "Other-net" in the accompanying condensed consolidated statements of income for the nine months ended September 30, 2010.

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

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The table below summarizes unaudited pro forma financial information as if the acquisition and related financing transaction occurred as of January 1, 2010:

<i>In thousands, except per share</i>	Nine months ended September 30, 2010
<b>Pro forma</b>	
Net sales	\$ 1,104,802
Net income	51,036
Earnings per share	1.10

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

**4. GAINS (LOSSES) ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS**

Sales of timberlands and other assets in the first nine months of 2011 and 2010 are summarized in the following table:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain (loss)
<b>2011</b>			
Timberlands	942	\$ 3,821	\$ 3,575
Other	n/a	621	327
		\$ 4,442	\$ 3,902
<b>2010</b>			
Timberlands	71	\$ 182	\$ 168
Other	n/a	151	150
		\$ 333	\$ 318

Gains on sales of timberlands in the third quarter of 2011 totaled \$417,000.

**5. EARNINGS PER SHARE**

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

<i>In thousands, except per share</i>	Three months ended	
	September 30	
	2011	2010
Net income	\$ 13,026	\$ 39,437
Weighted average common shares outstanding used in basic EPS	45,299	45,950
Common shares issuable upon exercise of dilutive stock options and restricted stock awards	540	336
Weighted average common shares outstanding and common share equivalents used in diluted EPS	45,839	46,286
Earnings per share		
Basic	\$ 0.29	\$ 0.86

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Diluted	0.28	0.85
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Nine months ended

September 30

<i>In thousands, except per share</i>	2011	2010
Net income	\$ 32,953	\$ 39,166
Weighted average common shares outstanding used in basic EPS	45,813	45,898
Common shares issuable upon exercise of dilutive stock options and restricted stock awards	528	432
Weighted average common shares outstanding and common share equivalents used in diluted EPS	46,341	46,330
<b>Earnings per share</b>		
Basic	\$ 0.72	\$ 0.85
Diluted	0.71	0.85

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

	2011	2010
Three months ended September 30	613,900	1,531,675
Nine months ended September 30	1,090,621	1,519,175

**6. 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, 2011 and December 31, 2010, we had \$33.7 million and \$38.7 million, respectively, of gross unrecognized tax benefits. If such benefits were to be recognized as of September 30, 2011, approximately \$33.7 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate. The majority of the reduction in unrecognized tax benefits is due to benefits recorded in connection with the favorable resolution of a German tax audit.

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

Jurisdiction	Open Tax Years	
	Examinations not yet initiated	Examination in progress
United States		
Federal	2008 - 2010	N/A
State	2005 - 2010	2004 & 2006-2008
Canada (1)	2006 - 2010	2006 - 2009
Germany (1)	2007 - 2010	2004 - 2009
France	2007 - 2010	N/A
United Kingdom	2007 - 2010	N/A
Philippines	2010	2009

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to \$3.2 million. Substantially all of this range relates to tax positions taken in the U.S. and in the United Kingdom.

We recognize interest and penalties related to uncertain tax positions as income tax expense. During the first nine months of 2011, we recognized a net reduction of interest expense of \$1.8 million, the majority of which was in connection with the favorable settlement of a German tax audit. Interest expense recognized in both the third quarter of 2011 and 2010 was \$0.2 million. As of September 30, 2011, accrued interest payable was \$2.0 million, and as of

December 31, 2010, accrued interest payable was \$3.8 million. We did not record any penalties associated with uncertain tax positions during the third quarters of 2011 or 2010.

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

In connection with the filing of our 2009 income tax return, we claimed \$23.1 million, net of taxes, of CBPC which was recognized in the third quarter of 2010. The CBPC claimed was attributable to black liquor produced and burned from January 1, 2009 through February 20, 2009, the date we began mixing black liquor and diesel fuel to qualify for alternative fuel mixture credits.

**7. STOCK-BASED COMPENSATION**

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

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performance shares, incentive stock options and performance units.

**Restricted Stock Units ( RSU ) and Performance Share Awards ( PSA )** Awards of RSU and PSA are made under our LTIP. The RSUs vest based solely on the passage of time, generally on a graded scale over a three, four, and five-year period. PSAs were issued in March 2011 to members of senior management and cliff vest December 31, 2013, assuming the achievement of predetermined, three-year cumulative performance targets. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than target depending on our actual financial performance. For both RSUs and PSAs, the grant date fair value of the awards is used to determine the amount of expense to be recognized over the applicable service period. Settlement of RSUs and PSAs will be made in shares of our common stock.

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The following table summarizes RSU activity during the first nine months of the indicated periods:

<i>Units</i>	2011	2010
Beginning balance	579,801	564,037
Granted	245,454	202,589
Forfeited	(12,539)	(19,953)
Restriction lapsed/shares delivered	(14,490)	(31,323)
Ending balance	798,226	715,350

The 2011 grant includes 96,410 PSAs. The following table sets forth aggregate RSU and PSA compensation expense for the periods indicated:

<i>In thousands</i>	September 30	
	2011	2010
Three months ended	\$ 534	\$ 436
Nine months ended	1,541	1,274

**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	2011		2010	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	2,061,877	\$ 12.28	1,762,020	\$ 11.84
Granted	345,290	12.56	455,050	13.81
Exercised				
Canceled/forfeited	(102,970)	12.55	(64,420)	11.71
Outstanding at Sept. 30,	2,304,197	\$ 12.31	2,152,650	\$ 13.04

**SOSAR Grants**

Weighted average grant date fair value per share	\$ 4.09	\$ 4.67
Aggregate grant date fair value ( <i>in thousands</i> )	\$ 1,412	\$ 2,117
Black-Scholes Assumptions		
Dividend yield	2.87%	2.60%
Risk free rate of return	2.55%	2.51%
Volatility	41.91%	42.32%
Expected life	6 yrs	6 yrs

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

<i>In thousands</i>	September 30	
	2011	2010
Three months ended	\$ 357	\$ 486
Nine months ended	1,237	1,671

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

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

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<i>In thousands</i>	Three months ended	
	September 30	
	2011	2010
<b>Pension Benefits</b>		
Service cost	\$ 2,492	\$ 2,415
Interest cost	6,109	5,897
Expected return on plan assets	(10,454)	(10,046)
Amortization of prior service cost	642	614
Amortization of unrecognized loss	3,313	3,314
Subtotal	2,102	2,194
One-time settlement charge	1,987	
Net periodic benefit cost	\$ 4,089	\$ 2,194
<b>Other Benefits</b>		
Service cost	\$ 726	\$ 730
Interest cost	704	843
Expected return on plan assets	(130)	(134)
Amortization of prior service cost	(305)	(305)
Amortization of unrecognized loss	220	385
Net periodic benefit cost	\$ 1,215	\$ 1,519

<i>In thousands</i>	Nine months ended	
	September 30	
	2011	2010
<b>Pension Benefits</b>		
Service cost	\$ 7,435	\$ 7,108
Interest cost	18,206	17,950
Expected return on plan assets	(31,368)	(30,190)
Amortization of prior service cost	1,925	1,845
Amortization of unrecognized loss	9,939	10,218
Subtotal	6,137	6,931
One-time settlement charge	1,987	
Net periodic benefit cost	\$ 8,124	\$ 6,931
<b>Other Benefits</b>		
Service cost	\$ 2,179	\$ 2,189
Interest cost	2,112	2,528
Expected return on plan assets	(390)	(403)
Amortization of prior service cost	(916)	(917)
Amortization of unrecognized loss	661	1,154
Net periodic benefit cost	\$ 3,646	\$ 4,551

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

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<i>In millions</i>	Sept. 30, 2011	Dec. 31, 2010
<b>Pension Plan Assets</b>		
Fair value of plan assets at end of period	\$ 471.1	\$ 526.4

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The following table sets forth comprehensive income and its components:

<i>In thousands</i>	Three months ended September 30	
	2011	2010
Net income	\$ 13,026	\$ 39,437
Foreign currency translation adjustments	(17,379)	22,887
Deferred gains on cash flow hedges, net of tax	668	
Amortization of unrecognized retirement obligations, net of tax	2,475	2,409
Comprehensive income (loss)	\$ (1,210)	\$ 64,733

<i>In thousands</i>	Nine months ended September 30	
	2011	2010
Net income	\$ 32,953	\$ 39,166
Foreign currency translation adjustments	889	(11,922)
Deferred gains on cash flow hedges, net of tax	684	
Amortization of unrecognized retirement obligations, net of tax	7,150	7,496
Comprehensive income	\$ 41,676	\$ 34,740

**10. INVENTORIES**

Inventories, net of reserves, were as follows:

<i>In thousands</i>	Sept. 30, 2011	Dec. 31, 2010
Raw materials	\$ 62,401	\$ 52,538
In-process and finished	89,688	94,118
Supplies	55,921	54,421
Total	\$ 208,010	\$ 201,077

**11. LONG-TERM DEBT**

Long-term debt is summarized as follows:

<i>In thousands</i>	Sept. 30, 2011	Dec. 31, 2010
Revolving credit facility, due May 2014	\$	\$
7 <sup>1</sup> / <sub>8</sub> % Notes, due May 2016	200,000	200,000
7 <sup>1</sup> / <sub>8</sub> % Notes, due May 2016 - net of original issue discount	96,046	95,529
Term Loan, due January 2013	36,695	36,695

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Total long-term debt	<b>332,741</b>	332,224
Less current portion		
Long-term debt, net of current portion	<b>\$ 332,741</b>	\$ 332,224

Our revolving credit facility is a four-year, \$225 million, multi-currency, agreement with a consortium of banks. The agreement matures May 31, 2014 and replaced and terminated our old revolving credit agreement which was due to mature April 2011. At September 30, 2011, \$220.5 million was available for borrowing under this facility.

