GLATFELTER P H CO
Form 10-Q
November 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2012

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

96 South George Street, Suite 520

York, Pennsylvania 17401

(Address of principal executive offices)

(717) 225-4711

(Registrant s telephone number, including area code)

Commission file number	Exact name of registrant as specified in its charter	IRS Employer Identification No.	State or other jurisdiction of incorporation or organization
1-03560	**P. H. Glatfelter Company**	**23-0628360**	**Pennsylvania**

N/A

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Small 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 x .

Common Stock outstanding on October 26, 2012 totaled 42,855,288 shares.

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

REPORT ON FORM 10-Q

For the QUARTERLY PERIOD ENDED

SEPTEMBER 30, 2012

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PART I

Item 1 Financial Statements

P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

In thousands, except per share	**Three months ended September 30** **2012**	2011	**Nine months ended September 30** **2012**	2011
Net sales	**$ 404,354**	$ 416,493	**$ 1,186,399**	$ 1,211,249
Energy and related sales, net	**1,867**	2,840	**5,358**	7,887
Total revenues	**406,221**	419,333	**1,191,757**	1,219,136
Costs of products sold	**347,029**	364,417	**1,030,717**	1,066,553
Gross profit	**59,192**	54,916	**161,040**	152,583
Selling, general and administrative expenses	**29,380**	31,430	**89,460**	94,520
Gains on dispositions of plant, equipment and timberlands, net	**(1,473)**	(698)	**(8,471)**	(3,902)
Operating income	**31,285**	24,184	**80,051**	61,965
Non-operating income (expense)				
Interest expense	**(4,152)**	(6,456)	**(12,580)**	(19,377)
Interest income	**106**	134	**332**	491
Other, net	**(4)**	(137)	**295**	(405)
Total other income (expense)	**(4,050)**	(6,459)	**(11,953)**	(19,291)
Income before income taxes	**27,235**	17,725	**68,098**	42,674
Income tax provision	**7,136**	4,699	**15,689**	9,721
Net income	**$ 20,099**	$ 13,026	**$ 52,409**	$ 32,953
Earnings per share				
Basic	**$ 0.47**	$ 0.29	**$ 1.22**	$ 0.72
Diluted	**0.46**	0.28	**1.20**	0.71
Cash dividends declared per common share	**$ 0.09**	$ 0.09	**$ 0.27**	$ 0.27
Weighted average shares outstanding				
Basic	**42,837**	45,299	**42,814**	45,813
Diluted	**43,667**	45,839	**43,595**	46,341

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

In thousands	**Three months ended September 30** **2012**	2011	**Nine months ended September 30** **2012**	2011
Net income	**$ 20,099**	$ 13,026	**$ 52,409**	$ 32,953
Foreign currency translation adjustments	**9,048**	(17,379)	**4,473**	889
Deferred gains (losses) on cash flow hedges, net of taxes of $196, $(267), $333, and $(273), respectively	**(495)**	668	**(836)**	684
Amortization of unrecognized retirement obligations, net of taxes of $1,769, $1,535, $5,438, and $4,445, respectively	**3,013**	2,475	**8,961**	7,150
Other comprehensive income (loss)	**11,566**	(14,236)	**12,598**	8,723
Comprehensive income (loss)	**$ 31,665**	$ (1,210)	**$ 65,007**	$ 41,676

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

In thousands	**September 30 2012**	December 31 2011
Assets		
Current assets		
Cash and cash equivalents	**$ 28,322**	$ 38,277
Accounts receivable, net	**161,861**	135,412
Inventories	**222,644**	206,707
Prepaid expenses and other current assets	**51,051**	42,017
Total current assets	**463,878**	422,413
Plant, equipment and timberlands, net	**606,644**	601,950
Other assets	**113,513**	112,562
Total assets	**$ 1,184,035**	$ 1,136,925
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	**$ 112,615**	$ 109,490
Dividends payable	**3,912**	3,902
Environmental liabilities	**250**	250
Other current liabilities	**111,619**	97,598
Total current liabilities	**228,396**	211,240
Long-term debt	**219,000**	227,000
Deferred income taxes	**65,991**	69,791
Other long-term liabilities	**124,731**	138,490
Total liabilities	**638,118**	646,521
Commitments and contingencies		
Shareholders equity		
Common stock	**544**	544
Capital in excess of par value	**50,936**	51,477
Retained earnings	**816,529**	775,825
Accumulated other comprehensive loss	**(154,143)**	(166,741)
	713,866	661,105
Less cost of common stock in treasury	**(167,949)**	(170,701)
Total shareholders equity	**545,917**	490,404
Total liabilities and shareholders equity	**$ 1,184,035**	$ 1,136,925

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

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P. H. GLATFELTER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

In thousands	**Nine months ended September 30 2012**	2011
Operating activities		
Net income	**$ 52,409**	$ 32,953
Adjustments to reconcile to net cash provided by operations:		
Depreciation, depletion and amortization	**51,123**	51,779
Amortization of debt issue costs and original issue discount	**913**	2,001
Pension expense, net of unfunded benefits paid	**7,711**	7,671
Deferred income tax provision (benefit)	**(10,872)**	13,111
Gains on dispositions of plant, equipment and timberlands, net	**(8,471)**	(3,902)
Share-based compensation	**5,004**	4,301
Change in operating assets and liabilities		
Accounts receivable	**(25,963)**	(16,292)
Inventories	**(14,160)**	(7,136)
Prepaid and other current assets	**(4,389)**	(9,654)
Accounts payable	**3,029**	4,932
Environmental matters	**(92)**	
Accruals and other current liabilities	**14,510**	(7,630)
Cellulosic biofuel and alternative fuel mixture credits	**(9,387)**	17,833
Other	**(12,900)**	(8,831)
Net cash provided by operating activities	**48,465**	81,136
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	**(45,027)**	(44,642)
Proceeds from disposals of plant, equipment and timberlands, net	**8,875**	4,442
Other	**(150)**	
Net cash used by investing activities	**(36,302)**	(40,200)
Financing activities		
Net repayments of revolving credit facility	**(8,000)**	
Payments of note offering costs	**(102)**	
Net repayments of other short term debt		(798)
Repurchases of common stock	**(4,060)**	(26,251)
Payments of dividends	**(11,696)**	(12,578)
Proceeds from stock options exercised and other	**1,461**	132
Net cash used by financing activities	**(22,397)**	(39,495)
Effect of exchange rate changes on cash	**279**	1,022
Net (decrease) increase in cash and cash equivalents	**(9,955)**	2,463
Cash and cash equivalents at the beginning of period	**38,277**	95,788
Cash and cash equivalents at the end of period	**$ 28,322**	$ 98,251
Supplemental cash flow information		
Cash paid (received) for:		
Interest, net of amounts capitalized	**$ 7,873**	$ 11,818

Income taxes	**26,097**	(9,447)

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 2011 Annual Report on Form 10-K (2011 Form 10-K).

Accounting Estimates The preparation of financial statements in conformity with GAAP requires us 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. We believe the estimates and assumptions used in the preparation of these financial statements are reasonable, based upon currently available facts and known circumstances, but recognize that actual results may differ from those estimates and assumptions.

Recently Issued Accounting Pronouncements In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Presentation of Comprehensive Income*. This ASU is designed to improve the comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareholders equity. The provisions of this ASU are required to be applied retrospectively. We have adopted this standard by presenting a separate consecutive statement of comprehensive income beginning in the first quarter of 2012.

In September 2011, the FASB updated ASC 350, *Intangibles - Goodwill and Other* to provide an entity the option, when evaluating goodwill and other assets for possible impairment, to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after completing this assessment, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. This update became effective for us beginning January 1, 2012. We adopted this standard in the third quarter of 2012 and it did not have a material impact on us.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,* which provides common requirements for measuring fair value and disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. We adopted this standard in the first quarter of 2012 and it did not have a material impact on us.

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3. GAINS ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

Sales of timberlands and other assets in the first nine months of 2012 and 2011 are summarized in the following table:

Dollars in thousands	Acres	Proceeds	Gain
2012			
Timberlands	**4,324**	**$ 8,105**	**$ 7,867**
Other	n/a	**770**	**604**
		$ 8,875	**$ 8,471**
2011			
Timberlands	942	$ 3,821	$ 3,575
Other	n/a	621	327
		$ 4,442	$ 3,902

We received cash proceeds for all sales summarized above.

4. EARNINGS PER SHARE

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

	Three months ended September 30	
In thousands, except per share	**2012**	2011
Net income	**$ 20,099**	$ 13,026
Weighted average common shares outstanding used in basic EPS	**42,837**	45,299
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	**830**	540
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**43,667**	45,839
Earnings per share		
Basic	**$ 0.47**	$ 0.29
Diluted	**0.46**	0.28

	Nine months ended September 30	
In thousands, except per share	**2012**	2011
Net income	**$ 52,409**	$ 32,953
Weighted average common shares outstanding used in basic EPS	**42,814**	45,813
Common shares issuable upon exercise of dilutive stock options and PSAs / RSUs	**781**	528
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**43,595**	46,341
Earnings per share		
Basic	**$ 1.22**	$ 0.72
Diluted	**1.20**	0.71

The following table sets forth potential common shares outstanding for stock options and restricted stock units that were not included in the computation of diluted EPS for the period indicated, because their effect would be anti-dilutive:

	2012	2011
Three months ended September 30	**7,544**	613,900
Nine months ended September 30	**158,444**	1,090,621

5. 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.

