

GLATFELTER P H CO  
Form 10-Q  
May 06, 2011

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

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

or

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD from \_\_\_\_\_ to \_\_\_\_\_  
For the quarterly period ended March 31, 2011  
Commission file number 1-3560**

**P. H. Glatfelter Company**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

(State or other jurisdiction of incorporation or organization)

**23-0628360**

(IRS Employer Identification No.)

**96 South George Street, Suite 500  
York, Pennsylvania 17401**

(Address of principal executive offices)

**(717) 225-4711**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

Large Accelerated

Accelerated

Non-accelerated

Smaller reporting company .

(Do not check if a smaller reporting company)

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

As of April 30, 2011, P. H. Glatfelter Company had 46,039,000 shares of common stock outstanding.



**P. H. GLATFELTER COMPANY AND SUBSIDIARIES**  
**REPORT ON FORM 10-Q**  
**For the QUARTERLY PERIOD ENDED**  
**MARCH 31, 2011**  
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**PART I****Item 1 Financial Statements**

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

|  | <b>Three months ended<br/>March 31</b> |             |
|--|--|-------------|
| <i>In thousands, except per share</i>                          | <b>2011</b>                            | <b>2010</b> |
| Net sales  | <b>\$ 396,771</b>                      | \$ 337,275  |
| Energy and related sales net                                   | <b>2,987</b>                           | 3,607       |
| Total revenues   | <b>399,758</b>                         | 340,882     |
| Costs of products sold   | <b>339,591</b>                         | 296,666     |
| Gross profit   | <b>60,167</b>                          | 44,216      |
| Selling, general and administrative expenses                   | <b>31,770</b>                          | 34,670      |
| Gains on dispositions of plant, equipment and timberlands, net | <b>(3,175)</b>                         |             |
| Operating income   | <b>31,572</b>                          | 9,546       |
| Other non-operating income (expense)                           |  |             |
| Interest expense   | <b>(6,460)</b>                         | (5,663)     |
| Interest income  | <b>207</b>                             | 170         |
| Other net  | <b>7</b>                               | (3,983)     |
| Total other non-operating expense                              | <b>(6,246)</b>                         | (9,476)     |
| Income before income taxes                                     | <b>25,326</b>                          | 70          |
| Income tax provision   | <b>7,900</b>                           | 444         |
| Net income (loss)  | <b>\$ 17,426</b>                       | \$ (374)    |
| <b>Earnings (loss) per share</b>                               |  |             |
| Basic  | <b>\$ 0.38</b>                         | \$ (0.01)   |
| Diluted  | <b>0.38</b>                            | (0.01)      |
| <b>Cash dividends declared per common share</b>                | <b>0.09</b>                            | 0.09        |
| <b>Weighted average shares outstanding</b>                     |  |             |
| Basic  | <b>46,070</b>                          | 45,836      |
| Diluted  | <b>46,410</b>                          | 45,836      |

*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)

| <i>In thousands</i>                           | <b>March 31<br/>2011</b> | December 31<br>2010 |
|---|--------------------------|---------------------|
| <b>Assets</b>                                 |                          |                     |
| <b>Current assets</b>                         |                          |                     |
| Cash and cash equivalents                     | \$ 115,937               | \$ 95,788           |
| Accounts receivable net                       | 167,366                  | 141,208             |
| Inventories                                   | 209,288                  | 201,077             |
| Prepaid expenses and other current assets     | 46,288                   | 64,617              |
| Total current assets                          | 538,879                  | 502,690             |
| <b>Plant, equipment and timberlands net</b>   | <b>616,223</b>           | 608,170             |
| <b>Other assets</b>                           | <b>233,261</b>           | 230,887             |
| Total assets                                  | <b>\$ 1,388,363</b>      | \$ 1,341,747        |
| <b>Liabilities and Shareholders Equity</b>    |                          |                     |
| <b>Current liabilities</b>                    |                          |                     |
| Short-term debt                               | \$ 690                   | \$ 798              |
| Accounts payable                              | 111,511                  | 98,594              |
| Dividends payable                             | 4,205                    | 4,190               |
| Environmental liabilities                     | 250                      | 248                 |
| Other current liabilities                     | 101,123                  | 109,316             |
| Total current liabilities                     | 217,779                  | 213,146             |
| <b>Long-term debt</b>                         | <b>332,393</b>           | 332,224             |
| <b>Deferred income taxes</b>                  | <b>103,415</b>           | 94,918              |
| <b>Other long-term liabilities</b>            | <b>150,717</b>           | 149,017             |
| Total liabilities                             | <b>804,304</b>           | 789,305             |
| <b>Commitments and contingencies</b>          |                          |                     |
| <b>Shareholders equity</b>                    |                          |                     |
| Common stock                                  | 544                      | 544                 |
| Capital in excess of par value                | 48,989                   | 48,145              |
| Retained earnings                             | 762,674                  | 749,453             |
| Accumulated other comprehensive income (loss) | (104,262)                | (121,247)           |

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|  |                                    |                      |
|--|------------------------------------|----------------------|
| Less cost of common stock in treasury      | <b>707,945</b><br><b>(123,886)</b> | 676,895<br>(124,453) |
| Total shareholders' equity                 | <b>584,059</b>                     | 552,442              |
| Total liabilities and shareholders' equity | <b>\$ 1,388,363</b>                | \$ 1,341,747         |

*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)

| <i>In thousands</i>   | <b>Three months ended<br/>March 31</b> |             |
|---|--|-------------|
|   | <b>2011</b>                            | <b>2010</b> |
| <b>Operating activities</b>   |  |             |
| Net income(loss)  | \$ 17,426                              | \$ (374)    |
| Adjustments to reconcile to net cash provided by operating activities         |  |             |
| Depreciation, depletion and amortization                                      | 16,877                                 | 15,781      |
| Amortization of debt issue costs and original issue discount                  | 664                                    | 506         |
| Pension expense, net of unfunded benefits paid                                | 2,242                                  | 2,215       |
| Deferred income tax provision (benefit)                                       | 2,434                                  | (135)       |
| Gains on dispositions of plant, equipment and timberlands, net                | (3,175)                                |             |
| Share-based compensation  | 1,445                                  | 1,514       |
| Cellulosic biofuel and alternative fuel mixture credits                       | 17,833                                 |             |
| Change in operating assets and liabilities                                    |  |             |
| Accounts receivable   | (24,636)                               | (14,510)    |
| Inventories   | (4,305)                                | (1,889)     |
| Prepaid and other current assets  | (885)                                  | (4,103)     |
| Accounts payable  | 10,266                                 | 17,632      |
| Environmental matters   | (13)                                   | 37          |
| Accruals and other current liabilities  | (9,028)                                | 353         |
| Other   | 468                                    | 3,343       |
| Net cash provided by operating activities                                     | 27,613                                 | 20,370      |
| <b>Investing activities</b>   |  |             |
| Expenditures for purchases of plant, equipment and timberlands                | (8,088)                                | (6,136)     |
| Proceeds from disposals of plant, equipment and timberlands, net              | 3,405                                  |             |
| Acquisition of Concert Industries Corp., net of cash acquired                 |  | (233,006)   |
| Net cash used by investing activities   | (4,683)                                | (239,142)   |
| <b>Financing activities</b>   |  |             |
| Proceeds from \$100 million 7 % note offering, net of original issue discount |  | 95,000      |
| Payments of note offering costs   |  | (2,804)     |
| Net borrowings of revolving credit facility                                   |  | 27,854      |
| Net (repayments) borrowings of other short-term debt                          | (107)                                  | 1,082       |
| Repayment of 2011 Term Loan   |  | (4,000)     |
| Payment of dividends  | (4,206)                                | (4,165)     |
| Proceeds from stock options exercised and other                               | 6                                      | 107         |
| Net cash provided (used) by financing activities                              | (4,307)                                | 113,074     |
| Effect of exchange rate changes on cash                                       | 1,526                                  | (3,147)     |