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

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

On April 28, 2006 we completed an offering of \$200.0 million aggregate principal amount of our 7 1/8% Senior Notes due 2016 (7 1/8% Notes). Net proceeds from this offering totaled approximately \$196.4 million, after deducting the commissions and other fees and expenses relating to the offering. The proceeds were primarily used to redeem \$150.0 million aggregate principal amount of our then outstanding 6 7/8% notes due July 2007, plus the payment of applicable redemption premium and accrued interest.

On February 5, 2010, we issued an additional \$100 million in aggregate principal amount of 7 1/8% Notes due 2016 (together with the April 28, 2006 offering, the Senior Notes). The notes were issued at 95.0% of the principal amount. Net proceeds from this offering of \$92.2 million after deducting offering fees and expenses, were used to fund, in part, the Concert acquisition. The original issue discount is being accreted as a charge to income on the effective interest method.

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

The Senior Notes contain cross default provisions that could result in all such notes becoming due and

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payable in the event of a failure to repay debt outstanding under the credit agreement at maturity or a default under the credit agreement that accelerates the debt outstanding thereunder. As of September 30, 2011, we were not aware of any violations of our debt covenants.

In November 2007, we sold approximately 26,000 acres of timberland. In connection with that transaction, we formed GPW Virginia Timberlands LLC ( GPW Virginia ) as an indirect, wholly owned and bankruptcy-remote subsidiary of ours. GPW Virginia received as consideration for the timberland sold in that transaction a \$43.2 million, interest-bearing note that matures in 2027 from the buyer, Glawson Investments Corp. ( Glawson ), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The Glawson note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc. In January 2008, GPW Virginia monetized the Glawson note receivable by entering into a \$36.7 million term loan agreement (the 2008 Term Loan ) with a financial institution. The 2008 Term Loan is secured by all of the assets of GPW Virginia, including the Glawson note receivable, the related letter of credit and additional notes with an aggregate principal amount of \$9.2 million that we issued in favor of GPW Virginia (the Company Note ). The 2008 Term Loan bears interest at a six month reserve adjusted LIBOR rate plus a margin rate of 1.20% per annum. Interest on the 2008 Term Loan is payable semiannually. The principal amount of the 2008 Term Loan is due on January 15, 2013, but GPW Virginia may prepay the 2008 Term Loan at any time, in whole or in part, without premium or penalty. During the nine months ended September 30, 2011, GPW Virginia received aggregate interest income of \$0.7 million under the Glawson note receivable and the Company Note and, in turn, incurred interest expense of \$0.4 million under the 2008 Term Loan.

Under terms of the above transaction, minimum credit ratings must be maintained by the bank issuing the letter of credit. If the bank does not maintain the minimum rating, an event of default is deemed to have occurred under the debt instrument governing the 2008 Term Loan unless actions are taken to cure such default within 60 days from the date such credit rating falls below the specified minimum. Potential remedial actions include: (i) amending the terms of the debt agreement; (ii) replacement of the letter of credit with a letter of credit from an appropriately rated institution; or (iii) requiring repayment of the Glawson note receivable and, in turn repaying the 2008 Term Loan.

On October 7, 2011, the credit rating of the financial institution that issued the letter of credit behind the Glawson Note fell below the required minimum level. We are in the process of evaluating options available to us in response to this development.

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

*In thousands*

2011	\$
2012	
2013	36,695
2014	
2015	
Thereafter	300,000

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

As of September 30, 2011 and December 31, 2010, we had \$4.5 million and \$5.4 million, respectively, of letters of credit issued to us by certain financial institutions. Such letters of credit reduce amounts available under our revolving credit facility. The letters of credit primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

**12. ASSET RETIREMENT OBLIGATION**

During 2008, we recorded \$11.5 million representing the estimated fair value of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, the lagoons were used to dispose of residual waste material. Closure of the lagoons 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, in addition to an upward revision in 2009, was accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the consolidated balance sheet. The amount capitalized is being amortized as a charge to operations on the straight-line basis over the expected closure period. Following is a summary of activity recorded during the first nine months of 2011 and 2010:

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<i>In thousands</i>	2011	2010
Balance at January 1,	\$ 9,717	\$ 11,292
Accretion	388	457
Payments	(1,018)	(1,008)
Balance at September 30,	\$ 9,087	\$ 10,741

Of the total liability at September 30, 2011, \$1.5 million is recorded in the accompanying consolidated balance sheet, under the caption Other current liabilities

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and \$7.6 million is recorded under the caption Other long-term liabilities.

**13. 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>	Sept. 30, 2011		Dec. 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate bonds	\$ 296,046	\$ 306,125	\$ 295,529	\$ 304,115
Variable rate debt	36,695	37,861	36,695	37,780
<b>Total</b>	<b>\$ 332,741</b>	<b>\$ 343,986</b>	<b>\$ 332,224</b>	<b>\$ 341,895</b>

As of September 30, 2011, and December 31, 2010, we had \$300.0 million of 7 1/8% fixed rate debt, \$100.0 million of which was recorded net of unamortized original issue discount. These bonds were sold in publicly registered transactions, but are thinly traded. Accordingly, the values set forth above are based on debt instruments with similar characteristics. The fair value of the remaining debt instrument was estimated using a discounted cash flow model based on independent sources. The fair value of financial derivatives is set forth below in Note 14.

**14. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES**

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

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

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

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

<i>in thousands</i>	Sept. 30, 2011	Dec 31, 2010
Derivative		Buy Notional
Sell / Buy		
Euro / U.S. dollar	13,234	

These contracts have maturities of twelve months or less.



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

<i>in thousands</i>	<b>Sept. 30, 2011</b>	Dec. 31, 2010
Derivative		Sell Notional
<b>Sell / Buy</b>		
Euro / U.S. dollar	<b>36,000</b>	57,000
Euro / British Pound		3,000
Philippine peso / U.S. dollar	<b>PHP247,000</b>	PHP247,000

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

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

<i>In thousands</i>	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Balance sheet caption	Prepaid and Other Current Assets		Other Current Liabilities	
<b>Designated as hedging:</b>				
Forward foreign currency exchange contracts	\$ 922	\$	\$	\$
<b>Not designated as hedging:</b>				
Forward foreign currency exchange contracts	417		(136)	(581)

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

The following table summarizes the amount of income or (loss) from derivative instruments recognized in our results of operations for the periods indicated and the line items in the accompanying consolidated income statement where the results are recorded:

<i>In thousands</i>	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
<b>Designated as hedging:</b>				
Forward foreign currency exchange contracts:				
Effective portion cost of products sold	\$ 26	\$	\$ 26	\$
Ineffective portion other net	106		107	
<b>Not designated as hedging:</b>				
Forward foreign currency exchange contracts:				
Other net	3,366	(9,486)	(2,476)	(5,524)

The impact of activity not designated as hedging was substantially all offset by the remeasurement of the underlying on-balance sheet item. However, the amounts reported for 2010 include a \$3.4 million loss on a series of forward foreign currency contracts to hedge the Concert acquisition's Canadian dollar purchase price recorded in the accompanying consolidated statement of income as non-operating income (expense) under the caption Other-net.

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

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

The fair values of the foreign exchange forward contracts are considered to be Level 2. Foreign currency forward contracts are valued using readily available foreign currency forward and interest rate curves. The fair value of each contract is determined by comparing the contract rate to the forward rate and discounting to present value. Contracts in a gain position are recorded in the consolidated balance sheet under the caption

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

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

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<i>In thousands</i>	2011	2010
Balance at January 1,	\$	\$
Deferred gains on cash flow hedges	\$ 975	
Reclassified to earnings	(26)	
Balance at September 30,	\$ 949	\$

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

Credit risk related to derivative activity arises in the event a counterparty fails to meet its obligations to us. This exposure is generally limited to the amounts, if any, by which the counterparty's obligations exceed our obligation to them. Our policy is to enter into contracts only with financial institutions which meet certain minimum credit ratings.

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**Table of Contents****15. SHARE REPURCHASES**

In April 2011, our Board of Directors authorized a share repurchase program for up to \$50.0 million of our outstanding common stock. We intend to make these repurchases in accordance with applicable securities regulations. The timing and actual number of shares repurchased, if any, will depend on a variety of factors including the market price of the company's common stock, regulatory, legal and contractual requirements, and other market factors. The program expires in April 2012, does not obligate us to repurchase any particular amount of common stock, and may be modified or suspended at any time at the Board's discretion. The following table summarizes share repurchases made under this program:

	shares	(thousands)
Authorized amount		\$ 50,000
Repurchases	1,998,834	(27,464) <sup>(1)</sup>
Remaining authorization		\$ 22,536

(1) Amounts reflect trades entered into through September 30, 2011. Cash spent on settled transactions totaled \$26.3 million.

**16. 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 our 1979 acquisition of the Bergstrom Paper Company, we acquired a facility located at the Site (the Neenah Facility). The Neenah Facility used wastepaper as a source of fiber. Discharges to the lower Fox River from the Neenah Facility that may have contained PCBs from wastepaper may have occurred from 1954 to the late 1970s. We believe that any PCBs that the Neenah Facility may have 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 other entities (including local Native American tribes), have found PCBs in sediments in the bed of the Fox River, apparently from a number of sources at municipal and industrial facilities along the upstream and downstream portions of the Site. The Governments have identified manufacturing and recycling of NCR®-brand carbonless copy paper as the principal source of that contamination.