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:

	Open Tax Years	
Jurisdiction	**Examinations not yet initiated**	**Examination in progress**
United States		
Federal	2009 - 2011	N/A
State	2005 - 2011	2004, 2006, 2008, 2009
Canada (1)	2007 - 2011	2007 - 2010
Germany (1)	2007 - 2011	2008 - 2010
France	2009 - 2011	N/A
United Kingdom	2008 - 2011	N/A
Philippines	2010 - 2011	2009 - 2010

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

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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.

As of September 30, 2012 and December 31, 2011, we had $29.9 million and $29.7 million, respectively, of gross unrecognized tax benefits. As of September 30, 2012, if such benefits were to be recognized, approximately $29.9 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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 $15.4 million. Substantially all of this range relates to tax positions taken in the U.S. and in the U.K.

We recognize interest and penalties related to uncertain tax positions as income tax expense. During the first nine months of 2012 and the third quarter of 2012, we recognized a net reduction of interest expense of $0.3 million and $0.7 million respectively. For the first nine months of 2011, we recognized a net reduction of interest expense of $1.8 million. For the third quarter of 2011, we recognized interest expense of $0.2 million. As of September 30, 2012 and December 31, 2011, accrued interest payable was $1.4 million and $1.7 million, respectively. We did not record any penalties associated with uncertain tax positions during the third quarters of 2012 or 2011.

In March 2010, we were approved by the Internal Revenue Service to be registered as a producer of cellulosic biofuel under the Internal Revenue Code. The cellulosic biofuel credit was equal to $1.01 per gallon of black liquor produced in operations during 2009. In the second quarter of 2012, we made the decision to convert a portion of the previously utilized refundable alternative fuel mixture credit, which was equal to $0.50 per gallon, to the non-refundable cellulosic biofuel credit. The conversion to the cellulosic biofuel credit resulted in a net benefit for income taxes in the second quarter of 2012 of $4.4 million. In the third quarter of 2012, we amended our 2009 federal income tax return to claim a credit for a portion of the converted credits. This required us to return to the Internal Revenue Service $16.8 million during the third quarter of 2012, net of credits used to reduce estimated tax payments. The amount of cellulosic biofuel credits recognized is based on numerous assumptions and estimates about

future taxable income. Although we believe our assumptions to be reasonable, actual results may differ from these assumptions and estimates and such differences may have a significant impact on the amount of credits recognized. In addition, while we do not intend to convert additional credits, if facts and circumstances change, we could further amend our 2009 tax return and convert additional credits.

6. 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, stock appreciation rights, non-qualified stock options, performance share awards, incentive stock options and performance units.

Restricted Stock Units (RSUs) and Performance Share Awards (PSAs) Awards of RSUs and PSAs 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 first issued in March 2011 and cliff vest three years from the grant date 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 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.

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

Units	**2012**	2011
Beginning balance	**788,088**	579,801
Granted	**207,728**	245,454

Forfeited	**(29,825)**	(12,539)
Shares delivered	**(95,430)**	(14,490)
Ending balance	**870,561**	798,226

The amount granted in 2012 and 2011 includes PSAs of 161,083 units and 96,410 units, respectively, exclusive of reinvested dividends. The following table sets forth aggregate RSU and PSA compensation expense for the periods indicated:

	September 30	
In thousands	**2012**	2011
Three months ended	**$ 680**	$ 534
Nine months ended	**1,959**	1,541

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

The following table sets forth information related to SOSARS for the first nine months of the indicated period:

	2012		2011	
SOSARS	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	**2,298,288**	**$ 12.35**	2,061,877	$ 12.28
Granted	**364,114**	**15.23**	345,290	12.56
Exercised	**(500,074)**	**12.06**		
Canceled / forfeited	**(12,000)**	**14.96**	(102,970)	12.55
Outstanding at Sept. 30,	**2,150,328**	**$ 12.94**	2,304,197	$ 12.31
SOSAR Grants				
Weighted average grant date fair value per share	**$ 4.94**		$ 4.09	
Aggregate grant date fair value *(in thousands)*	**$ 1,797**		$ 1,412	
Black-Scholes assumptions				
Dividend yield	**2.31%**		2.87%	
Risk free rate of return	**1.02%**		2.55%	
Volatility	**41.48%**		41.91%	
Expected life	**6 yrs**		6 yrs	

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

	September 30	
In thousands	**2012**	2011
Three months ended	**$ 369**	$ 357
Nine months ended	**1,095**	1,237

7. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

	Three months ended September 30	
In thousands	**2012**	2011
Pension Benefits		
Service cost	**$ 2,778**	$ 2,492
Interest cost	**5,770**	6,109
Expected return on plan assets	**(10,541)**	(10,454)
Amortization of prior service cost	**614**	642
Amortization of unrecognized loss	**4,255**	3,313
Subtotal	**2,876**	2,102
One-time settlement charge		1,987
Net periodic benefit cost	**$ 2,876**	$ 4,089
Other Benefits		
Service cost	**$ 709**	$ 726
Interest cost	**608**	704

Expected return on plan assets	**(113)**	(130)
Amortization of prior service cost	**(234)**	(305)
Amortization of unrecognized loss	**165**	220
Net periodic benefit cost	**$ 1,135**	$ 1,215

	Nine months ended September 30	
In thousands	**2012**	2011
Pension Benefits		
Service cost	**$ 8,334**	$ 7,435
Interest cost	**17,304**	18,206
Expected return on plan assets	**(31,651)**	(31,368)
Amortization of prior service cost	**1,841**	1,925
Amortization of unrecognized loss	**12,765**	9,939
Subtotal	**8,593**	6,137
One-time settlement charge		1,987
Net periodic benefit cost	**$ 8,593**	$ 8,124
Other Benefits		
Service cost	**$ 2,127**	$ 2,179
Interest cost	**1,824**	2,112
Expected return on plan assets	**(339)**	(390)
Amortization of prior service cost	**(703)**	(916)
Amortization of unrecognized loss	**496**	661
Net periodic benefit cost	**$ 3,405**	$ 3,646

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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 paid to him in July 2011.

8. INVENTORIES

Inventories, net of reserves, were as follows:

In thousands	**Sept. 30, 2012**	Dec. 31, 2011
Raw materials	**$ 63,816**	$ 57,547
In-process and finished	**100,771**	93,096
Supplies	**58,057**	56,064
Total	**$ 222,644**	$ 206,707

9. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	**Sept. 30, 2012**	Dec. 31, 2011
Revolving credit facility, due Nov. 2016	**$ 19,000**	$ 27,000
7.125% Notes, due May 2016	**200,000**	200,000
Total long-term debt	**219,000**	227,000
Less current portion		
Long-term debt, net of current portion	**$ 219,000**	$ 227,000

On November 21, 2011, we entered into an amendment to our revolving credit agreement with a consortium of banks (the Revolving Credit Facility) which increased the amount available for borrowing to $350 million, extended the maturity of the facility to November 21, 2016, and instituted a lower interest rate pricing grid.

For all U.S. dollar denominated borrowings under the Revolving Credit Facility, the borrowing rate is, at our option, (a) the bank s base rate which is equal to the greater of i) the prime rate; ii) the federal funds rate plus 50 basis points plus an applicable spread ranging from 25 basis points to 125 basis points based on our corporate credit ratings determined by Standard & Poor s Rating Services and Moody s Investor Service, Inc. (the Corporate Credit Rating); or iii) the daily Euro-rate plus 100 basis points; or (b) the daily Euro-rate plus an applicable margin ranging from 125 basis points to 225 basis points based on the Corporate Credit Rating. For non-US dollar denominated borrowings, interest is based on (b) above.

The Revolving Credit Facility contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios including: i) maximum net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio; ii) a consolidated EBITDA to interest expense ratio; and iii) beginning December 31, 2015, a minimum liquidity ratio. A breach of these requirements would give rise to certain remedies under the Revolving Credit Facility, 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 7.125% Senior Notes due May 2016 (7.125% Notes). Net proceeds from this offering totaled approximately $196.4 million, after deducting the commissions and other fees and expenses relating to the offering.

Interest on the 7.125% Notes is payable semiannually in arrears on May 1 and November 1.

The 7.125% 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 Revolving Credit Agreement at maturity or a default under the Revolving Credit Agreement that accelerates the debt outstanding thereunder. As of September 30, 2012, we met all of the requirements of our debt covenants.

On October 3, 2012, we completed an offering of $250 million of 5.375% senior notes replacing the 7.125% Notes. See additional information in Note 17 Subsequent Events.

As of September 30, 2012 and December 31, 2011, we had $5.2 million and $4.6 million, respectively, of letters of credit issued to us by certain financial institutions. The letters of credit, which reduce amounts available under our revolving credit facility, 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.