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|  |                   |           |
|--|-------------------|-----------|
| Net increase (decrease) in cash and cash equivalents | <b>20,149</b>     | (108,845) |
| Cash and cash equivalents at the beginning of period | <b>95,788</b>     | 135,420   |
| Cash and cash equivalents at the end of period       | <b>\$ 115,937</b> | \$ 26,575 |

**Supplemental cash flow information**

|                          |                 |         |
|--------------------------|-----------------|---------|
| Cash paid (received) for |                 |         |
| Interest                 | <b>\$ 285</b>   | \$ 259  |
| Income taxes             | <b>(15,267)</b> | (2,533) |

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

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

**1. ORGANIZATION**

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

**2. ACCOUNTING POLICIES**

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

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

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

**3. ACQUISITION**

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

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

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

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

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

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

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

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

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

During the first quarter of 2010, we incurred legal, professional and advisory costs directly related to the Concert acquisition totaling \$7.0 million. All such costs are presented under the caption "Selling, general and administrative expenses" in the accompanying condensed consolidated statements of income for the three months ended March 31, 2010. Deferred financing fees incurred in connection with issuing debt related to the acquisition totaled \$3.0 million. The unamortized fees are recorded in the accompanying consolidated balance sheet under the caption "Other assets".

In addition, in connection with the Concert acquisition, we entered into a series of forward foreign currency contracts to hedge the acquisition's Canadian dollar purchase price. All contracts were settled for cash during the first quarter of 2010 and resulted in a \$3.4 million loss, net of realized currency translation gains, which is presented under the caption "Other-net" in the accompanying condensed consolidated statements of income.

Our results of operations for the first three months of 2010 include the results of Concert prospectively from the February 12, 2010 date of acquisition. All such results are reported herein as the Advanced Airlaid Materials business

unit, a new reportable segment. Revenue and operating income of Concert included in our consolidated results of operations totaled \$61.1 million and \$1.7 million, respectively, for the first quarter of 2011 and \$28.1 million and \$0.2 million, respectively, for the first quarter of 2010.

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

| <i>In thousands, except per share</i> | <b>Three months<br/>ended<br/>March 31, 2010</b> |
|---------------------------------------|--|
| <b><i>Pro forma</i></b>               |  |
| Net sales                             | \$ 366,531                                       |
| Net income                            | 9,968  |
| Earnings per share                    | 0.22   |

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

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**4. GAINS ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS, NET**

During the first quarter of 2011 we completed sales of timberlands and other assets as summarized in the following table:

| <i>Dollars in thousands</i> | <b>Acres</b> | <b>Proceeds</b> | <b>Gain</b> |
|-----------------------------|--------------|-----------------|-------------|
| <b>2011</b>                 |              |                 |             |
| Timberlands                 | 717          | \$ 3,373        | \$ 3,158    |
| Other                       | n/a          | 32              | 17          |
|                             | 717          | \$ 3,405        | \$ 3,175    |

There were no sales in the first quarter of 2010.

**5. EARNINGS PER SHARE**

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

| <i>In thousands, except per share</i>   | <b>Three months ended<br/>March 31</b> |             |
|---|--|-------------|
|   | <b>2011</b>                            | <b>2010</b> |
| Net income (loss)   | \$ 17,426                              | \$ (374)    |
| Weighted average common shares outstanding used in basic EPS                                | 46,070                                 | 45,836      |
| Common shares issuable upon exercise of dilutive stock options and restricted stock awards  | 340                                    |             |
| Weighted average common shares outstanding and common share equivalents used in diluted EPS | 46,410                                 | 45,836      |
| Earnings (loss) per share   |  |             |
| Basic   | \$ 0.38                                | \$ (0.01)   |
| Diluted   | 0.38                                   | (0.01)      |

Approximately 1.7 million and 1.6 million of potential common shares have been excluded from the computation of diluted earnings per share for the three month period ended March 31, 2011 and 2010, respectively, due to their anti-dilutive nature.

**6. INCOME TAXES**

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

As of March 31, 2011 and December 31, 2010, we had \$38.9 million and \$38.7 million, respectively, of gross unrecognized tax benefits. As of March 31, 2011, if such benefits were to be recognized, approximately \$35.2 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

**Open Tax Years**

| Jurisdiction   | Examinations<br>not yet<br>initiated |      | Examination in<br>progress |           |
|----------------|--------------------------------------|------|----------------------------|-----------|
|                | 2007                                 | 2010 |                            |           |
| United States  |                                      |      |                            |           |
| Federal        | 2007                                 | 2010 |                            | N/A       |
| State          | 2005                                 | 2010 | 2004 &                     | 2006-2008 |
| Canada (1)     | 2006                                 | 2010 | 2008                       | 2009      |
| Germany (1)    | 2008                                 | 2010 | 2003                       | 2009      |
| France         | 2007                                 | 2010 |                            | N/A       |
| United Kingdom | 2007                                 | 2010 |                            | N/A       |
| Philippines    |                                      | 2010 |                            | 2009      |

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to \$8.2 million. Substantially all of this range relates to tax positions taken in the U.S. and in Germany.

We recognize interest and penalties related to uncertain tax positions as income tax expense. Interest expense recognized in the first quarter of 2011 totaled \$0.3 million and \$0.2 million in the first quarter of 2010. As of March 31, 2011, accrued interest payable was \$4.1 million, and as of December 31, 2010, accrued interest payable was \$3.8 million. We did not record any penalties associated with uncertain tax positions during the first quarters of 2011 or 2010.