The United States Environmental Protection Agency (EPA) has divided the lower Fox River and the Bay of Green Bay site into five operable units (the OUs), including the most upstream (OU1) and four

downstream reaches of the river and bay (OU2-5). OU1 extends from primarily Lake Winnebago to the dam at Appleton, and is comprised of Little Lake Butte des Morts. The Neenah Facility discharged its wastewater into OU1.

Our liabilities, if any, for this contamination primarily arise under the federal Comprehensive Environmental, Response, Compensation and Liability Act (CERCLA or Superfund), pursuant to which the Governments have sought to recover response actions or response costs, which are the costs of studying and cleaning up contamination. Other agencies and natural resource trustee agencies (collectively, the Trustees) have sought to recover natural resource damages (NRDs), including natural resource damage assessment costs.

We are one of eight entities that have been formally notified that they are potentially responsible parties (PRPs) under CERCLA for response costs or NRDs. Others, including the United States and the State of Wisconsin, may also be liable for some or all of the costs of NRD at this Site.

We are engaged in litigation to allocate costs and NRDs among the parties responsible for this site. The Governments have sought to recover response actions, response costs, and NRDs from us through three principal enforcement actions.

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OU1 CD. On October 1, 2003, the United States and the State of Wisconsin commenced an action captioned *United States v. P.H. Glatfelter Co.* against us and WTM I Co. in the United States District Court for the Eastern District of Wisconsin and simultaneously lodged a consent decree ( OU1 CD ) that the court entered on April 12, 2004. Under that OU1 CD, and an amendment dated August 2008, we and WTM I, with a limited fixed contribution from Menasha Corp. and funds provided by the United States from an agreement with others, have implemented the remedy for OU1. We have also resolved claims for all Governmental response costs in OU1 after July 2003 and made a payment on NRDs. That remedy is complete. We have continuing operation and maintenance obligations that we expect to fund from contributions we and WTM I have already made to an escrow account for OU1 under the OU1 CD.

OU2-5 UAO. In November 2007, the United States Environmental Protection Agency ( EPA ) issued an administrative order for remedial action ( UAO ) to Appleton Papers Inc. ( API ), 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, Glatfelter, U.S. Paper

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Mills Corp., and WTM I Company ( WTM ) directing those respondents to implement the remedy in OU2-5. Shortly following issuance of the UAO, API and NCR 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, but, to minimize disruptions, have paid certain *de minimis* amounts to EPA for oversight costs under the UAO.

**Government Action.** On October 14, 2010, the United States and the State of Wisconsin filed an action in the United States District Court for the Eastern District of Wisconsin captioned *United States v. NCR Corp.* (the Government Action ) against 12 parties, including us. The Government Action seeks to recover from each of the defendants, jointly and severally, all of the governments' past costs of response, which approximates \$17 million to date, a declaration as to liability for all of the governments' future costs of response, and compensation for natural resource damages, as well as a declaration as to liability for compliance with the UAO for OU2-5. On March 29, 2011, the United States filed a motion for a preliminary injunction against NCR and API to require NCR and API to implement work in 2011 at a rate described as full-scale sediment remediation. On July 5, 2011, that motion was denied; in the course of that ruling, the court found that the governments were not likely to show that API was liable under CERCLA at all. The governments have since filed a renewed motion against NCR alone, which was again denied. The United States has now sought to begin active litigation of this case against the recipients of the UAO other than Georgia-Pacific (which has settled), including us.

**Whiting Litigation.** On January 7, 2008, NCR and API commenced litigation in the United States District Court for the Eastern District of Wisconsin captioned *Appleton Papers Inc. v. George A. Whiting Paper Co.*, seeking to reallocate costs and damages allegedly incurred or paid or to be incurred or paid by NCR or API (the Whiting Litigation ). The case involves allocation claims among the two plaintiffs and 28 defendants including us. We and other defendants counterclaimed against NCR and API. Some of the claims have since been resolved as described below.

**Claims against governments.** The Whiting Litigation involves claims by certain parties against federal agencies who are responsible parties for this site. In the Government Action many defendants, including us, asserted counterclaims against the United States and the State of Wisconsin.

**Settlements.** Certain parties have resolved their liability to the United States affording them contribution

protection. These settlements are embodied in consent decrees. Notably, we entered into the OU1 CD. Also, in a case captioned *United States v. George A. Whiting Paper Co.*, the district court entered two consent decrees under which 13 *de minimis* defendants in the Whiting Litigation settled with the United States and Wisconsin. The Court of Appeals for the Seventh Circuit denied an appeal of these settlements by NCR and API on May 4, 2011. Further, Georgia-Pacific Consumer Products LP, has entered into a consent decree resolving its liability for NRDs and a separate consent decree in the Government Action that resolves all of its liabilities except for the downstream portion of the OU4 remedy. Finally, the United States has lodged a consent decree that would resolve the liability of itself and two municipalities and has moved for entry of that decree. We oppose entry of that consent decree, which the district court must approve.

**Cleanup Decisions.** The extent of our exposure depends, in large part, on the decisions made by EPA and the Wisconsin Department of Natural Resources ( WDNR ) as to how the Site will be cleaned up and the costs and timing of those response actions. The nature of the response actions has been highly controversial. Between 2002 and 2008, the EPA issued records of decision ( RODs ) regarding required remedial actions for the OUs. Some of those RODs have been amended. We contend that the remedy for OU2-5 is arbitrary and capricious. We and others may litigate that issue in the Government Action. If we were to be successful in modifying any existing selected remedy, our exposure could be reduced materially.

**NRD Assessment.** We are engaged in disputes as to (i) whether various documents prepared by the Trustees taken together constitute a sufficient NRD assessment under applicable regulations; and (ii) on a number of legal grounds, whether the Trustees may recover from us on the specific NRD claims they have made.

**Past Cost Demand.** We are also disputing a demand by EPA that we and six other parties reimburse EPA for approximately \$17 million in costs that EPA claims it incurred.

**Cost estimates.** Estimates of the Site remediation change over time as we, or others, gain additional data and experience at the Site. In addition, disagreement exists over the likely costs for some of this work. Based upon estimates made by the Governments and independent estimates commissioned by various potentially responsible parties, we have no reason to disagree with the Governments' assertion that total past and future costs and NRDs at this site may exceed \$1 billion and that \$1.5 billion is a reasonable outside estimate.

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**NRDs.** Of that amount, the Trustees' assessment documents claimed that we are jointly and severally responsible for NRDs with a value between \$176 million and \$333 million. They now claim that this range should be inflated to 2009 dollars and then certain unreimbursed past assessment costs should be added, so that the range of their claim would be \$287 million to \$423 million. We deny liability for most of these NRDs and believe that even if anyone is liable, that we are not jointly and severally liable for the full amount. Moreover, we believe that the Trustees may not legally pursue this claim at this late date, as the limitations period for NRD claims is three years from discovery.

**Allocation and Divisibility.** 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, if not all, of the responsibility for costs and damages arising from the presence of PCBs in OU1 and downstream.

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

We also filed counterclaims against NCR and API to recover the costs we have incurred and may later incur and the damages we have paid and may later pay in connection with the Site. Other defendants have similar claims. On February 28, 2011, the district court granted our summary judgment motions on those counterclaims in part and denied them in part. The court granted a declaration that NCR and API are liable to us (and to others) in contribution for 100% of any costs of response (that is, clean up) that we may be required to pay for work in OU2-5 in the future. The court requires further proceedings to decide whether or to what extent NCR and API owe contribution to us and others for costs that we and others incurred in the past and costs that we and others incurred in connection with OU1. On September 30, 2011, the court clarified its ruling with respect to NRDs and natural resource damage assessment costs, holding that NCR and API owe full contribution to us (and others) for NRDs or natural resource damage assessment costs that we have paid or may be required to pay in the future. On April 12, 2011, the court set the remaining issues on our pending counterclaims under the Superfund statute for trial beginning February 21, 2012, at

the conclusion of which we expect the court to determine the precise amounts due us on our counterclaims with respect to costs and damages we have already paid.

**Reserves for the Site.** As of September 30, 2011, our reserve for our claimed liability at the Site, including our remediation and ongoing monitoring obligations at OU1, our claimed liability for the remediation of the rest of the Site, 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 \$16.6 million. Of our total reserve for the Fox River, \$0.3 million is recorded in the accompanying consolidated balance sheets under the caption "Environmental liabilities" and the remainder is recorded under the caption "Other long term liabilities."

Although we believe that amounts already funded by us and WTM to implement the OU1 remedy are adequate and no payments have been required since January 2009, there can be no assurance that these amounts will in fact suffice. WTM has filed a bankruptcy petition in the Bankruptcy Court in Richmond; accordingly, there can be no assurance that WTM will be able to fulfill its obligation to pay half of any additional costs, if required.

We believe that we have strong defenses to liability for further remediation downstream of OU1, including the existence of ample data that indicate that PCBs did not leave OU1 in concentrations that could have caused or contributed to the need for additional cleanup downstream. Others, including the EPA and other PRPs, disagree with us and, as a result, the EPA has issued a UAO to us and to others to perform the additional remedial work, and filed the Government Action seeking, in part, the same relief. NCR and API commenced the Whiting Litigation and joined us and others as defendants, but, to this point, have not prevailed.