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10. 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 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 upward revisions to the original estimate, 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 a straight-line basis over the expected closure period. Following is a summary of activity recorded during the first nine months of 2012 and 2011:

In thousands	**2012**	2011
Balance at Jan. 1,	**$ 9,679**	$ 9,717
Accretion	**347**	388
Payments	**(945)**	(1,018)
Balance at Sept. 30,	**$ 9,081**	$ 9,087

At September 30, 2012, $3.1 million of the total liability is recorded in the accompanying consolidated balance sheet, under the caption Other current liabilities and $6.0 million is recorded under the caption Other long-term liabilities.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts reported on the accompanying 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:

	September 30, 2012		December 31, 2011	
In thousands	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate bonds	**$ 200,000**	**$ 204,750**	$ 200,000	$ 204,000
Variable rate debt	**19,000**	**19,000**	27,000	27,000
Total	**$ 219,000**	**$ 223,750**	$ 227,000	$ 231,000

As of September 30, 2012, and December 31, 2011, we had $200.0 million of 7 $^{1}/_{8}$% fixed rate debt. These bonds are publicly registered, but thinly traded. Accordingly, the values set forth above are based on debt instruments with similar characteristics (Level 2). The fair value of financial derivatives is set forth below in Note 12.

12. 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 We use currency forward contracts as cash flow hedges to manage our exposure to fluctuations in the currency exchange rates on certain forecasted production costs expected to be incurred over a maximum of twelve months. Currency forward contracts involve fixing the EUR-USD exchange rate or USD-CAD 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 and certain other identified manufacturing cost 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 sheets 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 designated as cash flow hedges:

In thousands Derivative	**Sept. 30, 2012**	Dec. 31, 2011
	Buy Notional	
Sell / Buy		
Euro / U.S. dollar	**26,994**	22,730
U.S. dollar / Canadian dollar	**11,234**	11,019

These contracts have maturities of twelve months or less.

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

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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. We had the following foreign currency hedges:

In thousands	**Sept. 30, 2012**	Dec. 31, 2011
Derivative	Sell Notional	
Sell / Buy		
Euro / U.S. dollar	**18,000**	25,500
Euro / British Pound	**4,000**	
U.S. dollar / Canadian dollar	**1,000**	
Philippine peso / U.S. dollar		150,000

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

Fair Value Measurements The following table sets forth 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:

In thousands	**Sept. 30, 2012**	Dec. 31, 2011	**Sept. 30, 2012**	Dec. 31, 2011
Balance sheet caption	Prepaid and Other Current Assets		Other Current Liabilities	
Designated as hedging:				
Forward foreign currency exchange contracts	**$ 398**	$ 1,520	**$ 104**	
Not designated as hedging:				
Forward foreign currency exchange contracts	**$ 6**	$ 338	**$ 99**	$ 15

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

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:

In thousands	Three months ended Sept. 30 **2012**	2011	Nine months ended Sept. 30 **2012**	2011
Designated as hedging:				
Forward foreign currency exchange contracts:				
Effective portion cost of products sold	**$ 715**	$ 26	**$ 1,832**	$ 26
Ineffective portion other net	**18**	106	**244**	107
Not designated as hedging:				
Forward foreign currency exchange contracts:				
Other net	**$ (684)**	$ 3,366	**$ (290)**	$ (2,476)

The impact on our results of operations of marking-to -market activity not designated as hedging was

substantially all offset by the remeasurement of the underlying on-balance sheet item.

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 fair values of the foreign exchange forward contracts are considered to be Level 2. Foreign currency forward contracts are valued using 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 recorded as a component of accumulated other comprehensive income is as follows:

In thousands	**2012**	2011
Balance at Jan. 1	**$ 1,649**	$
Deferred gains on cash flow hedges	**663**	975
Reclassified to earnings	**(1,832)**	(26)
Balance at Sept. 30	**$ 480**	$ 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.

13. SHARE REPURCHASES

In May 2012, our Board of Directors authorized a new share repurchase program for up to $25.0 million of our outstanding common stock, exclusive of commissions. The following table summarizes share repurchases under this program:

	shares	*(thousands)*
Authorized amount	n/a	$ 25,000
Repurchases	187,975	(2,850)
Remaining authorization		$ 22,150

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In April 2011, our Board of Directors authorized a share repurchase program for up to $50.0 million of our outstanding common stock, exclusive of commissions, all of which has been used, including 82,533 shares at a cost of $1.2 million repurchased under this program in the first quarter of 2012.

14. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS
Fox River - Neenah, Wisconsin

Background We have significant uncertainties associated with environmental claims arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay Wisconsin (Site). As part of 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 a 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.

The Governments have sought to recover response actions, response costs, and NRDs from us through three principal enforcement actions.

<u>OU1 CD</u>. 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 Company (WTM I) 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.

<u>OU2-5 UAO</u>. 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 Mills Corp., and WTM I 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 are approximately $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. The United States twice sought a preliminary injunction in 2011 to obtain full-scale remediation from NCR or API, and those motions were denied. NCR implemented less than a full season of work in 2011. On March 19, 2012, the United States again moved for a preliminary injunction to require NCR and API to conduct full-scale remediation defined as dredging of 660,000 cubic yards of sediment in 2012. On April 10, 2012, the court granted summary judgment to API, holding that API was not a successor to the Appleton Coated Papers Division of NCR Corporation. On April 27, 2012, the court granted the preliminary injunction that the United States had requested, but against NCR only. The United States Court of Appeals for the Seventh Circuit affirmed that preliminary injunction on August 3, 2012, so work continued in OU2-5 in 2012. Active litigation of the United States claim for a declaratory judgment or permanent injunctive relief against all recipients of the UAO for OU2-5, including us, is on an accelerated schedule, and the district court has scheduled it for a trial beginning December 3, 2012. Among other issues, disposition of that claim will require litigation of challenges to the United States selection of the remedy for this Site and will also require disposition of various parties asserted defenses that liability for some or all of this Site is not joint and several and may be apportioned. Should the government obtain the order against us that it is now seeking on the claim to be tried, the court would issue a mandatory injunction requiring us, jointly and severally with any other defendants against which the government were to prevail, to complete the remedy for OU2-5. However, the government is not seeking at that trial any change to the rulings in the Whiting Litigation under which NCR bears full responsibility for any obligations we share jointly with NCR.

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. Claims by and against us have since been resolved, and we expect entry of a final judgment 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. The United States moved for entry of that consent decree, but later withdrew that motion due to a ruling by the court adverse to the government in a related case captioned *Menasha Corp. v. United States Department of Justice*, seeking disclosure of certain documents under the Freedom of Information Act. We oppose entry of that consent decree, which the district court must approve. The United States or the State of Wisconsin may enter into settlements with us or with other parties that would affect our ultimate obligations because settling parties may become unavailable to pay any share other than their settlement amount, depending upon the terms of the settlement and the court s order entering any consent decree.

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 have begun to 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.

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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.

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. 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. The court required 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. In addition, NCR and API contended that some of the costs we claim are not recoverable and that our insurance coverage settlements ought to be set off against any recovery in whole or in part. Those issues were tried to the court and on July 3, 2012, the court issued findings of fact and conclusions of law awarding us approximately $4.25 million in claimed past costs associated with the work of the Fox River Group, subject to an unresolved insurance coverage settlement off-set. The court also found that the sale of production scrap known as broke from NCR s predecessor Appleton Coated Paper Company to recyclers did not constitute arranging for disposal of the PCBs coated on that broke and therefore did not render NCR liable on that basis for costs we had incurred in OU1, a decision with which we disagree. On October 4, 2012, the court granted API s motion for summary judgment relieving it of any liability on the basis of the decision made in the Government Action in April 2012, and the court also held that CERCLA preempts all other claims asserted by us and others under other law. The court ordered the parties to propose a form of final judgment by October 22, 2012, with which we complied. An appeal of the court s December 16, 2009, February 28, 2011, September 30, 2011, and July 3, 2012, and October 4, 2012, decisions will not be ripe for any party until entry of that judgment.

Reserves for the Site. As of September 30, 2012, 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 $16.5 million. Of our total reserve for the Fox River, $0.3 million is recorded in the accompanying condensed 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 I 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 I has filed a bankruptcy petition in the Bankruptcy Court in Richmond; accordingly, there can be no assurance that WTM I 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 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, statements in the court s disposition of the United States 2011 and 2012 motions for a preliminary injunction in the Government Action, the court of appeals opinion affirming the 2012 preliminary injunction, 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, February 28, 2011, and July 3, 2012, and October 4, 2012, 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

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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 10 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 likely, while the result of the February 2012 trial and 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 that 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.