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**7. STOCK-BASED COMPENSATION**

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

**Restricted Stock Units (RSU) and Performance Share Awards (PSAs)** Awards of RSU and PSA are made under our LTIP. The RSUs vest based solely on the passage of time, generally on a graded scale over a three, four, and five-year period. PSAs were issued in March 2011 to members of senior management and cliff vest December 31, 2013, and upon 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 three months of 2011 and 2010:

| <i>Units</i>                        | <b>2011</b>    | 2010     |
|-------------------------------------|----------------|----------|
| Beginning balance                   | <b>579,801</b> | 564,037  |
| Granted                             | <b>227,860</b> | 126,450  |
| Forfeited                           | <b>(6,073)</b> | (8,820)  |
| Restriction lapsed/shares delivered |                | (16,252) |
| Ending balance                      | <b>801,588</b> | 665,415  |

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

| <i>In thousands</i> | <b>March 31</b> |       |
|---------------------|-----------------|-------|
|                     | <b>2011</b>     | 2010  |
| Three months ended  | <b>\$466</b>    | \$405 |

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

The following table sets forth information related to outstanding SOSARS.

| <b>SOSARS</b>          | <b>2011</b>      |                                 | <b>2010</b> |                                 |
|------------------------|------------------|---------------------------------|-------------|---------------------------------|
|                        | Shares           | Wtd<br>Avg<br>Exercise<br>Price | Shares      | Wtd<br>Avg<br>Exercise<br>Price |
| Outstanding at Jan. 1, | <b>2,061,877</b> | <b>\$ 12.28</b>                 | 1,762,020   | \$ 11.84                        |
| Granted                | <b>345,290</b>   | <b>12.56</b>                    | 423,450     | 13.95                           |
| Exercised              |                  |                                 |             |                                 |
| Canceled               | <b>(42,146)</b>  | <b>11.22</b>                    | (50,383)    | 10.92                           |
| Outstanding at Mar 31, | <b>2,365,021</b> | <b>\$ 12.34</b>                 | 2,135,087   | \$ 12.27                        |

**SOSAR Grants**

|   |          |          |
|---|----------|----------|
| Weighted average grant date fair value per share        | \$ 4.09  | \$ 4.72  |
| Aggregate grant date fair value ( <i>in thousands</i> ) | \$ 1,412 | \$ 1,998 |
| Black-Scholes Assumptions                               |          |          |
| Dividend yield  | 2.87%    | 2.58%    |
| Risk free rate of return                                | 2.55%    | 2.54%    |
| Volatility  | 41.91%   | 42.31%   |
| Expected life   | 6 yrs    | 6 yrs    |

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

| <i>In thousands</i> | March 31 |        |
|---------------------|----------|--------|
|                     | 2011     | 2010   |
| Three months ended  | \$ 469   | \$ 610 |

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

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

| <i>In thousands</i>                | Three months ended<br>March 31 |          |
|------------------------------------|--------------------------------|----------|
|                                    | 2011                           | 2010     |
| <b>Pension Benefits</b>            |                                |          |
| Service cost                       | \$ 2,605                       | \$ 2,422 |
| Interest cost                      | 6,064                          | 6,008    |
| Expected return on plan assets     | (10,465)                       | (10,060) |
| Amortization of prior service cost | 646                            | 617      |
| Amortization of unrecognized loss  | 3,544                          | 3,399    |
| Net periodic benefit cost          | \$ 2,394                       | \$ 2,386 |
| <b>Other Benefits</b>              |                                |          |
| Service cost                       | \$ 760                         | \$ 761   |
| Interest cost                      | 717                            | 880      |
| Expected return on plan assets     | (130)                          | (135)    |
| Amortization of prior service cost | (305)                          | (306)    |
| Amortization of unrecognized loss  | 258                            | 453      |
| Net periodic benefit cost          | \$ 1,300                       | \$ 1,653 |

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| <i>In millions</i>                         | <b>March 31,<br/>2011</b> | Dec. 31,<br>2010 |
|--|---------------------------|------------------|
| <b>Pension Plan Assets</b>                 |                           |                  |
| Fair value of plan assets at end of period | \$ 544.2                  | \$ 526.4         |

**9. COMPREHENSIVE INCOME**

The following table sets forth comprehensive income and its components:

| <i>In thousands</i>   | <b>Three months ended<br/>March 31</b> |            |
|---|--|------------|
|   | <b>2011</b>                            | 2010       |
| Net income (loss)   | \$17,426                               | \$ (374)   |
| Foreign currency translation adjustments                        | 14,477                                 | (19,533)   |
| Amortization of unrecognized retirement obligations, net of tax | 2,508                                  | 2,599      |
| Comprehensive income (loss)                                     | \$34,411                               | \$(17,308) |

**10. INVENTORIES**

Inventories, net of reserves, were as follows:

| <i>In thousands</i>     | <b>March<br/>31,<br/>2011</b> | Dec. 31,<br>2010 |
|-------------------------|-------------------------------|------------------|
| Raw materials           | \$ 53,017                     | \$ 52,538        |
| In-process and finished | 100,175                       | 94,118           |
| Supplies                | 56,096                        | 54,421           |
| Total                   | \$ 209,288                    | \$ 201,077       |

**11. LONG-TERM DEBT**

Long-term debt is summarized as follows:

| <i>In thousands</i>                                      | <b>March<br/>31,<br/>2011</b> | Dec. 31,<br>2010 |
|--|-------------------------------|------------------|
| Revolving credit facility, due May 2014                  | \$                            | \$               |
| 7 % Notes, due May 2016                                  | 200,000                       | 200,000          |
| 7 % Notes, due May 2016 - net of original issue discount | 95,698                        | 95,529           |
| Term Loan, due January 2013                              | 36,695                        | 36,695           |
| Total long-term debt                                     | 332,393                       | 332,224          |
| Less current portion                                     |                               |                  |
| Long-term debt, net of current portion                   | \$ 332,393                    | \$ 332,224       |

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

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

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

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

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

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

The Senior Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity or a default under the credit agreement that accelerates the debt outstanding thereunder. As of March 31, 2011, we were not aware of any violations of our debt covenants.

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In November 2007, we sold approximately 26,000 acres of timberland. In connection with that transaction, we formed GPW Virginia Timberlands LLC ( GPW Virginia ) as an indirect, wholly owned and bankruptcy-remote subsidiary of ours. GPW Virginia received as consideration for the timberland sold in that transaction a \$43.2 million, interest-bearing note that matures in 2027 from the buyer, Glawson Investments Corp. ( Glawson ), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The Glawson note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc. In January 2008, GPW Virginia monetized the Glawson note receivable by entering into a \$36.7 million term loan agreement (the 2008 Term Loan ) with a financial institution. The 2008 Term Loan is secured by all of the assets of GPW Virginia, including the Glawson note receivable, the related letter of credit and additional notes with an aggregate principal amount of \$9.2 million that we issued in favor of GPW Virginia (the Company Note ). The 2008 Term Loan bears interest at a six month reserve adjusted LIBOR rate plus a margin rate of 1.20% per annum. Interest on the 2008 Term Loan is payable semiannually. The principal amount of the 2008 Term Loan is due on January 15, 2013, but GPW Virginia may prepay the 2008 Term Loan at any time, in whole or in part, without premium or penalty. During the quarter ended March 31, 2011, GPW Virginia received aggregate interest income of \$0.3 million under the Glawson note receivable and the Company Note and, in turn, incurred interest expense of \$0.2 million under the 2008 Term Loan.

Under terms of the above transaction, minimum credit ratings must be maintained by the bank issuing the letter of credit. If not, an event of default is deemed to have occurred under the debt instrument governing the Note Payable unless actions are taken to cure such default within 60 days from the date such credit rating falls below the specified minimum. Potential remedial actions include: (i) amending the terms of the applicable debt instrument; (ii) replacement of the letter of credit with an appropriately rated institution; or (iii) repaying the Note Payable.