Even if we are not successful in establishing that we have no further remediation liability, we do not believe that we would be allocated a significant percentage share of liability in any equitable allocation of the remediation costs and natural resource damages. The accompanying consolidated financial statements do not include reserves for defense costs for the Whiting Litigation, the Government Action, or any future defense costs related to our involvement at the Site, which could be significant.

In setting our reserve for the Site, we have assessed our legal defenses, including our successful defenses to the allegations made in the Whiting Litigation, and assumed that we will not bear the entire cost of remediation or 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



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our reserve, and is generally based on our evaluation of recent publicly available financial information on certain of the PRPs 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 Site.

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

**Other Information.** The Governments have published studies estimating the amount of PCBs discharged by each identified PRP's facility to the lower Fox River and Green Bay. These reports estimate the Neenah Facility's share of the mass of PCBs discharged to be as high as 27%. We do not believe the discharge mass estimates used in these studies are accurate because (a) the studies themselves disclose that they are not accurate and (b) the PCB mass estimates contained in the studies are based on assumptions that are unsupported by existing data on the Site. We believe that the Neenah Facility's absolute and relative contribution of PCB mass is significantly lower than the estimates set forth in these studies.

In any event, based upon the court's December 16, 2009, and February 28, 2011, rulings in the Whiting Litigation, as well as certain other procedural orders, we continue to believe that an allocation in proportion to mass of PCBs discharged would not constitute an equitable allocation of the potential liability for the contamination at the Fox River. We contend that other factors, such as the location of contamination, the location of discharge, and a party's role in causing discharge, must be considered in order for the allocation to be equitable.

We previously entered into interim cost-sharing agreements with six of the other PRPs, which provided for those PRPs to share certain costs relating to scientific studies of PCBs discharged at the Site ( Interim Cost Sharing Agreements ). These Interim Cost Sharing Agreements do not establish the final allocation of remediation costs incurred at the Site. Based upon our

evaluation of the Court's December 16, 2009, and February 28, 2011 rulings in the Whiting Litigation as well as the volume, nature and location of the various discharges of PCBs at the Site and the relationship of those discharges to identified contamination, we believe our allocable share of liability at the Site is less than our share of costs under the Interim Cost Sharing Agreements.

**Range of Reasonably Possible Outcomes.** Our analysis of the range of reasonably possible outcomes is derived from all available information, including but not limited to official documents such as RODs, discussions with the United States and other PRPs, as well as legal counsel and engineering consultants. Based on our analysis of the current RODs and cost estimates for work to be performed at the Site, we believe that it is reasonably possible that our costs associated with the Fox River matter may exceed our cost estimates and the aggregate amounts accrued for the Fox River matter by amounts that are insignificant or that could range up to \$265 million over an undeterminable period that could range beyond 15 years. We believe that the likelihood of an outcome in the upper end of the monetary range is significantly less than other possible outcomes within the range and that the possibility of an outcome in excess of the upper end of the monetary range is remote. The two summary judgments in our favor in the Whiting Litigation, if sustained on appeal, suggest that outcomes in the upper end of the monetary range have become somewhat less probable, while increases in cost estimates for some of the work may make an outcome in the upper end of the range more likely.

**Summary.** Our current assessment is that we will be able to manage this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our debt covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or 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. Should a court grant the United States or the State of Wisconsin relief which requires us either to perform directly or to contribute significant amounts towards remedial action downstream of OU1 or to natural resource damages, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.



**Table of Contents****17. SEGMENT INFORMATION**

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

Three months ended September 30

<i>In millions</i>	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	\$ 225.4	\$ 217.3	\$ 124.9	\$ 103.7	\$ 66.2	\$ 58.0	\$	\$	\$ 416.5	\$ 379.1
Energy and related sales, net	2.8	3.3							2.8	3.3
Total revenue	228.2	220.6	124.9	103.7	66.2	58.0			419.3	382.4
Cost of products sold	198.6	184.3	104.6	85.6	59.2	54.9	2.0	1.8	364.4	326.7
Gross profit	29.6	36.3	20.3	18.2	7.0	3.1	(2.0)	(1.8)	54.9	55.7
SG&A	12.6	13.4	10.2	8.5	2.9	1.9	5.7	4.1	31.4	27.8
Gains on dispositions of plant, equipment and timberlands, net							(0.7)	(0.2)	(0.7)	(0.2)
Total operating income (loss)	17.0	22.9	10.1	9.7	4.1	1.2	(7.0)	(5.7)	24.2	28.1
Other non-operating income (expense)							(6.5)	(6.6)	(6.5)	(6.6)
Income (loss) before income taxes	\$ 17.0	\$ 22.9	\$ 10.1	\$ 9.7	\$ 4.1	\$ 1.2	\$ (13.4)	\$ (12.3)	\$ 17.7	\$ 21.5

**Supplementary Data**

Net tons sold	199.6	195.4	24.1	22.8	23.1	22.1			246.7	240.3
Depreciation, depletion and amortization	\$ 9.2	\$ 8.9	\$ 6.2	\$ 5.7	\$ 2.1	\$ 2.0	\$	\$	\$ 17.5	\$ 16.6
Capital expenditures	6.7	5.1	5.7	2.7	4.3				16.8	7.8

Nine months ended September 30

<i>In millions</i>	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	\$ 662.6	\$ 633.8	\$ 356.5	\$ 307.2	\$ 192.2	\$ 138.1	\$	\$	\$ 1,211.2	\$ 1,079.2
Energy and related sales, net	7.9	8.8							7.9	8.8
Total revenue	670.5	642.6	356.5	307.2	192.2	138.1			1,219.1	1,088.0
Cost of products sold	592.5	560.9	295.1	255.8	174.3	130.4	4.6	5.6	1,066.6	952.6
Gross profit	78.0	81.7	61.3	51.5	17.9	7.8	(4.6)	(5.6)	152.6	135.4
SG&A	38.9	40.1	29.6	26.6	8.3	4.4	17.7	20.2	94.5	91.3
Gains on dispositions of plant, equipment and timberlands, net							(3.9)	(0.3)	(3.9)	(0.3)
Total operating income (loss)	39.1	41.6	31.7	24.9	9.6	3.4	(18.4)	(25.4)	62.0	44.4
Other non-operating income (expense)							(19.3)	(22.3)	(19.3)	(22.3)
Income (loss) before income taxes	\$ 39.1	\$ 41.6	\$ 31.7	\$ 24.9	\$ 9.6	\$ 3.4	\$ (37.7)	\$ (47.8)	\$ 42.7	\$ 22.1

**Supplementary Data**

Net tons sold	590.1	576.3	70.0	67.1	66.9	53.2			726.9	696.6
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Depreciation, depletion and amortization	\$ 26.7	\$ 26.2	\$ 18.7	\$ 17.6	\$ 6.4	\$ 5.0	\$	\$	\$ 51.8	\$ 48.8
Capital expenditures	20.0	13.8	16.2	6.0	8.4	3.5			44.6	23.3

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

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units.

Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. The costs incurred by support areas not directly aligned with the business unit are allocated primarily based on an estimated utilization of support area services.

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

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Our 7 1/8% Notes have been fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries: PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, and Glatfelter Holdings, LLC. The following presents our condensed consolidating statements of income and cash flow, and our condensed consolidating balance sheets. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis.

*Correction to classification of Condensed Consolidating Statement of Cash Flows* For the presentation of the condensed consolidating statement of cash flows for the nine months ended September 30, 2010 included herein, we have corrected the classification of certain intercompany financing transactions to correctly classify \$170 million of intercompany capital transfers between the Parent Company and wholly-owned guarantor and non-guarantor subsidiaries which were made in connection with the Concert acquisition. For the Parent Company the correction reclassified the transfers from operating cash activities to investing activities made by the Parent to the Guarantors of \$146 million and to the non-Guarantors of \$24 million. Similar reclassifications were made to the Guarantors and non-Guarantors amounts to reflect the receipt of this capital contribution as a financing activity. This reclassification had no effect on the total cash flows of the Parent, Guarantors, or non-Guarantors, or on the reported amounts of cash flows for any period presented in our accompanying consolidated statement of cash flows.

**Condensed Consolidating Statement of Income for the****three months ended September 30, 2011**

<i>In thousand</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 225,410	\$ 13,060	\$ 191,083	\$ (13,060)	\$ 416,493
Energy and related sales net	2,840				2,840
Total revenues	228,250	13,060	191,083	(13,060)	419,333
Costs of products sold	201,649	11,949	163,900	(13,081)	364,417
Gross profit	26,601	1,111	27,183	21	54,916
Selling, general and administrative expenses	17,661	646	13,123		31,430
Gains on dispositions of plant, equipment and timberlands, net	(276)	(417)	(5)		(698)
Operating income	9,216	882	14,065	21	24,184
Other non-operating income (expense)					
Interest expense	(6,247)		(209)		(6,456)
Other income (expense) net	10,557	1,898	(867)	(11,591)	(3)
Total other non-operating income (expense)	4,310	1,898	(1,076)	(11,591)	(6,459)
Income (loss) before income taxes	13,526	2,780	12,989	(11,570)	17,725
Income tax provision (benefit)	500	979	3,213	7	4,699
Net income (loss)	\$ 13,026	\$ 1,801	\$ 9,776	\$ (11,577)	\$ 13,026

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

<i>In thousand</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 217,335	\$ 13,086	\$ 161,762	\$ (13,086)	\$ 379,097