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15. SEGMENT INFORMATION

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

Three months ended September 30 *In millions*	Specialty Papers 2012	Specialty Papers 2011	Composite Fibers 2012	Composite Fibers 2011	Advanced Airlaid Materials 2012	Advanced Airlaid Materials 2011	Other and Unallocated 2012	Other and Unallocated 2011	Total 2012	Total 2011
Net sales	**$ 232.6**	$ 225.4	**$ 110.8**	$ 124.9	**$ 60.9**	$ 66.2			**$ 404.4**	$ 416.5
Energy and related sales, net	**1.9**	2.8							**1.9**	2.8
Total revenue	**234.5**	228.2	**110.8**	124.9	**60.9**	66.2			**406.2**	419.3
Cost of products sold	**199.1**	198.6	**91.2**	104.6	**54.1**	59.2	**2.6**	2.0	**347.0**	364.4
Gross profit (loss)	**35.4**	29.6	**19.7**	20.3	**6.8**	7.0	**(2.6)**	(2.0)	**59.2**	54.9
SG&A	**14.0**	12.6	**9.4**	10.2	**2.2**	2.9	**3.9**	5.7	**29.4**	31.4
Gains on dispositions of plant, equipment and timberlands, net							**(1.5)**	(0.7)	**(1.5)**	(0.7)
Total operating income (loss)	**21.4**	17.0	**10.3**	10.1	**4.6**	4.1	**(5.0)**	(7.0)	**31.3**	24.2
Other non-operating income (expense)							**(4.1)**	(6.5)	**(4.1)**	(6.5)
Income (loss) before income taxes	**$ 21.4**	$ 17.0	**$ 10.3**	$ 10.1	**$ 4.6**	$ 4.1	**$ (9.0)**	$ (13.4)	**$ 27.2**	$ 17.7
Supplementary Data										
Net tons sold	**204.5**	199.6	**23.5**	24.1	**22.8**	23.1			**250.9**	246.7
Depreciation, depletion and amortization	**$ 9.2**	$ 9.2	**$ 5.7**	$ 6.2	**$ 2.1**	$ 2.1			**$ 17.1**	$ 17.5
Capital expenditures	**5.4**	6.7	**7.5**	5.7	**1.4**	4.3	**0.1**		**14.4**	16.8

Nine months ended September 30 *In millions*	Specialty Papers 2012	Specialty Papers 2011	Composite Fibers 2012	Composite Fibers 2011	Advanced Airlaid Materials 2012	Advanced Airlaid Materials 2011	Other and Unallocated 2012	Other and Unallocated 2011	Total 2012	Total 2011
Net sales	**$ 670.5**	$ 662.6	**$ 331.4**	$ 356.5	**$ 184.5**	$ 192.2			**$ 1,186.4**	$ 1,211.2
Energy and related sales, net	**5.4**	7.9							**5.4**	7.9
Total revenue	**675.9**	670.5	**331.4**	356.5	**184.5**	192.2			**1,191.8**	1,219.1
Cost of products sold	**585.2**	592.5	**273.5**	295.1	**164.3**	174.3	**7.7**	4.6	**1,030.7**	1,066.6
Gross profit (loss)	**90.7**	78.0	**57.9**	61.3	**20.2**	17.9	**(7.8)**	(4.6)	**161.0**	152.6
SG&A	**41.3**	38.9	**28.8**	29.6	**7.2**	8.3	**12.2**	17.7	**89.5**	94.5
Gains on dispositions of plant, equipment and timberlands, net							**(8.5)**	(3.9)	**(8.5)**	(3.9)
Total operating income (loss)	**49.4**	39.1	**29.1**	31.7	**13.0**	9.6	**(11.5)**	(18.4)	**80.1**	62.0
Other non-operating income (expense)							**(12.0)**	(19.3)	**(12.0)**	(19.3)
Income (loss) before income taxes	**$ 49.4**	$ 39.1	**$ 29.1**	$ 31.7	**$ 13.0**	$ 9.6	**$ (23.4)**	$ (37.7)	**$ 68.1**	$ 42.7
Supplementary Data										
Net tons sold	**587.1**	590.1	**69.2**	70.0	**67.9**	66.9			**724.2**	726.9
Depreciation, depletion and amortization	**$ 27.1**	$ 26.7	**$ 17.6**	$ 18.7	**$ 6.5**	$ 6.4			**$ 51.1**	$ 51.8
Capital expenditures	**19.1**	20.0	**22.9**	16.2	**2.8**	8.4	**0.2**		**45.0**	44.6

The clerical accuracy of the amounts set forth above may be affected by, or the amounts may not agree to the condensed consolidated financial statements included herein due to, rounding.

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 and cellulosic biofuel 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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16. GUARANTOR FINANCIAL STATEMENTS

Our 7.125% Notes have been fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries: PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, and Glatfelter Holdings, LLC.

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

Condensed Consolidating Statement of Income for the three months ended September 30, 2012

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	**$ 232,620**	**$ 13,936**	**$ 171,734**	**$ (13,936)**	**$ 404,354**
Energy and related sales, net	**1,867**				**1,867**
Total revenues	**234,487**	**13,936**	**171,734**	**(13,936)**	**406,221**
Costs of products sold	**203,084**	**12,472**	**145,377**	**(13,904)**	**347,029**
Gross profit	**31,403**	**1,464**	**26,357**	**(32)**	**59,192**
Selling, general and administrative expenses	**16,842**	**880**	**11,658**		**29,380**
Gains on dispositions of plant, equipment and timberlands, net	**16**	**(1,489)**			**(1,473)**
Operating income	**14,545**	**2,073**	**14,699**	**(32)**	**31,285**
Other non-operating income (expense)					
Interest expense, net	**(4,917)**	**1,779**	**(908)**		**(4,046)**
Other, net	**12,016**	**269**	**238**	**(12,527)**	**(4)**
Total other non-operating income (expense)	**7,099**	**2,048**	**(670)**	**(12,527)**	**(4,050)**
Income (loss) before income taxes	**21,644**	**4,121**	**14,029**	**(12,559)**	**27,235**
Income tax provision (benefit)	**1,545**	**1,637**	**3,967**	**(13)**	**7,136**
Net income (loss)	**20,099**	**2,484**	**10,062**	**(12,546)**	**20,099**
Other comprehensive income (loss)	**11,566**	**3,923**	**5,356**	**(9,279)**	**11,566**
Comprehensive income	**$ 31,665**	**$ 6,407**	**$ 15,418**	**$ (21,825)**	**$ 31,665**

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

In thousands	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, net	(6,625)	2,032	(1,729)		(6,322)
Other, net	10,935	(134)	653	(11,591)	(137)
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
Other comprehensive income (loss)	(14,236)	(8,284)	(11,057)	19,341	(14,236)
Comprehensive income	$ (1,210)	$ (6,483)	$ (1,281)	$ 7,764	$ (1,210)

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Condensed Consolidating Statement of Income for the nine months ended September 30, 2012

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	**$ 670,536**	**$ 41,307**	**$ 515,874**	**$ (41,318)**	**$ 1,186,399**
Energy and related sales net	**5,358**				**5,358**
Total revenues	**675,894**	**41,307**	**515,874**	**(41,318)**	**1,191,757**
Costs of products sold	**596,508**	**37,524**	**437,945**	**(41,260)**	**1,030,717**
Gross profit	**79,386**	**3,783**	**77,929**	**(58)**	**161,040**
Selling, general and administrative expenses	**51,570**	**2,220**	**35,670**		**89,460**
Gains on dispositions of plant, equipment and timberlands, net	**(506)**	**(7,940)**	**(25)**		**(8,471)**
Operating income	**28,322**	**9,503**	**42,284**	**(58)**	**80,051**
Other non-operating income (expense)					
Interest expense, net	**(14,704)**	**5,121**	**(2,665)**		**(12,248)**
Other, net	**36,817**	**642**	**1,099**	**(38,263)**	**295**
Total other non-operating income (expense)	**22,113**	**5,763**	**(1,566)**	**(38,263)**	**(11,953)**
Income (loss) before income taxes	**50,435**	**15,266**	**40,718**	**(38,321)**	**68,098**
Income tax provision (benefit)	**(1,974)**	**6,523**	**11,165**	**(25)**	**15,689**
Net income (loss)	**52,409**	**8,743**	**29,553**	**(38,296)**	**52,409**
Other comprehensive income	**12,598**	**1,815**	**1,366**	**(3,181)**	**12,598**
Comprehensive income	**$ 65,007**	**$ 10,558**	**$ 30,919**	**$ (41,477)**	**$ 65,007**

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

In thousands	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
Other non-operating income (expense)					
Interest expense, net	(16,563)	5,905	(4,928)	(3,300)	(18,886)
Other, net	34,120	(13)	474	(34,986)	(405)
Total other non-operating 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
Other comprehensive income	8,723	105	2,187	(2,292)	8,723
Comprehensive income	$ 41,676	$ 6,755	$ 32,456	$ (39,211)	$ 41,676

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Condensed Consolidating Balance Sheet as of September 30, 2012