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

*In thousands*

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

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

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

## **12. ASSET RETIREMENT OBLIGATION**

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

*In thousands*

**2011**                      2010

|                      |                 |           |
|----------------------|-----------------|-----------|
| Balance at January 1 | <b>\$ 9,717</b> | \$ 11,293 |
| Accretion            | <b>132</b>      | 155       |
| Payments             | <b>(149)</b>    | (394)     |
| Balance at March 31  | <b>\$ 9,700</b> | \$ 11,054 |

Of the total liability at March 31, 2011, \$1.5 million is recorded in the accompanying consolidated balance sheet, under the caption Other current liabilities and \$8.2 million is recorded under the caption Other long-term liabilities.

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**13. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

| <i>In thousands</i> | <b>March 31, 2011</b> |                   | December 31, 2010 |            |
|---------------------|-----------------------|-------------------|-------------------|------------|
|                     | Carrying Value        | Fair Value        | Carrying Value    | Fair Value |
| Fixed-rate bonds    | <b>\$ 295,698</b>     | <b>\$ 309,642</b> | \$ 295,529        | \$ 304,115 |
| Variable rate debt  | <b>36,695</b>         | <b>37,500</b>     | 36,695            | 37,780     |
| Total               | <b>\$ 332,393</b>     | <b>\$ 347,142</b> | \$ 332,224        | \$ 341,895 |

As of March 31, 2011, and December 31, 2010, we had \$300.0 million of 7 % fixed rate debt, \$100.0 million of which was recorded net of unamortized original issue discount. These bonds are publicly registered, but thinly traded. Accordingly, the values set forth above are based on debt instruments with similar characteristics. The fair value of the remaining debt instrument was estimated using a discounted cash flow model based on independent sources.

As part of our overall risk management practices, we enter into foreign exchange forward contracts primarily designed to mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and to hedge exposure to certain foreign currency denominated receivables and payables. None of these contracts are designated as hedges for financial accounting purposes and, accordingly, changes in value of the foreign exchange forward contract and in the offsetting underlying intercompany transactions are reflected in the accompanying statement of operations under the caption Other net. For the three months ended March 31, 2011, our results of operations included a \$4.3 million net loss from forward foreign currency exchange contracts. This activity was substantially all offset by adjustments to translate the underlying intercompany financing transactions.

The fair values of the foreign exchange forward contracts are considered to be Level 2. The following table sets forth the notional values of outstanding foreign exchange forward contracts together with the unrealized fair value as of March 31, 2011 and December 31, 2010:

|                               | Notional Amount (millions) | Fair Value (thousands) | Balance Sheet Location    |
|-------------------------------|----------------------------|------------------------|---------------------------|
| <b>March 31, 2011</b>         |                            |                        |                           |
| Sell euro for US\$            | <b>50.0</b>                | <b>\$ (568.0)</b>      | Other current liabilities |
| Buy euro for British pound    | <b>2.0</b>                 | <b>\$ 2.0</b>          | Other current assets      |
| Sell Philippine peso for US\$ | <b>PHP247.0</b>            | <b>(24.0)</b>          | Other current liabilities |
|                               |                            |                        |                           |
| December 31, 2010             | Notional Amount (millions) | Fair Value (thousands) | Balance Sheet Location    |
| Sell euro for US\$            | 57.0                       | \$ (563.0)             | Other current liabilities |
| Buy euro for British pound    | 3.0                        | (14.0)                 |                           |

|                               |          |       |                           |
|-------------------------------|----------|-------|---------------------------|
|                               |          |       | Other current liabilities |
|                               |          |       | Other current liabilities |
| Sell Philippine peso for US\$ | PHP247.0 | (4.0) | liabilities               |

Each of the contracts set forth above have a maturity of one month from the date the respective contract was entered into.

We are exposed to credit risk related to this activity arising in the event of the inability of a counterparty to meet its obligations to us under the terms of these contracts. 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 such financial instruments with financial institutions which meet certain minimum debt ratings.

**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

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that the Neenah Facility may have discharged into the lower Fox River resulted from the presence of PCBs in NCR®-brand carbonless copy paper in the wastepaper that was recycled at the Neenah Facility. We closed the Neenah Facility in June 2006.

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

The United States Environmental Protection Agency ( EPA ) has divided the lower Fox River and the Bay of Green Bay site into five operable units (the OUs ), including the most upstream ( OU1 ) and four downstream reaches of the river and bay ( OU2-5 ). OU1 extends from primarily Lake Winnebago to the dam at Appleton, and is comprised of Little Lake Butte des Morts. The Neenah Facility discharged its wastewater into OU1.

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

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

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

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

OU2-5 UAO. In November 2007, the United States Environmental Protection Agency ( EPA ) issued an administrative order for remedial action ( UAO ) to Appleton Papers Inc. ( API ), CBC Coating, Inc. (formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation, Glatfelter, U.S. Paper Mills Corp., and WTM I Company ( WTM ) directing those respondents to implement the remedy in OU2-5. Shortly following issuance of the UAO, API and NCR commenced litigation against us and others, as described below. Accordingly, we have no vehicle for complying with the UAO s overall requirements other than answering a judgment in the litigation, and we have so informed EPA, but, to minimize disruptions, have paid certain *de minimis* amounts to EPA for oversight costs under the UAO.

Government Action. On October 14, 2010, the United States and the State of Wisconsin filed an action in the United States District Court for the Eastern District of Wisconsin captioned *United States v. NCR Corp.* (the Government Action ) against 12 parties, including us. The Government Action seeks to recover from each of the defendants, jointly and severally, all of the governments past costs of response, which approximates \$17 million to date, a declaration as to liability for all of the governments future costs of response, and compensation for natural resource damages, as well as a declaration as to liability for compliance with the UAO for OU2-5. On March 29, 2011, the United States filed a motion for a preliminary injunction against NCR and API to require NCR and API to implement work in 2011 at a rate described as full-scale sediment remediation.

We are engaged in litigation to allocate costs and NRDs among the parties responsible for this site.

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 ). At present, the case involves

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allocation claims among the two plaintiffs and 28 defendants including us. We and other defendants counterclaimed against NCR and API.

**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. NCR and API appealed and await disposition by the Court of Appeals for the Seventh Circuit. 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. We oppose entry of that 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 may litigate that issue in the Government Action. If we were to be successful in modifying any existing selected remedy, our exposure could be reduced materially.

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

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

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

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

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

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

We also filed counterclaims against NCR and API to recover the costs we have incurred and may later incur and the damages we have paid and may later pay in connection with the Site. Other defendants have similar claims. On February 28, 2011, the district court granted our summary judgment motions on those counterclaims in part and

denied them in part. The court granted a declaration that NCR and API are liable to us (and to others) in contribution for 100% of any costs of response (that is, clean up) that we may be required to pay for work in OU2-5 in the future. The court requires further

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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. The parties disagree as to the court's ruling with respect to our claim that NCR and API owe contribution to us (and others) for NRDs or natural resource damage assessment costs that we have paid or may be required to pay in the future. On April 12, 2011, the court set the remaining issues on our pending counterclaims under the Superfund statute for trial beginning February 21, 2012.

**Reserves for the Site.** As of March 31, 2011, our reserve for our claimed liability at the Site, including our remediation and ongoing monitoring obligations at OU1, our claimed liability for the remediation of the rest of the Site, our claimed liability for NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled \$16.9 million. Of our total reserve for the Fox River, \$0.3 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remainder is recorded under the caption Other long term liabilities.