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Energy and related sales net					3,312	3,312
Total revenues	220,647	13,086	161,762	(13,086)		382,409
Costs of products sold	187,526	11,579	140,643	(13,079)		326,669
Gross profit	33,121	1,507	21,119	(7)		55,740
Selling, general and administrative expenses	16,506	591	10,685			27,782
Gains on dispositions of plant, equipment and timberlands, net	(123)		(27)			(150)
Operating income	16,738	916	10,461	(7)		28,108
Other non-operating income (expense)						
Interest expense	(6,254)		(311)			(6,565)
Other income (expense) net	9,143	2,063	(1,268)	(9,957)		(19)
Total other non-operating income (expense)	2,889	2,063	(1,579)	(9,957)		(6,584)
Income (loss) before income taxes	19,627	2,979	8,882	(9,964)		21,524
Income tax provision (benefit)	(19,810)	492	1,585	(180)		(17,913)
Net income (loss)	\$ 39,437	\$ 2,487	\$ 7,297	\$ (9,784)		\$ 39,437

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**Table of Contents****Condensed Consolidating Statement of Income for the nine****months ended September 30, 2011**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 662,572	\$ 37,878	\$ 548,677	\$ (37,878)	\$ 1,211,249
Energy and related sales net	7,887				7,887
Total revenues	670,459	37,878	548,677	(37,878)	1,219,136
Costs of products sold	601,185	34,691	468,756	(38,079)	1,066,553
Gross profit	69,274	3,187	79,921	201	152,583
Selling, general and administrative expenses	53,671	1,893	38,956		94,520
Gains on dispositions of plant, equipment and timberlands, net	(318)	(3,575)	(9)		(3,902)
Operating income	15,921	4,869	40,974	201	61,965
Non-operating income (expense)					
Interest expense	(18,728)		(649)		(19,377)
Other income (expense) net	36,285	5,892	(3,805)	(38,286)	86
Total other income (expense)	17,557	5,892	(4,454)	(38,286)	(19,291)
Income (loss) before income taxes	33,478	10,761	36,520	(38,085)	42,674
Income tax provision (benefit)	525	4,111	6,251	(1,166)	9,721
Net income (loss)	\$ 32,953	\$ 6,650	\$ 30,269	\$ (36,919)	\$ 32,953

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

<i>In thousand</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 633,778	\$ 37,440	\$ 445,375	\$ (37,440)	\$ 1,079,153
Energy and related sales net	8,834				8,834
Total revenues	642,612	37,440	445,375	(37,440)	1,087,987
Costs of products sold	571,217	32,272	386,354	(37,272)	952,571
Gross profit	71,395	5,168	59,021	(168)	135,416
Selling, general and administrative expenses	56,088	1,759	33,452		91,299
Gains on dispositions of plant, equipment and timberlands, net	(123)	(168)	(27)		(318)
Operating income	15,430	3,577	25,596	(168)	44,435
Non-operating income (expense)					
Interest expense	(18,059)		(986)		(19,045)
Other income (expense) net	16,093	4,166	(114)	(23,443)	(3,298)
Total other income (expense)	(1,966)	4,166	(1,100)	(23,443)	(22,343)



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Income (loss) before income taxes	13,464	7,743	24,496	(23,611)	22,092
Income tax provision (benefit)	(25,702)	2,046	6,944	(362)	(17,074)
Net income (loss)	\$ 39,166	\$ 5,697	\$ 17,552	\$ (23,249)	\$ 39,166

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**Table of Contents****Condensed Consolidating Balance Sheet as of****September 30, 2011**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 69,837	\$ 890	\$ 27,524	\$	\$ 98,251
Other current assets	257,575	428,146	234,044	(501,983)	417,782
Plant, equipment and timberlands net	239,143	6,689	360,216		606,048
Other assets	814,039	167,410	99,132	(852,635)	227,946
<b>Total assets</b>	<b>\$ 1,380,594</b>	<b>\$ 603,135</b>	<b>\$ 720,916</b>	<b>\$ (1,354,618)</b>	<b>\$ 1,350,027</b>
<b>Liabilities and Shareholders Equity</b>					
Current liabilities	\$ 327,089	\$ 45,994	\$ 335,285	\$ (499,758)	\$ 208,610
Long-term debt	296,046		36,695		332,741
Deferred income taxes	80,948	17,445	41,365	(35,004)	104,754
Other long-term liabilities	117,889	13,365	10,332	3,714	145,300
<b>Total liabilities</b>	<b>821,972</b>	<b>76,804</b>	<b>423,677</b>	<b>(531,048)</b>	<b>791,405</b>
Shareholders equity	558,622	526,331	297,239	(823,570)	558,622
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,380,594</b>	<b>\$ 603,135</b>	<b>\$ 720,916</b>	<b>\$ (1,354,618)</b>	<b>\$ 1,350,027</b>

**Condensed Consolidating Balance Sheet as of****December 31, 2010**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 61,953	\$ 91	\$ 33,744	\$	\$ 95,788
Other current assets	230,957	380,986	203,048	(408,089)	406,902
Plant, equipment and timberlands net	244,157	7,161	356,836	16	608,170
Other assets	773,254	167,877	103,250	(813,494)	230,887
<b>Total assets</b>	<b>\$ 1,310,321</b>	<b>\$ 556,115</b>	<b>\$ 696,878</b>	<b>\$ (1,221,567)</b>	<b>\$ 1,341,747</b>
<b>Liabilities and Shareholders Equity</b>					
Current liabilities	\$ 277,343	\$ 3,672	\$ 336,679	\$ (404,548)	\$ 213,146
Long-term debt	295,529		36,695		332,224
Deferred income taxes	70,575	14,836	42,204	(32,697)	94,918
Other long-term liabilities	114,432	13,210	9,999	11,376	149,017
<b>Total liabilities</b>	<b>757,879</b>	<b>31,718</b>	<b>425,577</b>	<b>(425,869)</b>	<b>789,305</b>
Shareholders equity	552,442	524,397	271,301	(795,698)	552,442
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,310,321</b>	<b>\$ 556,115</b>	<b>\$ 696,878</b>	<b>\$ (1,221,567)</b>	<b>\$ 1,341,747</b>

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**Condensed Consolidating Statement of Cash Flows for the nine  
months ended September 30, 2011**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$ 78,151	\$ (29,590)	\$ 35,875	\$ (3,300)	\$ 81,136
Investing activities					
Purchase of plant, equipment and timberlands	(19,985)	(65)	(24,592)		(44,642)
Proceeds from disposal plant, equipment and timberlands	597	3,821	24		4,442
Repayments from (advances of) intercompany loans, net	(10,133)	29,933		(19,800)	
Total investing activities	(29,521)	33,689	(24,568)	(19,800)	(40,200)
Financing activities					
Net (repayments of) proceeds from indebtedness			(798)		(798)
Payment of dividends to shareholders	(12,578)				(12,578)
Repurchases of common stock	(26,251)				(26,251)
(Repayments) borrowings of intercompany loans, net	(2,050)		(17,750)	19,800	
Payment of intercompany dividends		(3,300)		3,300	
Proceeds from stock options exercised	132				132
Total financing activities	(40,747)	(3,300)	(18,548)	23,100	(39,495)
Effect of exchange rate on cash			1,022		1,022
Net increase (decrease) in cash	7,883	799	(6,219)		2,463
Cash at the beginning of period	61,953	91	33,744		95,788
Cash at the end of period	\$ 69,836	\$ 890	\$ 27,525	\$	\$ 98,251

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

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$ 102,951	\$ (10,044)	\$ 31,243	\$ (770)	\$ 123,380
Investing activities					
Purchase of plant, equipment and timberlands	(13,297)	(518)	(9,454)		(23,269)
Proceeds from disposal plant, equipment and timberlands	124	182	27		333
Repayments from (advances of) intercompany loans, net	(8,049)	(134,715)	5,393	137,371	
Intercompany capital contributed	(170,520)	(24,995)		195,515	
Acquisition of Concert Industries Corp., net of cash acquired			(229,080)		(229,080)
Total investing activities	(191,742)	(160,046)	(233,114)	332,886	(252,016)
Financing activities					
Net (repayments of) proceeds from indebtedness	75,703		(2,979)		72,724
Payment of dividends to shareholders	(12,556)				(12,556)
(Repayments) borrowings of intercompany loans, net	(19,265)	(200)	156,836	(137,371)	
Intercompany capital received		170,520	24,995	(195,515)	
Proceeds from stock options and other	147				147

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Payment of intercompany dividends		(770)		770	
Total financing activities	44,029	169,550	178,852	(332,116)	60,315
Effect of exchange rate on cash			(3,766)		(3,766)
Net decrease in cash	(44,762)	(540)	(26,785)		(72,087)
Cash at the beginning of period	76,970	985	57,465		135,420
Cash at the end of period	\$ 32,208	\$ 445	\$ 30,680	\$	\$ 63,333

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

*The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2010 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, non-cash pension expense, environmental costs, capital expenditures and liquidity, all of which are inherently difficult to predict. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. Accordingly, we identify the following important factors, among others, which could cause our results to differ from any results that might be projected, forecasted or estimated in any such forward-looking statements:

- i. variations in demand for our products including the impact of any unplanned market-related downtime, or variations in product pricing;
- ii. changes in the cost or availability of raw materials we use, in particular pulpwood, 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 products;
- v. the impact of exposure to volatile market-based pricing for sales of excess electricity;
- vi. the impact of competition, changes in industry production capacity, including the construction of new mills, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- vii. the gain or loss of significant customers and/or on-going viability of such customers;
- viii. cost and other effects of environmental compliance, cleanup, damages, remediation or restoration, or personal injury or property damages related thereto, such as the costs of natural resource restoration or damages related to the presence of polychlorinated biphenyls (PCBs) in the lower Fox River on which our former Neenah mill was located;
- ix. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- x. geopolitical events, including war and terrorism;
- xi. possible disruptions in our business as a result of natural disasters in and around Japan;

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- xii. disruptions in production and/or increased costs due to labor disputes;
- xiii. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities;
- xiv. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation;
- xv. adverse results in litigation;
- xvi. our ability to finance, consummate and integrate acquisitions; and
- xvii. the cost, and successful design and construction, of the Composite Fibers expansion project.