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Cash and cash equivalents	**$ 3,155**	**$ 5,647**	**$ 19,520**	**$**	**$ 28,322**
Other current assets	**281,788**	**441,642**	**244,263**	**(532,137)**	**435,556**
Plant, equipment and timberlands, net	**236,084**	**6,243**	**364,317**		**606,644**
Other assets	**785,241**	**160,327**	**47,983**	**(880,038)**	**113,513**
Total assets	**$ 1,306,268**	**$ 613,859**	**$ 676,083**	**$ (1,412,175)**	**$ 1,184,035**
Liabilities and Shareholders Equity					
Current liabilities	**$ 400,569**	**$ 68,461**	**$ 297,296**	**$ (537,930)**	**$ 228,396**
Long-term debt	**219,000**				**219,000**
Deferred income taxes	**37,350**	**4,900**	**39,463**	**(15,722)**	**65,991**
Other long-term liabilities	**103,432**	**10,020**	**9,128**	**2,151**	**124,731**
Total liabilities	**760,351**	**83,381**	**345,887**	**(551,501)**	**638,118**
Shareholders equity	**545,917**	**530,478**	**330,196**	**(860,674)**	**545,917**
Total liabilities and shareholders equity	**$ 1,306,268**	**$ 613,859**	**$ 676,083**	**$ (1,412,175)**	**$ 1,184,035**

Condensed Consolidating Balance Sheet as of December 31, 2011

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 3,007	$ 2,894	$ 32,376	$	$ 38,277
Other current assets	203,173	378,519	223,494	(421,050)	384,136
Plant, equipment and timberlands, net	243,554	6,648	351,748		601,950
Other assets	736,733	175,945	48,610	(848,726)	112,562
Total assets	$ 1,186,467	$ 564,006	$ 656,228	$ (1,269,776)	$ 1,136,925
Liabilities and Shareholders Equity					
Current liabilities	$ 310,814	$ 31,328	$ 293,283	$ (424,185)	$ 211,240
Long-term debt	227,000				227,000
Deferred income taxes	42,252	4,079	39,511	(16,051)	69,791
Other long-term liabilities	115,997	10,059	9,415	3,019	138,490
Total liabilities	696,063	45,466	342,209	(437,217)	646,521
Shareholders equity	490,404	518,540	314,019	(832,559)	490,404
Total liabilities and shareholders equity	$ 1,186,467	$ 564,006	$ 656,228	$ (1,269,776)	$ 1,136,925

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Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2012

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	**$ 9,196**	**$ 4,971**	**$ 34,298**	**$**	**$ 48,465**
Investing activities					
Expenditures for plant, equipment and timberlands	**(19,035)**	**(281)**	**(25,711)**		**(45,027)**
Proceeds from disposal plant, equipment and timberlands, net	**654**	**8,185**	**36**		**8,875**
Repayments from (advances of) intercompany loans, net and other	**13,397**	**(2,722)**	**(514)**	**(10,161)**	
Other	**(150)**				**(150)**
Total investing activities	**(5,134)**	**5,182**	**(26,189)**	**(10,161)**	**(36,302)**
Financing activities					
Net repayments of indebtedness	**(8,000)**				**(8,000)**
Payments of note offering costs	**(102)**				**(102)**
Payment of dividends to shareholders	**(11,696)**				**(11,696)**
Repurchases of common stock	**(4,060)**				**(4,060)**
(Repayments) borrowings of intercompany loans, net	**18,510**	**(7,400)**	**(21,271)**	**10,161**	
Proceeds from stock options exercised and other	**1,434**		**27**		**1,461**
Total financing activities	**(3,914)**	**(7,400)**	**(21,244)**	**10,161**	**(22,397)**
Effect of exchange rate on cash			**279**		**279**
Net increase (decrease) in cash	**148**	**2,753**	**(12,856)**		**(9,955)**
Cash at the beginning of period	**3,007**	**2,894**	**32,376**		**38,277**
Cash at the end of period	**$ 3,155**	**$ 5,647**	**$ 19,520**	**$**	**$ 28,322**

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

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Operating activities	$ 78,151	$ (29,590)	$ 35,875	$ (3,300)	$ 81,136
Investing activities					
Expenditures for plant, equipment and timberlands	(19,985)	(65)	(24,592)		(44,642)
Proceeds from disposal plant, equipment and timberlands, net	597	3,821	24		4,442
Repayments from (advances of) intercompany loans, net	(10,133)	29,933		(19,800)	0
Total investing activities	(29,521)	33,689	(24,568)	(19,800)	(40,200)
Financing activities					
Net repayments of short-term debt			(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 inter- company dividend		(3,300)		3,300	
Proceeds from stock options exercised and other	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

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17. SUBSEQUENT EVENTS

Private Placement On October 3, 2012, we completed a private placement offering of $250.0 million aggregate principal amount of 5.375% Senior Notes due 2020 (the 5.375% Notes), subject to a registration rights agreement. The 5.375% Notes are fully and unconditionally guaranteed, jointly and severally, by PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, and Glatfelter Holdings, LLC (the Guarantors). The net proceeds from this offering totaled approximately $246.3 million, after deducting the commissions relating to the offering and were used to tender and call $200.0 million aggregate principal amount of our outstanding 7.125% notes due November 2016, plus the payment of the applicable redemption premium and accrued interest. We used the remaining net proceeds to repay amounts outstanding under our revolving credit facility and for general corporate purposes. We agreed to pay additional interest on the 5.375% Notes if we do not comply with certain of our obligations under the applicable registration rights agreement.

Interest on the 5.375% Notes will accrue at the rate of 5.375% per annum and will be payable semiannually in arrears on April 15 and October 15, commencing on April 15, 2013.

The 5.375% Notes are redeemable, in whole or in part, at anytime on or after October 15, 2016 at the redemption prices specified in the applicable Indenture. Prior to October 15, 2016, we may redeem some or all of the Notes at a make-whole premium as specified in the Indenture. The Notes and the guarantees of the Notes are senior obligations of the Company and the Guarantors, respectively, rank equally in right of payment with future senior indebtedness of the Company and the Guarantors and will mature on October 3, 2020.

The 5.375% 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 Revolving Credit Agreement at maturity or a default under the Revolving Credit Agreement that accelerates the debt outstanding thereunder.

Scaer, France Facility Fire On October 14, 2012 our paper mill in Scaer, France, which produces specialty papers and wet-laid nonwovens on two inclined wire paper machines for the food and beverage markets as well as technical specialty paper grades, sustained a fire that damaged the electrical system primarily servicing paper machine #3 and certain mill infrastructure. There were no injuries nor known environmental impact. While the initial inspection of the mill s two paper machines indicates these assets were not damaged, it may take several weeks to restart the machines following the restoration of electrical equipment and completion of clean-up activities. Paper machine #4 is expected to be down approximately 3-4 weeks and paper machine #3 approximately 6-8 weeks.

The finishing and shipping operations were not impacted by the incident. Shipment of customer orders resumed within 24 hours and on site inventories are adequate to satisfy orders through mid-November. Given the flexibility of its assets and mill production systems, and available capacity at our other facilities to meet production needs, we expect no interruption in our ability to supply customers.

An assessment of the costs for the impact of inventory loss, equipment damage, and clean up costs is underway. Based on our preliminary assessment, we do not expect a significant financial impact from this incident as it is expected to be covered by insurance, subject to a deductible of $0.5 million.

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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 2011 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, 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. disruptions in production and/or increased costs due to labor disputes;

xii. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities;

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

xiv. adverse results in litigation in the Fox River matter;

xv. our ability to finance, consummate and integrate acquisitions;

xvi. the cost, and successful design and construction, of the Composite Fibers capacity expansion project; and

xvii. the incurrence of unforeseen costs associated with the repair of equipment and clean-up of the Scaer facility, our ability to supply this facility s customers, and the coverage provided by insurance.

We manufacture a wide array of specialty papers and fiber-based engineered materials. We manage our company along three business units:

i) *Specialty Papers* with revenue 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 single-serve coffee and tea filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and other technical specialty papers; 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, wipes, food pads, napkins, tablecloths, and specialty wipes.

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RESULTS OF OPERATIONS

Nine months ended September 30, 2012 versus the Nine months ended September 30, 2011

Overview For the first nine months of 2012, net income was $52.4 million, or $1.20 per diluted share, compared with $33.0 million, or $0.71 per diluted share, in the same period of 2011.

Operationally, our results reflect $11.1 million of higher operating income from our business units primarily reflecting higher selling prices, efficient operations and continuous improvement initiatives, partially offset by the adverse impact of foreign currency translations.

Specialty Papers operating income increased $10.3 million to $49.4 million for the first nine months of 2012. Volumes shipped declined slightly; however this unit s profitability was favorably impacted by higher selling prices, the mix of products sold, lower input costs and efficient operations.

Our Composite Fibers business unit s operating income declined $2.6 million to $29.1 million primarily due to the translation of foreign currencies as well as lost production associated with two machine upgrades. Volumes shipped were essentially unchanged in the comparison, although the demand trends were impacted by the uncertain European economic conditions.

Advanced Airlaid Materials operating income increased $3.4 million to $13.0 million, reflecting improvements in operating efficiency and lower raw material and energy costs.

Consolidated net income also benefited by $4.4 million, or $0.10 per diluted share, from lower interest expense as a result of the debt refinancing undertaken in the fourth quarter of 2011. Diluted shares outstanding for the first nine months of 2012 declined by 2.7 million shares compared with the same period of 2011 primarily due to the 2011 share repurchase program.