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

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

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

In setting our reserve for the Site, we have assessed our legal defenses, including our successful defenses to the allegations made in the Whiting Litigation, and assumed that we will not bear the entire cost of remediation or damages to the exclusion of other known PRPs at the Site, who are also potentially jointly and severally liable. The existence and ability of other PRPs to participate has also been taken into account in setting 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 volumetric contribution of PCB mass is significantly lower than the estimates set forth in these studies.

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

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We previously entered into interim cost-sharing agreements with six of the other PRPs, which provided for those PRPs to share certain costs relating to scientific studies of PCBs discharged at the Site ( Interim Cost Sharing Agreements ). These Interim Cost Sharing Agreements do not establish the final allocation of remediation costs incurred at the Site. Based upon our evaluation of the Court's December 16, 2009, and February 28, 2011 rulings in the Whiting Litigation as well as the volume, nature and location of the various discharges of PCBs at the Site and the relationship of those discharges to identified contamination, we believe our allocable share of liability at the Site is less than our share of costs under the Interim Cost Sharing Agreements.

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

**Summary.** Our current assessment is that we will be able to manage this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our debt covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or damages will not exceed our available resources, or that such obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations. Should a court grant the United States or the State of Wisconsin relief which requires us either to perform directly or to contribute significant amounts towards remedial action downstream of OU1 or to natural resource damages, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.

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**15. SEGMENT INFORMATION**

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

| Three months ended March 31<br><i>In millions</i>                 | Specialty<br>Papers |          | Composite<br>Fibers |          | Advanced<br>Airlaid<br>Materials |         | Other and<br>Unallocated |          | Total   |          |
|---|---------------------|----------|---------------------|----------|----------------------------------|---------|--------------------------|----------|---------|----------|
|   | 2011                | 2010     | 2011                | 2010     | 2011                             | 2010    | 2011                     | 2010     | 2011    | 2010     |
|   | Net sales           | \$ 220.5 | \$ 207.7            | \$ 115.2 | \$ 101.5                         | \$ 61.1 | \$ 28.1                  | \$       | \$      | \$ 396.8 |
| Energy and related sales, net                                     | 3.0                 | 3.6      |                     |          |                                  |         |                          |          | 3.0     | 3.6      |
| Total revenue   | 223.4               | 211.3    | 115.2               | 101.5    | 61.1                             | 28.1    |                          |          | 399.8   | 340.9    |
| Cost of products sold   | 187.3               | 181.7    | 93.0                | 86.1     | 56.7                             | 26.9    | 2.6                      | 2.0      | 339.6   | 296.7    |
| Gross profit  | 36.1                | 29.6     | 22.2                | 15.4     | 4.4                              | 1.2     | (2.6)                    | (2.0)    | 60.2    | 44.2     |
| SG&A  | 13.9                | 13.7     | 9.8                 | 9.1      | 2.7                              | 1.0     | 5.4                      | 10.9     | 31.8    | 34.7     |
| Gains on dispositions of plant,<br>equipment and timberlands, net |                     |          |                     |          |                                  |         | (3.2)                    |          | (3.2)   |          |
| Total operating income (loss)                                     | 22.2                | 15.9     | 12.4                | 6.3      | 1.7                              | 0.2     | (4.8)                    | (12.9)   | 31.6    | 9.5      |
| Other non-operating income<br>(expense)                           |                     |          |                     |          |                                  |         | (6.2)                    | (9.4)    | (6.2)   | (9.4)    |
| Income (loss) before income<br>taxes                              | \$ 22.2             | \$ 15.9  | \$ 12.4             | \$ 6.3   | \$ 1.7                           | \$ 0.2  | \$(11.0)                 | \$(22.3) | \$ 25.3 | \$ 0.1   |
| <b>Supplementary Data</b>   |                     |          |                     |          |                                  |         |                          |          |         |          |
| Net tons sold   | 198.8               | 193.2    | 22.9                | 21.3     | 21.5                             | 11.1    |                          |          | 243.2   | 225.6    |
| Depreciation, depletion and<br>amortization                       | \$ 8.7              | \$ 8.6   | \$ 6.1              | \$ 6.1   | \$ 2.1                           | \$ 1.1  | \$                       | \$       | \$ 16.9 | \$ 15.8  |
| Capital expenditures  | 3.9                 | 3.0      | 3.8                 | 1.5      | 0.4                              | 1.6     |                          |          | 8.1     | 6.1      |

The sum of individual amounts set forth above may not agree to the 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 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 the Company's performance is evaluated internally and

by the Company's Board of Directors.

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**16. GUARANTOR FINANCIAL STATEMENTS**

Our 7 % Senior Notes have been fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries: PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, and Glatfelter Holdings, LLC.

The following presents our condensed consolidating statements of income and cash flow, and our condensed consolidating balance sheets. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis. We have reclassified certain interest income amounts for the three months ended March 31, 2010 of \$0.2 million in total from Other net , to Interest Expense, net , to conform to the 2011 presentation. This reclassification had no effect on the reported amounts of Interest Income, Interest Expense, or Other net for any period presented in our accompanying condensed consolidated statement of operations.

**Condensed Consolidating Statement of Income for the  
three months ended March 31, 2011**

| <i>In thousand</i>   | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--|-------------------|------------|-------------------|------------------------------|--------------|
| Net sales  | \$ 220,453        | \$ 12,832  | \$ 176,318        | \$ (12,832)                  | \$ 396,771   |
| Energy and related sales net   | 2,987             |            |                   |                              | 2,987        |
| Total revenues   | 223,440           | 12,832     | 176,318           | (12,832)                     | 399,758      |
| Costs of products sold   | 191,299           | 11,471     | 149,766           | (12,945)                     | 339,591      |
| Gross profit   | 32,141            | 1,361      | 26,552            | 113                          | 60,167       |
| Selling, general and<br>administrative expenses                      | 18,717            | 559        | 12,494            |                              | 31,770       |
| Gains on dispositions of plant,<br>equipment and timberlands,<br>net | (14)              | (3,158)    | (3)               |                              | (3,175)      |
| Operating income   | 13,438            | 3,960      | 14,061            | 113                          | 31,572       |
| Other non-operating income<br>(expense)                              |                   |            |                   |                              |              |
| Interest expense, net  | (3,329)           | 1,881      | (1,505)           | (3,300)                      | (6,253)      |
| Other income (expense) net   | 10,862            | 86         | (416)             | (10,525)                     | 7            |
| Total other non-operating<br>income (expense)                        | 7,533             | 1,967      | (1,921)           | (13,825)                     | (6,246)      |
| Income (loss) before income<br>taxes                                 | 20,971            | 5,927      | 12,140            | (13,712)                     | 25,326       |
| Income tax provision (benefit)                                       | 3,545             | 2,456      | 3,093             | (1,194)                      | 7,900        |
| Net income (loss)  | \$ 17,426         | \$ 3,471   | \$ 9,047          | \$ (12,518)                  | \$ 17,426    |

**Condensed Consolidating Statement of Income for the  
three months ended March 31, 2010**

| Parent | Non | Adjustments/ |
|--------|-----|--------------|
|--------|-----|--------------|