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

- i) *Specialty Papers* with revenues earned from the sale of carbonless papers and forms, book publishing, envelope & converting papers, and fiber-based engineered products;
- ii) *Composite Fibers* with revenue from the sale of food & beverage filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and technical specialties; and
- iii) *Advanced Airlaid Materials* with revenue from the sale of airlaid non-woven fabric like materials used in feminine hygiene products, adult incontinence products, cleaning pads and wipes, food pads, napkins and tablecloths, and baby wipes.

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**RESULTS OF OPERATIONS**

**Nine months ended September 30, 2011 versus the Nine months ended September 30, 2010**

**Overview** Net income in the first nine months of 2011 totaled \$33.0 million, or \$0.71 per diluted share compared with \$39.2 million or \$0.85 per diluted share for the first nine months of 2010. The consolidated results of operations for the nine months ended September 30, 2011 and 2010 include the following significant items:

<i>In thousands, except per share</i>	<b>After-tax Gain (loss)</b>	<b>Diluted EPS</b>
<b>2011</b>		
Gains on sale of timberlands	<b>\$ 1,895</b>	<b>\$ 0.04</b>
Acquisition and integration costs	<b>(793)</b>	<b>(0.02)</b>
<b>2010</b>		
Cellulosic biofuel/alternative fuel mixture credit	<b>\$ 23,100</b>	<b>\$ 0.50</b>
Acquisition and integration costs	<b>(8,728)</b>	<b>(0.18)</b>
Foreign currency hedge on acquisition price	<b>(1,673)</b>	<b>(0.04)</b>

The above items increased earnings by \$1.1 million, or \$0.02 per diluted share, in the first nine months of 2011 and by \$12.7 million, or \$0.28 per diluted share, in the first nine months of 2010.

The results of operations from our core businesses improved in the comparison of the first nine months of 2011 to the same period of 2010. Operating income from our three business units increased, on a pre-tax basis, \$10.5 million, or 15.0%, reflecting improved selling prices, stronger demand and efficiency gains. In addition, the 2011 year to date results includes a full period of Concert Industries (now operated as the Advanced Airlaid Materials business unit). The favorable market conditions were partially offset by the adverse impact of higher input costs, primarily related to woodpulp, various purchased pulps and energy, as well as costs related to operating difficulties at certain of our facilities.

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	<b>Nine months ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Net sales	<b>\$ 1,211,249</b>	<b>\$ 1,079,153</b>
Gross profit	<b>152,583</b>	<b>135,416</b>
Operating income	<b>61,965</b>	<b>44,435</b>
Net income (loss)	<b>32,953</b>	<b>39,166</b>
Earnings (loss) per share	<b>0.71</b>	<b>0.85</b>

**Business Units**

Nine months ended September 30

<i>In millions</i>	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010
Net sales	<b>\$ 662.6</b>	\$ 633.8	<b>\$ 356.5</b>	\$ 307.2	<b>\$ 192.2</b>	\$ 138.1	<b>\$</b>	\$	<b>\$ 1,211.2</b>	\$ 1,079.2
Energy and related sales, net	<b>7.9</b>	8.8							<b>7.9</b>	8.8
Total revenue	<b>670.5</b>	642.6	<b>356.5</b>	307.2	<b>192.2</b>	138.1			<b>1,219.1</b>	1,088.0



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Cost of products sold	<b>592.5</b>	560.9	<b>295.1</b>	255.8	<b>174.3</b>	130.4	<b>4.6</b>	5.6	<b>1,066.6</b>	952.6
Gross profit	<b>78.0</b>	81.7	<b>61.3</b>	51.5	<b>17.9</b>	7.8	<b>(4.6)</b>	(5.6)	<b>152.6</b>	135.4
SG&A	<b>38.9</b>	40.1	<b>29.6</b>	26.6	<b>8.3</b>	4.4	<b>17.7</b>	20.2	<b>94.5</b>	91.3
Gains on dispositions of plant, equipment and timberlands, net							<b>(3.9)</b>	(0.3)	<b>(3.9)</b>	(0.3)
Total operating income (loss)	<b>39.1</b>	41.6	<b>31.7</b>	24.9	<b>9.6</b>	3.4	<b>(18.4)</b>	(25.4)	<b>62.0</b>	44.4
Other non-operating income (expense)							<b>(19.3)</b>	(22.3)	<b>(19.3)</b>	(22.3)
Income (loss) before income taxes	<b>\$ 39.1</b>	\$ 41.6	<b>\$ 31.7</b>	\$ 24.9	<b>\$ 9.6</b>	\$ 3.4	<b>\$ (37.7)</b>	\$ (47.8)	<b>\$ 42.7</b>	\$ 22.1

**Supplementary Data**

Net tons sold	<b>590.1</b>	576.3	<b>70.0</b>	67.1	<b>66.9</b>	53.2			<b>726.9</b>	696.6
Depreciation, depletion and amortization	<b>\$ 26.7</b>	\$ 26.2	<b>\$ 18.7</b>	\$ 17.6	<b>\$ 6.4</b>	\$ 5.0	\$	\$	<b>\$ 51.8</b>	\$ 48.8
Capital expenditures	<b>20.0</b>	13.8	<b>16.2</b>	6.0	<b>8.4</b>	3.5			<b>44.6</b>	23.3

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

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

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

**Sales and Costs of Products Sold**

<i>In thousands</i>	<b>Nine months ended</b>		Change
	<b>September 30</b>		
	<b>2011</b>	2010	
Net sales	<b>\$ 1,211,249</b>	\$ 1,079,153	\$ 132,096
Energy and related sales net	<b>7,887</b>	8,834	(947)
<b>Total revenues</b>	<b>1,219,136</b>	1,087,987	131,149
Costs of products sold	<b>1,066,553</b>	952,571	113,982
<b>Gross profit</b>	<b>\$ 152,583</b>	\$ 135,416	\$ 17,167

Gross profit as a percent of Net sales

**12.6%**

12.5%

**Net sales** for the first nine months of 2011 were \$1,211.2 million, a 12.2% increase compared with the same period of 2010, reflecting higher selling prices, improved demand and a full nine months for our Advanced Airlaid Materials business unit in 2011 compared with seven and one-half months in 2010.

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

<i>Percent of Total</i>	<b>Nine months ended</b>	
	<b>September 30</b>	
<b>Business Unit</b>	<b>2011</b>	2010
Specialty Papers	<b>54.7%</b>	58.7%
Composite Fibers	<b>29.4</b>	28.5
Advanced Airlaid Material	<b>15.9</b>	12.8
<b>Total</b>	<b>100.0%</b>	100.0%

In the Specialty Papers business unit, net sales increased \$28.8 million due to a \$22.5 million benefit from higher selling prices and a 2.4% increase in shipping volumes.

Specialty Papers operating income declined slightly in the comparison as the adverse impact of rising input costs outweighed benefits of higher selling prices. In addition, net energy related sales were \$0.9 million lower in 2011.

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We sell excess power generated by the Spring Grove, PA facility. In addition, two of our facilities are registered generators of renewable energy credits ( RECs ). The following table summarizes this activity for the first nine months of 2011 and 2010:

<i>In thousands</i>	<b>2011</b>	2010	Change
Energy sales	<b>\$ 9,056</b>	\$ 11,520	\$ (2,464)
Costs to produce	<b>(7,311)</b>	(7,912)	601
Net	<b>1,745</b>	3,608	(1,863)
Renewable energy credits	<b>6,142</b>	5,226	916
<b>Total</b>	<b>\$ 7,887</b>	\$ 8,834	\$ (947)

Prior to March 31, 2010, all energy sales were made pursuant to a long-term contract that expired at the end of the first quarter 2010. We continue to sell power but at market rates which have been significantly below the expired contract rate.

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

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In Composite Fibers, net sales in the first nine months of 2011 totaled \$356.5 million, an increase of \$49.3 million, or 16.0%, from the same period a year ago. The increase reflects a \$10.2 million benefit from higher selling prices and a 4.3% increase in shipping volumes. The translation of foreign currencies favorably impacted net sales by \$18.4 million. The improvement in Composite Fibers net sales reflects strengthening demand particularly in the single-serve coffee and tea paper markets.

Composite Fibers operating income increased by \$6.8 million, or 27.3%, in the period to period comparison. The improvement was driven by higher selling prices as well as improved operating rates, efficiency gains related to continuous improvement initiatives and the impact of increased shipping volumes. The combination of these factors more than offset the \$12.3 million negative impact of higher input costs, primarily related to woodpulp and synthetic fibers and energy. Foreign currency translation unfavorably impacted operating income by \$0.4 million.

In Advanced Airlaid Materials, net sales were \$192.2 million, an increase of \$54.1 million, largely due to including a full period's results in 2011, higher selling prices and increased demand. The results for 2010 were included prospectively from the February 12, 2010 acquisition date. Higher selling prices benefited the comparison by \$11.4 million but were substantially offset by higher input costs. Operating income increased \$6.3 million primarily due to higher volumes shipped, improved operating efficiencies and a benefit in the comparison of a non-recurring \$1.4 million charge in 2010 to cost of products sold for the write up of acquired inventory to fair value. Foreign currency translation unfavorably impacted operating income by \$0.2 million.