In thousands, except per share	**Nine months ended September 30** **2012**	2011
Net sales	**$ 1,186,399**	$ 1,211,249
Gross profit	**161,040**	152,583
Operating income	**80,051**	61,965
Net income	**52,409**	32,953
Earnings per diluted share	**1.20**	0.71

The consolidated results of operations summarized above include the following significant items:

In thousands, except per share	**After-tax Gain (loss)**	**Diluted EPS**
2012		
Conversion of Alternative fuel mixture/Cellulosic biofuel credits	**$ 4,329**	**$ 0.10**
Timberland sales and related costs	**4,554**	**0.10**
2011		
Timberland sales and related costs	$ 1,895	$ 0.04
Acquisition and integration related costs	(793)	(0.02)

The above items increased earnings by $8.9 million, or $0.20 per diluted share, in the first nine months of 2012 and by $1.1 million, or $0.02 per diluted share, in the first nine months of 2011.

In 2012, we recorded a $4.3 million, or $0.10 per diluted share, benefit in connection with our conversion of a portion of the alternative fuel mixture credits earned in 2009 for cellulosic biofuel credits.

The consolidated amounts reported for 2012 and 2011 also includes $4.6 million and $1.9 million, respectively, in after-tax gains from timberland sales.

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Business Unit Performance

Nine months ended September 30

In millions	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Net sales	**$ 670.5**	$ 662.6	**$ 331.4**	$ 356.5	**$ 184.5**	$ 192.2			**$ 1,186.4**	$ 1,211.2
Energy and related sales, net	**5.4**	7.9							**5.4**	7.9
Total revenue	**675.9**	670.5	**331.4**	356.5	**184.5**	192.2			**1,191.8**	1,219.1
Cost of products sold	**585.2**	592.5	**273.5**	295.1	**164.3**	174.3	**7.7**	4.6	**1,030.7**	1,066.6
Gross profit (loss)	**90.7**	78.0	**57.9**	61.3	**20.2**	17.9	**(7.8)**	(4.6)	**161.0**	152.6
SG&A	**41.3**	38.9	**28.8**	29.6	**7.2**	8.3	**12.2**	17.7	**89.5**	94.5
Gains on dispositions of plant, equipment and timberlands, net							**(8.5)**	(3.9)	**(8.5)**	(3.9)
Total operating income (loss)	**49.4**	39.1	**29.1**	31.7	**13.0**	9.6	**(11.5)**	(18.4)	**80.1**	62.0
Other non-operating income (expense)							**(12.0)**	(19.3)	**(12.0)**	(19.3)
Income (loss) before income taxes	**$ 49.4**	$ 39.1	**$ 29.1**	$ 31.7	**$ 13.0**	$ 9.6	**$ (23.4)**	$ (37.7)	**$ 68.1**	$ 42.7
Supplementary Data										
Net tons sold	**587.1**	590.1	**69.2**	70.0	**67.9**	66.9			**724.2**	726.9
Depreciation, depletion and amortization	**$ 27.1**	$ 26.7	**$ 17.6**	$ 18.7	**$ 6.5**	$ 6.4			**$ 51.1**	$ 51.8
Capital expenditures	**19.1**	20.0	**22.9**	16.2	**2.8**	8.4	**0.2**		**45.0**	44.6

The clerical accuracy of the amounts set forth above may be affected by, or the amounts may not agree to the condensed consolidated financial statements included herein due to rounding.

Sales and Costs of Products Sold

In thousands	**Nine months ended September 30**		
	2012	2011	Change
Net sales	**$ 1,186,399**	$ 1,211,249	$ (24,850)
Energy and related sales net	**5,358**	7,887	(2,529)
Total revenues	**1,191,757**	1,219,136	(27,379)
Costs of products sold	**1,030,717**	1,066,553	(35,836)
Gross profit	**$ 161,040**	$ 152,583	$ 8,457
Gross profit as a percent of Net sales	**13.6%**	12.6%	

Net sales for the first nine months of 2012 decreased by $24.9 million, or 2.1%, to $1,186.4 million. The translation of foreign currencies unfavorably impacted net sales by $32.0 million in the comparison more than offsetting a $5.5 million benefit from higher selling prices. Total volumes shipped declined slightly.

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

Percent of Total	**Nine months ended September 30 2012**	2011
Business Unit		
Specialty Papers	**56.5%**	54.7%
Composite Fibers	**27.9**	29.4
Advanced Airlaid Material	**15.6**	15.9
Total	**100.0%**	100.0%

In the Specialty Papers business unit, net sales increased $7.9 million primarily reflecting a $7.0 million benefit from higher selling prices and an improved mix of products sold. Volumes shipped declined less than 1%.

Specialty Papers operating income in the first nine months of 2012 was $10.3 million higher than the same period of 2011 reflecting the benefits from higher selling prices, a $4.0 million benefit from lower raw material costs, $3.8 million from continuous improvement initiatives, production efficiencies, and cost control initiatives. These factors were partially offset by $2.5 million of lower energy and related sales. Results for the first nine months of 2011 benefited by $2.8 million from an insurance recovery and the resolution of a tax audit.

We sell excess power generated by the Spring Grove, PA facility. The following table summarizes this activity for the first nine months of 2012 and 2011:

In thousands	**Nine months ended September 30 2012**	2011	Change
Energy sales	**$ 3,911**	$ 9,056	$ (5,145)
Costs to produce	**(3,064)**	(7,311)	4,247
Net	**847**	1,745	(898)
Renewable energy credits	**4,511**	6,142	(1,631)
Total	**$ 5,358**	$ 7,887	$ (2,529)

Renewable energy credits (RECs) represent sales of certified credits earned related to burning renewable

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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.

In Composite Fibers, net sales were $331.4 million, a decrease of $25.1 million, or 7.0%, primarily due to the translation of foreign currencies which unfavorably impacted the comparison by $21.9 million. Average selling prices were essentially unchanged and total volumes shipped were slightly lower in the comparison.

Composite Fibers operating income in the first nine months of 2012 decreased by $2.6 million, which was primarily due to $2.8 million from the translation of foreign currencies and unfavorable operating costs including a $1.6 million impact from the completion of machine upgrades adversely affected the comparison. Operating results were favorably impacted by $1.5 million from lower input costs, primarily fiber and energy.

We previously reported that on October 14, 2012, a fire was sustained by our Scaer, France facility, one of several within Composite Fibers business unit. The fire damaged the electrical system primarily servicing one of two papermaking machines at the facility as well as certain mill infrastructure. As a result of this incident, for which we believe we are insured subject to a $0.5 million deductible, we expect this business unit s fourth quarter 2012 results will be adversely impacted due to machine downtime and the timing of recording costs associated with the fire and the recognition of any insurance recoveries.

In Advanced Airlaid Materials, net sales were $184.5 million and $192.2 million in the first nine months of 2012 and 2011, respectively. The total volumes shipped increased 1.5%; however, currency translation and average selling prices unfavorably affected the comparison by $10.1 million and $2.0 million, respectively.

Operating income in this business unit increased $3.4 million in the first nine months of 2012 compared with the same period a year ago led by a $5.7 million benefit from lower raw material and energy costs in addition to continuous improvement initiatives including supply chain efficiencies, waste reduction and improved throughput, and benefits from a new festooner. The translation of foreign currencies negatively impacted results by $2.2 million.

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

	Nine months ended September 30		
In thousands	**2012**	2011	Change
Recorded as:			
Costs of products sold	**$ 6,804**	$ 4,975	$ 1,829
SG&A expense	**1,789**	3,149	(1,360)
Total	**$ 8,593**	$ 8,124	$ 469

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

Other and Unallocated The amount of net operating expenses not allocated to a business unit and reported as Other and Unallocated in our table of *Business Unit Performance,* excluding gains from sales of plant, equipment and timberlands, totaled $20.0 million in the first nine months of 2012 compared with $22.3 million in the first nine months of 2011. The decrease was primarily due to lower legal and professional fees partially offset by an increase in pension expense.

Non-operating income (expense) as presented in the *Business Unit Performance* table includes $12.6 million of interest expense for the first nine months of 2012, a decrease of $6.8 million in the comparison primarily due to the redemption in the fourth quarter of 2011 of $100.0 million of $7\,^{1}/_{8}$% bonds.

Income taxes For the first nine months of 2012, we recorded a provision for income taxes of $15.7 million on $68.1 million of pretax income, or 23.0%. The comparable amounts in the first nine months of 2011 were income tax expense $9.7 million on $42.7 million of pretax income, or

22.8%. Income taxes in the first nine months of 2012 benefited by $4.3 million from the conversion of alternative fuel mixture credits to cellulosic biofuel credits. The 2011 amounts include the benefit recorded in connection with the resolution of certain foreign tax audits, partially offset by adjustments to the carrying value of deferred taxes in connection with changes in state tax laws.