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| <i>In thousands</i>  | Company    | Guarantors | Guarantors | Eliminations | Consolidated |
|--|------------|------------|------------|--------------|--------------|
| Net sales  | \$ 207,703 | \$ 12,604  | \$ 129,572 | \$ (12,604)  | \$ 337,275   |
| Energy and related sales net                                   | 3,607      |            |            |              | 3,607        |
| Total revenues   | 211,310    | 12,604     | 129,572    | (12,604)     | 340,882      |
| Costs of products sold   | 185,628    | 10,409     | 113,092    | (12,463)     | 296,666      |
| Gross profit   | 25,682     | 2,195      | 16,480     | (141)        | 44,216       |
| Selling, general and administrative expenses                   | 22,547     | 541        | 11,582     |              | 34,670       |
| Gains on dispositions of plant, equipment and timberlands, net |            |            |            |              |              |
| Operating income   | 3,135      | 1,654      | 4,898      | (141)        | 9,546        |
| Other non-operating income (expense)                           |            |            |            |              |              |
| Interest expense, net  | (5,504)    | 1,491      | (1,180)    | (300)        | (5,493)      |
| Other income (expense) net                                     | (725)      | (483)      | 2,030      | (4,805)      | (3,983)      |
| Total other non-operating income (expense)                     | (6,229)    | 1,008      | 850        | (5,105)      | (9,476)      |
| Income (loss) before income taxes                              | (3,094)    | 2,662      | 5,748      | (5,246)      | 70           |
| Income tax provision (benefit)                                 | (2,720)    | 1,165      | 2,172      | (173)        | 444          |
| Net income (loss)  | \$ (374)   | \$ 1,497   | \$ 3,576   | \$ (5,073)   | \$ (374)     |

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**Condensed Consolidating Balance Sheet as of March 31, 2011**

| <i>In thousands</i>                            | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--|-------------------|------------|-------------------|------------------------------|--------------|
| <b>Assets</b>                                  |                   |            |                   |                              |              |
| <b>Current assets</b>                          |                   |            |                   |                              |              |
| Cash and cash equivalents                      | \$ 89,059         | \$ 515     | \$ 26,363         | \$                           | \$ 115,937   |
| Other current assets                           | 234,700           | 402,580    | 234,333           | (448,671)                    | 422,942      |
| Plant, equipment and<br>timberlands net        | 240,492           | 6,925      | 368,806           |                              | 616,223      |
| Other assets                                   | 794,493           | 173,628    | 104,150           | (839,010)                    | 233,261      |
| Total assets                                   | \$1,358,744       | \$583,648  | \$733,652         | \$(1,287,681)                | \$1,388,363  |
| <b>Liabilities and Shareholders<br/>Equity</b> |                   |            |                   |                              |              |
| Current liabilities                            | \$ 293,272        | \$ 17,268  | \$352,131         | \$ (444,892)                 | \$ 217,779   |
| Long-term debt                                 | 295,698           |            | 36,695            |                              | 332,393      |
| Deferred income taxes                          | 70,575            | 19,039     | 43,908            | (30,107)                     | 103,415      |
| Other long-term liabilities                    | 115,140           | 13,248     | 10,473            | 11,856                       | 150,717      |
| Total liabilities                              | 774,685           | 49,555     | 443,207           | (463,143)                    | 804,304      |
| Shareholders' equity                           | 584,059           | 534,093    | 290,445           | (824,538)                    | 584,059      |
| Total liabilities and<br>shareholders' equity  | \$1,358,744       | \$583,648  | \$733,652         | \$(1,287,681)                | \$1,388,363  |

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

| <i>In thousands</i>                            | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--|-------------------|------------|-------------------|------------------------------|--------------|
| <b>Assets</b>                                  |                   |            |                   |                              |              |
| <b>Current assets</b>                          |                   |            |                   |                              |              |
| Cash and cash equivalents                      | \$ 61,953         | \$ 91      | \$ 33,744         | \$                           | \$ 95,788    |
| Other current assets                           | 230,957           | 380,986    | 203,048           | (408,089)                    | 406,902      |
| Plant, equipment and<br>timberlands net        | 244,157           | 7,161      | 356,836           | 16                           | 608,170      |
| Other assets                                   | 773,254           | 167,877    | 103,250           | (813,494)                    | 230,887      |
| Total assets                                   | \$1,310,321       | \$556,115  | \$696,878         | \$(1,221,567)                | \$1,341,747  |
| <b>Liabilities and Shareholders<br/>Equity</b> |                   |            |                   |                              |              |
| Current liabilities                            | \$ 277,343        | \$ 3,672   | \$336,679         | \$ (404,548)                 | \$ 213,146   |
| Long-term debt                                 | 295,529           |            | 36,695            |                              | 332,224      |

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|  |             |           |           |               |             |
|--|-------------|-----------|-----------|---------------|-------------|
| Deferred income taxes                      | 70,575      | 14,836    | 42,204    | (32,697)      | 94,918      |
| Other long-term liabilities                | 114,432     | 13,210    | 9,999     | 11,376        | 149,017     |
| Total liabilities                          | 757,879     | 31,718    | 425,577   | (425,869)     | 789,305     |
| Shareholders' equity                       | 552,442     | 524,397   | 271,301   | (795,698)     | 552,442     |
| Total liabilities and shareholders' equity | \$1,310,321 | \$556,115 | \$696,878 | \$(1,221,567) | \$1,341,747 |

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**Condensed Consolidating Statement of Cash Flows for the three  
months ended March 31, 2011**

| <i>In thousands</i>   | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|---|-------------------|------------|-------------------|------------------------------|--------------|
| Net cash provided (used) by<br>Operating activities           | \$29,437          | \$ 1,691   | \$ (215)          | \$(3,300)                    | \$ 27,613    |
| Investing activities  |                   |            |                   |                              |              |
| Purchase of plant, equipment and<br>timberlands               | (3,879)           |            | (4,209)           |                              | (8,088)      |
| Proceeds from disposal of plant,<br>equipment and timberlands | 14                | 3,373      | 18                |                              | 3,405        |
| Repayments from (advances of)<br>intercompany loans, net      | (2,366)           | (1,340)    |                   | 3,706                        |              |
| Total investing activities                                    | (6,231)           | 2,033      | (4,191)           | 3,706                        | (4,683)      |
| Financing activities  |                   |            |                   |                              |              |
| Net repayments of indebtedness                                |                   |            | (107)             |                              | (107)        |
| Payment of dividends to<br>shareholders                       | (4,206)           |            |                   |                              | (4,206)      |
| (Repayments) borrowings of<br>intercompany loans, net         | 8,100             |            | (4,394)           | (3,706)                      |              |
| Payment of intercompany<br>dividends                          |                   | (3,300)    |                   | 3,300                        |              |
| Proceeds from stock options<br>exercised and other            | 6                 |            |                   |                              | 6            |
| Total financing activities                                    | 3,900             | (3,300)    | (4,501)           | (406)                        | (4,307)      |
| Effect of exchange rate on cash                               |                   |            | 1,526             |                              | 1,526        |
| Net increase (decrease) in cash                               | 27,106            | 424        | (7,381)           |                              | 20,149       |
| Cash at the beginning of period                               | 61,953            | 91         | 33,744            |                              | 95,788       |
| Cash at the end of period                                     | \$89,059          | \$ 515     | \$26,363          | \$                           | \$115,937    |