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

<i>In thousands</i>	<b>Nine months ended September 30</b>		Change
	<b>2011</b>	2010	
<i>Recorded as:</i>			
Costs of products sold	<b>\$ 4,975</b>	\$ 5,294	\$ (319)
SG&A expense	<b>3,149</b>	1,637	1,512
Total	<b>\$ 8,124</b>	\$ 6,931	\$ 1,193

The amount of pension expense or income recognized each year is determined using various actuarial assumptions and certain other factors.

**Other and Unallocated** The amount of net expenses not allocated to a business unit and reported as Other and Unallocated in our table of *Business Unit Performance* totaled \$18.4 million in the first nine months of 2011 compared with \$25.4 million in the year earlier period. The following table summarizes this information adjusting for significant unusual items primarily related to the 2010 Concert Industries acquisition.

<i>In millions</i>	<b>Nine months ended September 30</b>		Change
	<b>2011</b>	2010	
Net operating expenses	<b>\$ 18.4</b>	\$ 25.4	\$ (7.0)
Less:			
Pension expense	<b>8.1</b>	6.9	1.2
Acquisition and integration costs	<b>1.1</b>	10.4	(9.3)
Gains on dispositions	<b>(3.9)</b>	(0.3)	(3.6)
	<b>\$ 13.1</b>	\$ 8.4	\$ 4.7

The \$4.7 million increase in expenses in the above analysis was primarily due to higher professional service fees and pension expense. Gains on dispositions of plant, equipment and timberlands were primarily related to the sale of timberlands, from which cash proceeds totaled \$3.8 million.

In the first nine months of 2010, non-operating income (expense) included a \$3.4 million loss associated with forward foreign currency contracts that hedged the Canadian dollar purchase price of the Concert Industries acquisition.

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**Income taxes** For the first nine months of 2011, we recorded a provision for income taxes of \$9.7 million on \$42.7 million of pretax income. The provision for taxes includes a net \$3.2 million income tax benefit realized with the resolution of certain foreign tax audits, U.S. federal statute closure, partially offset by adjustments to the carrying value of deferred taxes in connection with changes in state tax laws. In 2010, we recorded a benefit from income taxes of \$17.1 million on \$22.0 million of pretax income. The benefit in 2010 reflects \$23.1 million of cellulosic biofuel credits.

**Foreign Currency** We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the first nine months of 2011, approximately 28.9% of our sales and 27.3% of operating expenses were generated by Euro functional currency operations and 7.8% of net sales and 7.5% of operating expenses were generated by British Pound Sterling operations. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on the first nine months of 2011 reported results compared to the first nine months 2010:

In thousands	Nine months ended Sept. 30 Favorable (unfavorable)
Net sales	\$ 24,649
Costs of products sold	(23,071)
SG&A expenses	(2,195)
Income taxes and other	(338)
Net income	\$ (955)

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

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**Table of Contents****Three months ended September 30, 2011 versus the Three months ended September 30, 2010**

**Overview** Net income in the third quarter of 2011 totaled \$13.0 million, or \$0.28 per diluted share compared with \$39.4 million or \$0.85 per diluted share for the third quarter of 2010. The consolidated results of operations for the three months ended September 30, 2011 and 2010 include the following significant items:

<i>In thousands, except per share</i>	After-tax Gain (loss)	Diluted EPS
<b>2011</b>		
Gains on sale of timberlands	\$ 245	\$ 0.01
<b>2010</b>		
Cellulosic biofuel/alternative fuel mixture credit	\$ 23,100	\$ 0.50
Acquisition and integration costs	(407)	(0.01)

The above items increased earnings in the third quarter of 2011 by \$0.2 million, or \$0.01 per diluted share and by \$22.7 million, or \$0.49 per diluted share, in the third quarter of 2010.

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	Three months ended September 30	
	2011	2010
Net sales	\$ 416,493	\$ 379,097
Gross profit	54,916	55,740
Operating income	24,184	28,108
Net income	13,026	39,437
Earnings per share	0.28	0.85

**Business Units**

Three months ended September 30

<i>In millions</i>	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	\$ 225.4	\$ 217.3	\$ 124.9	\$ 103.7	\$ 66.2	\$ 58.0	\$	\$	\$ 416.5	\$ 379.1
Energy and related sales, net	2.8	3.3							2.8	3.3
Total revenue	228.2	220.6	124.9	103.7	66.2	58.0			419.3	382.4
Cost of products sold	198.6	184.3	104.6	85.6	59.2	54.9	2.0	1.8	364.4	326.7
Gross profit	29.6	36.3	20.3	18.2	7.0	3.1	(2.0)	(1.8)	54.9	55.7
SG&A	12.6	13.4	10.2	8.5	2.9	1.9	5.7	4.1	31.4	27.8
Gains on dispositions of plant, equipment and timberlands, net							(0.7)	(0.2)	(0.7)	(0.2)
Total operating income (loss)	17.0	22.9	10.1	9.7	4.1	1.2	(7.0)	(5.7)	24.2	28.1
Other non-operating income (expense)							(6.5)	(6.6)	(6.5)	(6.6)

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Income (loss) before income taxes      \$ **17.0**    \$ 22.9    \$ **10.1**    \$ 9.7    \$ **4.1**    \$ 1.2    \$ **(13.4)**    \$(12.3)    \$ **17.7**    \$ 21.5

**Supplementary Data**

Net tons sold	<b>199.6</b>	195.4	<b>24.1</b>	22.8	<b>23.1</b>	22.1			<b>246.7</b>	240.3
Depreciation, depletion and amortization	\$ <b>9.2</b>	\$ 8.9	\$ <b>6.2</b>	\$ 5.7	\$ <b>2.1</b>	\$ 2.0	\$	\$	\$ <b>17.5</b>	\$ 16.6
Capital expenditures	<b>6.7</b>	5.1	<b>5.7</b>	2.7	<b>4.3</b>				<b>16.8</b>	7.8

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

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

<i>In thousands</i>	Three months ended September 30		Change
	2011	2010	
Net sales	\$ 416,493	\$ 379,097	\$ 37,396
Energy and related sales net	2,840	3,312	(472)
<b>Total revenues</b>	<b>419,333</b>	382,409	36,924
Costs of products sold	364,417	326,669	37,748
<b>Gross profit</b>	<b>\$ 54,916</b>	\$ 55,740	\$ (824)

Gross profit as a percent of Net sales

13.2%

14.7%

**Net sales** for the third quarter of 2011 were \$416.5 million, a 9.9% increase compared with the third quarter of 2010, due to the benefits of higher selling prices, favorable currency translation and stronger demand.

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

<i>Percent of Total Business Unit</i>	Three months ended September 30	
	2011	2010
Specialty Papers	54.1%	57.3%
Composite Fibers	30.0	27.4
Advanced Airlaid Material	15.9	15.3
<b>Total</b>	<b>100.0%</b>	100.0%

On a year-over-year basis, Specialty Papers net sales increased \$8.1 million primarily due to a \$4.6 million benefit from higher selling prices and a 2.2% increase in shipping volumes.

Specialty Papers 2011 third-quarter operating income declined \$5.9 million compared to the 2010 third quarter primarily due to the unfavorable impact of rising input costs outpacing benefits of higher selling prices. Input costs, particularly wood, starch, caustics and energy, increased an aggregate \$8.4 million in the year over year comparison. Operations were interrupted during the quarter by tropical storm Lee which caused unplanned downtime and related costs aggregating \$1.1 million. In addition, maintenance related costs were higher in the comparison due to spending incurred to improve paper machine reliability.

The following table summarizes sales of excess power and related items for the third quarters of 2011 and 2010:

<i>In thousands</i>	2011	2010	Change
Energy sales	\$ 3,240	\$ 3,850	\$ (610)
Costs to produce	(2,355)	(2,651)	296
<b>Net</b>	<b>885</b>	1,199	(314)
Renewable energy credits	1,955	2,113	(158)
<b>Total</b>	<b>\$ 2,840</b>	\$ 3,312	\$ (472)

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Composite Fibers net sales increased \$21.1 million, or 20.4% reflecting a 5.5% increase in volumes shipped led by single serve coffee and tea paper products. In addition, higher average selling prices added \$2.7 million and foreign currency translation contributed \$7.7 million.

Composite Fibers third-quarter 2011 operating income increased 3.7% or \$0.4 million. The benefit from higher selling prices was more than offset by \$3.8 million of higher raw material and energy costs, primarily related to wood prices. The results include \$0.4 million of costs incurred related to initiatives undertaken to expand production capacity to support growing tea and coffee filtration markets. Adjusted to exclude these non-recurring strategic costs, operating income increased 7.3%.

Advanced Airlaid Materials net sales increased \$8.2 million, or 14.1% reflecting a 4.5% increase in shipping volumes and a \$2.9 million benefit from higher selling prices.

Operating income was \$4.1 million in the third-quarter 2011, the third consecutive quarter of improvement and more than three-fold improvement from results in the same quarter of 2010. During the third quarter, selling price increases of \$2.9 million slightly outpaced higher input costs of \$2.4 million. In addition, this unit's overall performance benefited from previously outlined improvement initiatives including supply chain synergies, waste reduction and higher machine output.