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 functional currency is the Peso. During the first nine months of 2012, Euro functional currency operations

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generated approximately 25.4% of our sales and 24.3% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.5% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on the first nine months of 2012 reported results compared to the first nine months 2011:

In thousands	Nine months ended September 30 Favorable (unfavorable)
Net sales	$ (32,035)
Costs of products sold	24,466
SG&A expenses	2,574
Income taxes and other	467
Net income	$ (4,528)

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2012 were the same as 2011. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

Three months ended September 30, 2012 versus the Three months ended September 30, 2011

Overview Net income in the third quarter of 2012 totaled $20.1 million, or $0.46 per diluted share compared with $13.0 million or $0.28 per diluted share for the third quarter of 2011. The following table sets forth summarized results of operations:

In thousands, except per share	Three months ended September 30	
	2012	2011
Net sales	**$ 404,354**	$ 416,493
Gross profit	**59,192**	54,916
Operating income	**31,285**	24,184
Net income	**20,099**	13,026
Earnings per diluted share	**0.46**	0.28

The consolidated results of operations for the three months ended September 30, 2012 and 2011 include the following significant items:

In thousands, except per share	After-tax Gain (loss)	Diluted EPS
2012		
Conversion of Alternative fuel mixture/Cellulosic biofuel credits	**$ (111)**	**$**
Timberland sales and related costs	**859**	**0.02**
2011		
Timberland sales and related costs	$ 245	$ 0.01

The above items increased earnings in the third quarter of 2012 by $0.7 million, or $0.02 per diluted share and by $0.2 million, or $0.01 per diluted share, in the third quarter of 2011.

Business Unit Performance

Three months ended September 30 *In millions*	**Specialty Papers**		**Composite Fibers**		**Advanced Airlaid Materials**		**Other and Unallocated**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Net sales	**$ 232.6**	$ 225.4	**$ 110.8**	$ 124.9	**$ 60.9**	$ 66.2			**$ 404.4**	$ 416.5
Energy and related sales, net	**1.9**	2.8							**1.9**	2.8
Total revenue	**234.5**	228.2	**110.8**	124.9	**60.9**	66.2			**406.2**	419.3
Cost of products sold	**199.1**	198.6	**91.2**	104.6	**54.1**	59.2	**2.6**	2.0	**347.0**	364.4
Gross profit (loss)	**35.4**	29.6	**19.7**	20.3	**6.8**	7.0	**(2.6)**	(2.0)	**59.2**	54.9
SG&A	**14.0**	12.6	**9.4**	10.2	**2.2**	2.9	**3.9**	5.7	**29.4**	31.4
Gains on dispositions of plant, equipment and timberlands, net							**(1.5)**	(0.7)	**(1.5)**	(0.7)
Total operating income (loss)	**21.4**	17.0	**10.3**	10.1	**4.6**	4.1	**(5.0)**	(7.0)	**31.3**	24.2
Other non-operating income (expense)							**(4.1)**	(6.5)	**(4.1)**	(6.5)
Income (loss) before income taxes	**$ 21.4**	$ 17.0	**$ 10.3**	$ 10.1	**$ 4.6**	$ 4.1	**$ (9.0)**	$ (13.4)	**$ 27.2**	$ 17.7
Supplementary Data										
Net tons sold	**204.5**	199.6	**23.5**	24.1	**22.8**	23.1			**250.9**	246.7
Depreciation, depletion and amortization	**$ 9.2**	$ 9.2	**$ 5.7**	$ 6.2	**$ 2.1**	$ 2.1			**$ 17.1**	$ 17.5
Capital expenditures	**5.4**	6.7	**7.5**	5.7	**1.4**	4.3	**0.1**		**14.4**	16.8

The clerical accuracy of the amounts set forth above may be affected by, or the amounts may not agree to the condensed consolidated financial statements included herein due to, rounding.

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Sales and Costs of Products Sold

In thousands	Three months ended September 30 **2012**	2011	Change
Net sales	**$ 404,354**	$ 416,493	$ (12,139)
Energy and related sales net	**1,867**	2,840	(973)
Total revenues	**406,221**	419,333	(13,112)
Costs of products sold	**347,029**	364,417	(17,388)
Gross profit	**$ 59,192**	$ 54,916	$ 4,276
Gross profit as a percent of Net sales	**14.6%**	13.2%	

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

Percent of Total	Three months ended September 30 **2012**	2011
Business Unit		
Specialty Papers	**57.5%**	54.1%
Composite Fibers	**27.4**	30.0
Advanced Airlaid Material	**15.1**	15.9
Total	**100.0%**	100.0%

Net sales for the third quarter of 2012 were $404.4 million, a 2.9% decrease compared with the third quarter of 2011, due to unfavorable translation of foreign currencies.

On a year-over-year basis, Specialty Papers net sales increased 3.2% as volumes shipped increased 2.5% and higher selling prices contributed $0.7 million.

Specialty Papers 2012 third quarter operating income increased $4.4 million, or 26.2% compared with the 2011 third quarter due to a $3.5 million benefit from lower input costs, primarily purchased fiber and energy costs. These factors were partially offset by a $1.0 million decline in the net margin from energy and renewable energy credit sales.

The following table summarizes sales of excess power and related items for the third quarters of 2012 and 2011:

In thousands	Three months ended September 30 **2012**	2011	Change
Energy sales	**$ 1,799**	$ 3,240	$ (1,441)
Costs to produce	**(1,259)**	(2,355)	1,096
Net	**540**	885	(345)
Renewable energy credits	**1,327**	1,955	(628)
Total	**$ 1,867**	$ 2,840	$ (973)

Composite Fibers net sales decreased $14.0 million, or 11.2%, primarily due to the translation of foreign currencies which unfavorably impacted the comparison by $9.2 million and slightly lower selling prices which adversely impacted the comparison by $0.5 million. Shipping volumes were 2.4% lower.

Composite Fibers third-quarter 2012 operating income increased by $0.2 million in the year-over-year comparison. Lower raw material and energy costs benefited results by $1.8 million. Unfavorable foreign currency translation impacted operating income by $1.0 million in the year-over-year comparison.

On a year-over-year basis, Advanced Airlaid Materials net sales decreased $5.3 million, or 8.1%, primarily due to a $4.4 million unfavorable impact from the translation of foreign currencies. Volumes shipped decreased 1.1% and lower average selling prices adversely impacted results $1.1 million in the comparison.

Third-quarter 2012 operating income increased $0.4 million, or 10.5%, compared with the year ago quarter primarily due to a $2.7 million benefit from lower raw material and energy costs partially offset by lower selling prices and $1.3 million from unfavorable foreign currency translations.

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

	Three months ended September 30		
In thousands	**2012**	2011	Change
Recorded as:			
Costs of products sold	**$ 2,266**	$ 1,711	$ 555
SG&A expense	**610**	2,378	(1,768)
Total	**$ 2,876**	$ 4,089	$ (1,213)

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

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Other and Unallocated The amount of net operating expenses not allocated to a business unit and reported as Other and Unallocated in the Company s table of *Business Unit Performance*, excluding gains from sales of plant, equipment and timberlands, totaled $6.5 million in the third quarter of 2012 compared with expenses of $7.7 million in the third quarter of 2011. The decline was primarily due to lower pension expense in the comparison related to the 2011 third quarter one-time pension settlement charge discussed previously.

Non-operating income (expense) as presented in the *Business Unit Performance* table includes $4.2 million of interest expense for the third quarter of 2012, a decrease of $2.3 million in the comparison to the year-earlier quarter due to the redemption in the fourth quarter of 2011 of $100.0 million of 7 $^{1}/_{8}$% bonds.

Income taxes In the third quarter of 2012, we recorded a $7.1 million provision for income taxes on pretax income of $27.2 million, an effective rate of 26.2%. In the third quarter of 2011, we recorded a $4.7 million provision for income taxes on pretax income of $17.7 million, an effective rate of 26.5%.

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 2012, Euro functional currency operations generated approximately 24.4% of our sales and 23.4% of operating expenses and British Pound Sterling operations represented 7.8% of net sales and 7.9% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on third quarter 2012 reported results compared to the third quarter 2011:

In thousands	**Three months ended September 30 Favorable (unfavorable)**
Net sales	$ (13,542)
Costs of products sold	10,241
SG&A expenses	1,047
Income taxes and other	242
Net income	$ (2,012)

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2012 were the same as 2011. 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. In addition, we have mandatory debt service requirements of both principal and interest. The following table summarizes cash flow information for each of the years presented:

	Nine months ended Sept. 30	
In thousands	**2012**	2011
Cash and cash equivalents at beginning of period	**$ 38,277**	$ 95,788
Cash provided (used) by		
Operating activities	**48,465**	81,136
Investing activities	**(36,302)**	(40,200)

Financing activities	**(22,397)**	(39,495)
Effect of exchange rate changes on cash	**279**	1,022
Net cash provided (used)	**(9,955)**	2,463
Cash and cash equivalents at end of period	**$ 28,322**	$ 98,251

As of September 30, 2012, we had $28.3 million in cash and cash equivalents and $325.8 million available under our revolving credit agreement, which matures in November 2016.

Operating cash flow declined in the year-over-year comparison by $32.7 million. The decline was primarily due to an increase in working capital in the comparison together with the use of $16.8 million of cash in the first nine months of 2012 to return alternative fuel mixture credits in connection with the conversion of these credits for cellulosic biofuel credits. In the same period of 2011, we received $17.8 million of cellulosic biofuel credits.