**Condensed Consolidating Statement of Cash Flows for the  
three months ended March 31, 2010**

| <i>In thousands</i>                                     | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|---|-------------------|------------|-------------------|------------------------------|--------------|
| Net cash provided (used) by<br>Operating activities     | \$(167,159)       | \$ 142,045 | \$ 45,784         | \$ (300)                     | \$ 20,370    |
| Investing activities                                    |                   |            |                   |                              |              |
| Purchase of plant, equipment<br>and timberlands         | (2,953)           | (17)       | (3,166)           |                              | (6,136)      |
| Acquisition of Concert<br>Industries Corp., net of cash |                   |            | (233,006)         |                              | (233,006)    |

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|   |          |           |           |           |           |
|---|----------|-----------|-----------|-----------|-----------|
| acquired  |          |           |           |           |           |
| Repayments from (advances of) intercompany loans, net | (2,139)  | (141,757) | 4,506     | 139,390   |           |
| Total investing activities                            | (5,092)  | (141,774) | (231,666) | 139,390   | (239,142) |
| Financing activities                                  |          |           |           |           |           |
| Net (repayments of) proceeds from indebtedness        | 116,027  |           | 1,105     |           | 117,132   |
| Payment of dividends to shareholders                  | (4,165)  |           |           |           | (4,165)   |
| (Repayments) borrowings of intercompany loans, net    | (16,078) | (200)     | 155,668   | (139,390) |           |
| Payment of intercompany dividends                     |          | (300)     |           | 300       |           |
| Proceeds from stock options exercised and other       | 107      |           |           |           | 107       |
| Total financing activities                            | 95,891   | (500)     | 156,773   | (139,090) | 113,074   |
| Effect of exchange rate on cash                       |          |           | (3,147)   |           | (3,147)   |
| Net increase (decrease) in cash                       | (76,360) | (229)     | (32,256)  |           | (108,845) |
| Cash at the beginning of period                       | 76,970   | 985       | 57,465    |           | 135,420   |
| Cash at the end of period                             | \$ 610   | \$ 756    | \$ 25,209 | \$        | \$ 26,575 |

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

*The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2010 Annual Report on Form 10-K.*

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

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

- xiv. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation;
- xv. adverse results in litigation; and
- xvi. our ability to finance, consummate and integrate acquisitions.

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

*Specialty Papers* with revenues earned from the sale of carbonless papers and forms, book publishing, envelope & converting, and engineered products;

*Composite Fibers* with revenue from the sale of food & beverage filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and technical specialties; and

*Advanced Airlaid Materials* with revenue from the sale of airlaid non-woven fabric like materials used in feminine hygiene products, adult incontinence products, cleaning pads and wipes, food pads, napkins and tablecloths, and baby wipes.

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**RESULTS OF OPERATIONS****Three months ended March 31, 2011 versus the  
Three months ended March 31, 2010**

**Overview** Net income in the first quarter of 2011 totaled \$17.4 million, or \$0.38 per diluted share compared with a net loss of \$0.4 million or \$0.01 per diluted share for the first quarter of 2010. The results of operations for 2010 include, on an after-tax basis, \$9.1 million of expenses directly related to the Concert Industries acquisition completed on February 12, 2010.

The results of operations from our businesses improved significantly in the quarter over quarter comparison. Operating income from our three business units increased, on a pre-tax basis, \$13.9 million, or 62.0%, reflecting higher selling prices, stronger demand and efficiency gains. In addition, the 2011 first quarter includes a full quarter of Concert Industries (now operated as the Advanced Airlaid Materials business unit). The favorable operating conditions were partially offset by the adverse impact of higher input costs, primarily related to pulps and energy.

We also generated positive free cash flow (cash provided by operations less capital expenditures) in the quarter over quarter comparison. In the first quarter of 2011, free cash flow was \$19.5 million compared with \$14.2 million in the same quarter of 2010

The following table sets forth summarized results of operations:

| <i>In thousands, except per share</i> | <b>Three months ended March<br/>31</b> |             |
|---------------------------------------|--|-------------|
|                                       | <b>2011</b>                            | <b>2010</b> |
| Net sales                             | \$ <b>396,771</b>                      | \$ 337,275  |
| Gross profit                          | <b>60,167</b>                          | 44,216      |
| Operating income                      | <b>31,572</b>                          | 9,546       |
| Net income (loss)                     | <b>17,426</b>                          | (374)       |
| Earnings (loss) per share             | <b>0.38</b>                            | (0.01)      |

The consolidated results of operations for the three months ended March 31, 2011 and 2010 include the following significant items:

| <i>In thousands, except per share</i>       | <b>After-tax<br/>Gain<br/>(loss)</b> | <b>Diluted<br/>EPS</b> |
|---|--------------------------------------|------------------------|
|   |                                      |                        |
|   | <b>2011</b>                          |                        |
| Gains on sale of timberlands                | \$ <b>1,718</b>                      | \$ <b>0.04</b>         |
| Acquisition and integration costs           | <b>(275)</b>                         | <b>(0.01)</b>          |
|   | <b>2010</b>                          |                        |
| Acquisition and integration costs           | \$ (7,002)                           | \$ (0.15)              |
| Foreign currency hedge on acquisition price | (2,076)                              | (0.05)                 |

The above items increased earnings by \$1.4 million, or \$0.03 per diluted share, in first quarter of 2011 and reduced earnings by \$9.1 million, or \$0.20 per diluted share, in the first quarter of 2010.