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

<i>In thousands</i>	<b>Three months ended</b>		Change
	<b>September 30</b>		
	<b>2011</b>	2010	
<i>Recorded as:</i>			
Costs of products sold	<b>\$ 1,711</b>	\$ 1,703	\$ 8
SG&A expense	<b>2,378</b>	491	1,887
<b>Total</b>	<b>\$ 4,089</b>	\$ 2,194	\$ 1,895

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

The amount of pension expense or income recognized each year is determined using various actuarial assumptions and certain other factors.

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**Foreign Currency** We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the third quarter of 2011, approximately 28.8% of our sales and 27.5% of operating expenses were generated by Euro functional currency operations and 7.5% of net sales and 7.2% of operating expenses were generated by British Pound Sterling operations. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on third quarter 2011 reported results compared to the third quarter 2010:

In thousands	Three months ended Sept. 30 Favorable (unfavorable)
Net sales	\$ 10,399
Costs of products sold	(9,449)
SG&A expenses	(932)
Income taxes and other	(139)
<b>Net income</b>	<b>\$ (121)</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.

**LIQUIDITY AND CAPITAL RESOURCES**

Our business is capital intensive and requires significant expenditures for new or enhanced equipment, for environmental compliance matters, to support our research and development efforts and for our business strategy. Liquidity is provided by cash on hand, cash flow from operations and borrowing arrangements. Significant uses of cash include working capital requirements, capacity expansion initiatives, debt service requirements dividends and share repurchases. The following table summarizes cash flow information for each of the years presented:

<i>In thousands</i>	Nine months ended September 30	
	2011	2010
Cash and cash equivalents at beginning of period	\$ 95,788	\$ 135,420
Cash provided by (used for)		
Operating activities	81,136	123,380
Investing activities	(40,200)	(252,016)
Financing activities	(39,495)	60,315
Effect of exchange rate changes on cash	1,022	(3,766)
<b>Net cash provided (used)</b>	<b>2,463</b>	<b>(72,087)</b>
Cash and cash equivalents at end of period	\$ 98,251	\$ 63,333

As of September 30, 2011, we had \$98.3 million in cash and cash equivalents and \$220.5 million available under our revolving credit agreement.

Operating cash flow was \$42.2 million lower in the first nine months of 2011 compared with the same period of 2010. The decline was due to less cash received from tax credits and working capital uses in the current period. The first nine months of 2011 benefited from the collection of a \$17.8 million tax refund related to cellulosic biofuel credits while 2010 benefited from the collection of a \$54.9 million tax refund related to alternative fuel mixture credits. The benefit in 2010 was partially offset by the use of cash for acquisition and integration related costs.

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Net cash used by investing activities totaled \$40.2 million and \$252.0 million in the first nine months of 2011 and 2010. The change in the comparison was primarily due to the use of cash in 2010 for the Concert acquisition. Capital expenditures totaled \$44.6 million and \$23.3 million in the first nine months of 2011 and 2010, respectively, and are expected to be \$110 million to \$115 million in 2012 including approximately \$35 million for the recently announced \$50 million capacity expansion plans at our facility in Germany.

Net cash used by financing activities of \$39.5 million in 2011 primarily reflects dividend payments and cash used to repurchase shares of common stock. Net cash provided by financing activities totaled \$60.3 million in the first nine

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months of 2010, reflecting borrowings to fund the Concert acquisition including the proceeds, net of debt issue costs and original issue discount, from the issuance of \$100.0 million of senior notes, at 95% of par.

During the first nine months of 2011 and 2010 cash dividends paid on common stock totaled \$12.6 million in each period. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

In April 2011, our Board of Directors authorized a share repurchase program for up to \$50.0 million of our outstanding common stock. Although we intend to make these repurchases over the next 12 months, the timing and actual number of shares repurchased will depend on a variety of factors including the market price of our stock, regulatory, legal and contractual requirements, and other market factors. The program, which does not obligate us to repurchase any particular amount of common stock, may be modified or suspended at any time at the Board's discretion. The following table summarizes share repurchases made under this program through September 30, 2011:

	shares	(thousands)
Authorized amount		\$ 50,000
Repurchases	1,998,834	(27,464) <sup>(1)</sup>
Remaining authorization		\$ 22,536

(1) Amounts reflect trades entered into through September 30, 2011. Cash spent on settled transactions totaled \$26.3 million. The following table sets forth our outstanding long-term indebtedness:

<i>In thousands</i>	Sept. 30, 2011	Dec. 31, 2010
Revolving credit facility, due May 2014	\$	\$
7 1/8% Notes, due May 2016	200,000	200,000
7 1/8% Notes, due May 2016 - net of original issue discount	96,046	95,529
Term Loan, due January 2013	36,695	36,695
Total long-term debt	332,741	332,224
Less current portion		
Long-term debt, net of current portion	\$ 332,741	\$ 332,224

The significant terms of the debt obligations are set forth in Item 1 Financial Statements Note 11 ( Note 11 ). Although we do not have immediate intentions to make use of our credit facility, we believe this agreement, and the banks that are party to it, provides us with ready access to liquidity should we need it.

As more fully described in Note 11, in January 2008, we entered into the 2008 Term Loan, which is secured by, among other things, a \$43.1 million note receivable and related letter of credit. Under terms of this transaction, minimum credit ratings must be maintained by the bank issuing the letter of credit (the credit rating ).

On October 7, 2011, the credit rating fell below the required minimum level. Although we are in the process of evaluating options available to us, it may be necessary for us to repay the 2008 Term Loan and collect the proceeds from the note receivable. We do not expect this will have a material impact on liquidity.

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

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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 16 for a summary of significant environmental matters.

We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, our credit facility or other bank lines of credit and other long-term debt. However, as discussed in Item 1 Financial Statements Note 16, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

Our credit agreement contains a number of customary compliance covenants. A breach of these requirements would give rise to certain remedies under the credit agreement as amended, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility. In addition, the 7 1/8% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity or a default under the credit agreement, that accelerates the debt outstanding thereunder. We were not aware of any breach of any such requirements as of September 30, 2011.

**Off-Balance-Sheet Arrangements** As of September 30, 2011 and December 31, 2010, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 Financial Statements.

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**Outlook** For Specialty Papers, we expect shipping volumes in the fourth quarter of 2011 to be approximately five percent less than the third quarter reflecting normal seasonality; selling prices are expected to be in line with the third quarter. Input costs are expected to be in line with the third quarter, with the exception of significantly lower purchased pulp prices. We expect full year 2011 operating income for this unit to approximate full year 2010.

For Composite Fibers, we anticipate shipping volumes will be slightly lower in the fourth quarter compared to the 2011 third quarter reflecting seasonality

in the metallized papers market. Selling prices and input costs are expected to be largely in line with the third quarter.

Shipping volumes for the Advanced Airlaid Materials business unit in the fourth quarter of 2011 are expected to decline approximately five percent compared to third quarter levels due to normal seasonality. In addition, selling prices and input costs are expected to be largely in-line with the third quarter levels. The benefits from continuous improvement initiatives and efficiency gains should offset the impact of lower volumes

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

<i>Dollars in thousands</i>	Year Ended December 31					At September 30, 2011	
	2011	2012	2013	2014	2015	Carrying Value	Fair Value
<b>Long-term debt</b>							
Average principal outstanding							
At fixed interest rates Bond <sup>(1)</sup>	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 296,046	\$ 306,125
At variable interest rates	36,695	36,695	1,407			36,695	37,861
						\$ 332,741	\$ 343,986

Weighted-average interest rate

On fixed rate debt Bond	7.13%	7.13%	7.13%	7.13%	7.13%
On variable rate debt	1.66	1.66	1.66		

The amounts represent average face amount of bonds outstanding. Such amounts include \$100.0 million of bonds issued at a 5% original issue discount resulting in an 8.16% yield. The carrying value set forth above is net of unamortized original issue discount.

The table above presents average principal outstanding of our long-term debt and related interest rates for the next five years. The amounts set forth above for fixed rate bonds represent the coupon rate. Such amounts include \$100.0 million of bonds issued at a 5% original issue discount resulting in an 8.16% yield. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities. Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At September 30, 2011, we had long-term debt outstanding of \$332.7 million, of which \$36.7 million or 11.0% was at variable interest rates.

Variable-rate debt outstanding represents a cash collateralized borrowing incurred in connection with the 2007 installment timberland sale that accrues interest based on six month LIBOR plus a margin. At September 30, 2011, the weighted average interest rate paid on variable rate debt was 1.66%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$0.4 million.

We are subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. Dollar. During the first nine months of 2011,

approximately 28.9% of our sales and 27.3% of operating expenses were generated by Euro functional currency operations and 7.8% of net sales and 7.5% of operating expenses were generated by British Pound Sterling operations.

**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, 2011, 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, 2011, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We are in the process, however, of replacing elements of certain information systems at our Canadian facility, a subsidiary acquired in the Concert Industries acquisition, with modules from SAP, our existing enterprise resource planning system.

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**PART II**

**ITEM 6. EXHIBITS**

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

- 31.1 Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 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 Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 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.
- 101.INS XBRL Instance Document \*
- 101.SCH XBRL Taxonomy Extension Schema \*
- 101.CAL XBRL Extension Calculation Linkbase \*
- 101.LAB XBRL Extension Label Linkbase \*
- 101.PRE XBRL Extension Presentation Linkbase \*

\* Furnished herewith.

SIGNATURES

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

P. H. GLATFELTER COMPANY

(Registrant)

November 9, 2011

By

/s/ DAVID C. ELDER  
**David C. Elder**  
Vice President and Corporate Controller

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**EXHIBIT INDEX**

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
31.1	Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002, 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 Dante C. Parrini, 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.
101.INS	XBRL Instance Document *
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