Net cash used by investing activities totaled $36.3 million in the first nine months of 2012 compared with $40.2 million in the first nine months of 2011. Capital expenditures totaled $45.0 million in the first nine months of 2012 compared with $44.6 million in the same period of 2011. Capital expenditures are expected to approximate $85 million in 2012 including $25 million to $30 million of the $50 million investment to expand capacity to serve Composite Fibers growth markets.

Net cash used by financing activities decreased $17.1 million in the first nine months of 2012 compared with the same period of 2011, reflecting a $22.2 million reduction in

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the amount of common share repurchases, partially offset by an $8.0 million repayment of borrowings under our revolving credit facility in the first nine months of 2012.

During the first nine months of 2012 and 2011 cash dividends paid on common stock totaled $11.7 million and $12.6 million, respectively. The decline was primarily due to the impact of our 2011 share repurchase program. 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 May 2012, our Board of Directors authorized a two-year share repurchase program for up to $25.0 million of our outstanding common stock. 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, 2012:

	shares	*(thousands)*
Authorized amount	n/a	$ 25,000
Repurchases	187,975	(2,850)
Remaining authorization		$ 22,150

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

In thousands	**Sept. 30, 2012**	Dec. 31, 2011
Revolving credit facility, due Nov. 2016	**$ 19,000**	$ 27,000
7.125% Notes, due May 2016	**200,000**	200,000
Total long-term debt	**219,000**	227,000
Less current portion		
Long-term debt, net of current portion	**$ 219,000**	$ 227,000

Our revolving credit facility contains a number of customary compliance covenants. In addition, the 7.125% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity, or a default under the credit agreement, that accelerates the debt outstanding thereunder. As of September 30, 2012, we met all of the requirements of our debt covenants. The significant terms of the debt instruments are more fully discussed in Item 1 - Financial Statements Note 9.

On October 3, 2012, we completed a private placement offering of $250.0 million aggregate principal amount of 5.375% Senior Notes due 2020. The net proceeds from this offering totaled approximately $246.3 million, after deducting the commissions

relating to the offering and were used to tender and call $200.0 million aggregate principal amount of our outstanding 7.125% notes due May 2016, plus the payment of the applicable redemption premium and accrued interest. We used the remaining net proceeds to repay amounts outstanding under our revolving credit facility and for general corporate purposes.

We are subject to various federal, state and local laws and regulations which operate to protect the environment as well as human health and safety. We have, at various times, incurred significant cost to comply with these regulations, as new regulations are developed or regulatory priorities change. Currently, we anticipate that we could incur material capital and operating costs to comply with several air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT). For example, on March 21, 2011, the U. S. Environmental Protection Agency issued new rules which could require process modifications and/or installation of air pollution controls on power boilers at two of our facilities. We are currently reviewing these rules, and challenges to them filed by others in the court system, to understand the effect they may have on our operations if we are required to comply with the rules in their current form. We are also evaluating options that may be available to us, such as reducing or curtailing boiler usage or modifying the types of boilers operated or fuel consumed. The cost of compliance is likely to be significant. Our initial estimates to implement viable options could result in additional capital spending in excess of $30 million; however, the amount ultimately incurred may be less depending on the outcome of challenges to current rules or on our successful implementation of appropriate available options. In addition, the timing of any additional capital spending is uncertain. Enactment of new environmental laws or regulations or changes in existing laws or regulations could significantly change our estimates.

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In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 1 Financial Statements Note 14 for a summary of significant environmental matters.

In connection with our amendment our federal income tax returns to convert alternative fuel mixture credits to cellulosic biofuel credits, we were required to return to the Internal Revenue Service approximately $16.8 million, net of credits used to reduce estimated tax payments, during the third quarter of 2012. Based on current regulations and on our assumptions regarding future financial results, we expect to be able to utilize the cellulosic biofuel production credits to reduce future income tax payments, including $2.7 million, net of interest, in the fourth quarter of 2012. However, changes in regulations or actual financial performance could affect our ability to utilize such credits.

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 14, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

Off-Balance-Sheet Arrangements As of September 30, 2012 and December 31, 2011, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 Financial Statements.

Outlook For Specialty Papers, we expect shipping volumes to decline slightly in the fourth quarter of 2012 compared with the third quarter of 2012, due to normal seasonality. Selling prices are expected to be slightly lower and input costs are expected to be in line with the third quarter.

We anticipate Composite Fibers shipping volumes will be approximately 5% lower in the fourth quarter compared to the third quarter due to normal seasonality and soft economic conditions in Europe, while selling prices and input costs are expected to be generally in line with the third quarter of 2012. As a result of the October 2012 fire sustained at our Scaer, France facility, we expect to incur costs approximating $4.0 million to $6.0 million related to repairs, cleaning and downtime due to the incident. Although the fire is expected to be covered by insurance, we expect this business unit s fourth quarter 2012 results will be adversely impacted due to machine downtime and costs associated with the fire and differences in the timing of the recognition of any insurance recoveries.

Shipping volumes for the Advanced Airlaid Materials business unit in the fourth quarter of 2012 are expected to be slightly lower than the third quarter of 2012. Average selling prices are expected to be slightly lower driven by lower input costs in the fourth quarter compared with the third quarter.

In addition, we expect to take our normal seasonal down time in the fourth quarter of 2012.

In connection with the previously announced refinancing of $200.0 million of its 7.125% senior notes, we expect to record an after-tax charge of approximately $5.0 million related to an early redemption premium and the write-off of unamortized deferred financing costs. We replaced these notes with the issuance of $250 million of 5.375% senior notes due October 2020.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

	Year Ended December 31					At September 30, 2012	
Dollars in thousands	2012	2013	2014	2015	2016	Carrying Value	Fair Value
Long-term debt							
Average principal outstanding							
At fixed interest rates Bond	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 76,923	$ 200,000	$ 204,750
At variable interest rates	19,000	19,000	19,000	19,000	16,077	19,000	19,000
						$ 219,000	$ 223,750
Weighted-average interest rate							
On fixed rate debt Bond	7.13%	7.13%	7.13%	7.13%	7.13%		
On variable rate debt	1.96%	1.96%	1.96%	1.96%	1.96%		

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of September 30, 2012. 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, 2012, we had long-term debt outstanding of $219.0 million, of which $19.0 million, or 8.7%, was at variable interest rates. Variable-rate debt outstanding represents borrowings under our revolving credit agreement that accrues interest based on one month LIBOR plus a margin. At September 30, 2012, the weighted-average interest rate paid on variable-rate debt was approximately 1.96%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by $0.2 million.

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. For a more complete discussion of this activity, refer to Item 1 Financial Statements Note 12.

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 2012, Euro functional currency operations generated approximately 25.4% of our sales and 24.3% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.5% of operating expenses.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Our chief executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2012, 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, 2012, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

ITEM 5. OTHER INFORMATION

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. We adopted this standard as of January 1, 2012, and will present net income and other comprehensive income in two separate statements in our annual financial statements. The table below reflects the unaudited retrospective application of this guidance for each of the three years ended December 31st. The unaudited retrospective application did not have a material impact on our financial condition or results of operations.

	Year Ended December 31		
In thousands, except per share	**2011**	2010	2009
Net income	**$ 42,694**	$ 54,434	$ 123,442
Foreign currency translation adjustments	**(10,160)**	(17,227)	11,941
Deferred losses on cash flow hedges	**1,185**		
Amortization of unrecognized retirement obligations	**(36,519)**	15,865	44,307
Other comprehensive income (loss)	**(45,494)**	(1,362)	56,248
Comprehensive income (loss)	**$ (2,800)**	$ 53,072	$ 179,690

Condensed Consolidating Statement of Income for the year ended December 31, 2011

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net income (loss)	$ 42,694	$ 10,560	$ 39,137	$ (49,697)	$ 42,694
Other comprehensive income (loss)	(45,494)	(3,350)	(5,276)	8,626	(45,494)
Comprehensive income (loss)	$ (2,800)	$ 7,210	$ 33,861	$ (41,071)	$ (2,800)

Condensed Consolidating Statement of Income for the year ended December 31, 2010

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net income (loss)	$ 54,434	$ 8,301	$ 22,479	$ (30,780)	$ 54,434
Other comprehensive income (loss)	(1,362)	(6,875)	(15,406)	22,281	(1,362)
Comprehensive income (loss)	$ 53,072	$ 1,426	$ 7,073	$ (8,499)	$ 53,072

Condensed Consolidating Statement of Income for the year ended December 31, 2009

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated

Net income (loss)	$ 123,442	$ 6,192	$ 11,957	$ (18,149)	$ 123,442
Other comprehensive income (loss)	56,248	8,842	3,955	(12,797)	56,248
Comprehensive income (loss)	$ 179,690	$ 15,034	$ 15,912	$ (30,946)	$ 179,690

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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.DEF	XBRL Extension Definition 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 2, 2012

By /s/ David C. Elder
David C. Elder
Vice President, Finance