**Business Units**



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| Three months ended March 31<br><i>In millions</i>                 | Specialty Papers |          | Composite<br>Fibers |          | Advanced<br>Airlaid<br>Materials |         | Other and<br>Unallocated |           | Total           |          |
|---|------------------|----------|---------------------|----------|----------------------------------|---------|--------------------------|-----------|-----------------|----------|
|   | 2011             | 2010     | 2011                | 2010     | 2011                             | 2010    | 2011                     | 2010      | 2011            | 2010     |
| Net sales   | \$ <b>220.5</b>  | \$ 207.7 | \$ <b>115.2</b>     | \$ 101.5 | \$ <b>61.1</b>                   | \$ 28.1 | \$                       | \$        | \$ <b>396.8</b> | \$ 337.3 |
| Energy and related sales, net                                     | <b>3.0</b>       | 3.6      |                     |          |                                  |         |                          |           | <b>3.0</b>      | 3.6      |
| Total revenue   | <b>223.4</b>     | 211.3    | <b>115.2</b>        | 101.5    | <b>61.1</b>                      | 28.1    |                          |           | <b>399.8</b>    | 340.9    |
| Cost of products sold   | <b>187.3</b>     | 181.7    | <b>93.0</b>         | 86.1     | <b>56.7</b>                      | 26.9    | <b>2.6</b>               | 2.0       | <b>339.6</b>    | 296.7    |
| Gross profit  | <b>36.1</b>      | 29.6     | <b>22.2</b>         | 15.4     | <b>4.4</b>                       | 1.2     | <b>(2.6)</b>             | (2.0)     | <b>60.2</b>     | 44.2     |
| SG&A  | <b>13.9</b>      | 13.7     | <b>9.8</b>          | 9.1      | <b>2.7</b>                       | 1.0     | <b>5.4</b>               | 10.9      | <b>31.8</b>     | 34.7     |
| Gains on dispositions of plant,<br>equipment and timberlands, net |                  |          |                     |          |                                  |         | <b>(3.2)</b>             |           | <b>(3.2)</b>    |          |
| Total operating income (loss)                                     | <b>22.2</b>      | 15.9     | <b>12.4</b>         | 6.3      | <b>1.7</b>                       | 0.2     | <b>(4.8)</b>             | (12.9)    | <b>31.6</b>     | 9.5      |
| Other non-operating income<br>(expense)                           |                  |          |                     |          |                                  |         | <b>(6.2)</b>             | (9.4)     | <b>(6.2)</b>    | (9.4)    |
| Income (loss) before income<br>taxes                              | \$ <b>22.2</b>   | \$ 15.9  | \$ <b>12.4</b>      | \$ 6.3   | \$ <b>1.7</b>                    | \$ 0.2  | \$ <b>(11.0)</b>         | \$ (22.3) | \$ <b>25.3</b>  | \$ 0.1   |
| <b>Supplementary Data</b>   |                  |          |                     |          |                                  |         |                          |           |                 |          |
| Net tons sold   | <b>198.8</b>     | 193.2    | <b>22.9</b>         | 21.3     | <b>21.5</b>                      | 11.1    |                          |           | <b>243.2</b>    | 225.6    |
| Depreciation, depletion and<br>amortization                       | \$ <b>8.7</b>    | \$ 8.6   | \$ <b>6.1</b>       | \$ 6.1   | \$ <b>2.1</b>                    | \$ 1.1  | \$                       | \$        | \$ <b>16.9</b>  | \$ 15.8  |
| Capital expenditures  | <b>3.9</b>       | 3.0      | <b>3.8</b>          | 1.5      | <b>0.4</b>                       | 1.6     |                          |           | <b>8.1</b>      | 6.1      |

The sum of individual amounts set forth above may not agree to the consolidated financial statements included herein due to rounding.

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

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

### Sales and Costs of Products Sold

| <i>In thousands</i>                    | Three months ended |            | Change    |
|--|--------------------|------------|-----------|
|  | 2011               | 2010       |           |
|  |                    | March 31   |           |
| Net sales                              | \$ 396,771         | \$ 337,275 | \$ 59,496 |
| Energy and related sales net           | 2,987              | 3,607      | (620)     |
| Total revenues                         | 399,758            | 340,882    | 58,876    |
| Costs of products sold                 | 339,591            | 296,666    | 42,925    |
| Gross profit                           | 60,167             | \$ 44,216  | \$ 15,951 |
| Gross profit as a percent of Net sales | 15.2%              | 13.1%      |           |

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

| <i>Percent of Total</i>    | Three months ended |          |
|----------------------------|--------------------|----------|
|                            | 2011               | 2010     |
|                            |                    | March 31 |
| <b>Business Unit</b>       |                    |          |
| Specialty Papers           | 55.6%              | 61.6%    |
| Composite Fibers           | 29.0               | 30.1     |
| Advanced Airlaid Materials | 15.4               | 8.3      |
| Total                      | 100.0%             | 100.0%   |

**Net sales** for the first quarter of 2011 were \$396.8 million, a 17.6% increase compared with the first quarter of 2010, reflecting higher selling prices, improved demand and a full quarter of our Advanced Airlaid Materials business unit. On an organic basis, net sales increased 8.7%, excluding changes in foreign currencies.

In the Specialty Papers business unit, 2011 first quarter net sales increased \$12.8 million due to a \$10.5 million benefit from higher selling prices, together with a 2.9% increase in shipping volumes.

Specialty Papers 2011 first quarter operating income increased \$6.3 million primarily reflecting the benefits of higher selling prices, improved operating efficiencies of \$2.4 million and a \$1.6 million insurance recovery related to a third-quarter 2010 press roll failure. These factors more than offset a \$7.2 million adverse impact from higher raw material and energy costs.

We sell excess power generated by the Spring Grove, PA facility. The following table summarizes this activity for the first quarters of 2011 and 2010:

| <i>In thousands</i>      | <b>2011</b>     | 2010     | Change     |
|--------------------------|-----------------|----------|------------|
| Energy sales             | <b>\$ 2,892</b> | \$ 4,604 | \$ (1,712) |
| Costs to produce         | <b>(2,477)</b>  | (2,612)  | 135        |
| Net                      | <b>415</b>      | 1,992    | (1,577)    |
| Renewable energy credits | <b>2,572</b>    | 1,614    | 958        |
| Total                    | <b>\$ 2,987</b> | \$ 3,606 | \$ (619)   |

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

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

In Composite Fibers, 2011 first quarter net sales were \$115.2 million, an increase of \$13.7 million, or 13.5%, from the same quarter a year ago reflecting a \$3.9 million benefit from higher selling prices and a 7.6% increase in shipping volumes. The improvement in Composite Fibers net sales reflects strengthening demand in most of its product lines. The translation of foreign currencies unfavorably impacted net sales by \$0.3 million.

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Composite Fibers first-quarter 2011 operating income increased by \$6.1 million, nearly doubling its results from a year ago. The improvement was driven by the \$3.9 million impact from higher selling prices as well as \$6.4 million in improvement from record operating rates, efficiency gains related to continuous improvement initiatives and the impact of increased shipping volumes. The combination of these factors more than offset the \$3.6 million negative impact of higher input costs, primarily related to woodpulp and synthetic fibers.

In Advanced Airlaid Materials, 2011 first quarter net sales were \$61.1 million, an increase of \$33.0 million, largely due to including a full quarter's results in 2011. The results for the first quarter of 2010 were included prospectively from the February 12, 2010 acquisition date. Higher selling prices benefited the comparison by \$4.6 million. Operating income increased \$1.5 million primarily due to higher selling prices and volumes shipped, together with the benefit in the comparison of a non-recurring \$1.2 million charge in 2010 to cost of products sold for the write up of acquired inventory to fair value.

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

| <i>In thousands</i>    | Three months ended |          |        |
|------------------------|--------------------|----------|--------|
|                        | March 31           |          |        |
|                        | 2011               | 2010     | Change |
| <i>Recorded as:</i>    |                    |          |        |
| Costs of products sold | \$ 2,075           | \$ 1,893 | \$ 182 |
| SG&A expense           | 319                | 493      | (174)  |
| Total                  | \$ 2,394           | \$ 2,386 | \$ 8   |

The amount of pension expense or income recognized each year is determined using various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets as of the beginning of the year.

**Other and Unallocated** The amount of net expenses not allocated to a business unit and reported as Other and Unallocated in our table of *Business Unit Performance* totaled \$4.8 million in the first quarter of 2011 compared with net expenses of \$12.9 million in the year earlier quarter. The change was primarily due to the \$8.5 million of non-recurring acquisition and integration costs included in 2010 associated with the February 2010 Concert Industries acquisition (now Advanced Airlaid Materials) and \$3.2 million of gains on dispositions of plant, equipment and timberlands in the first quarter of 2011. Excluding these items, other and unallocated net operating expenses increased \$3.6 million primarily due to higher professional services fees. Gains on dispositions of plant, equipment and timberlands were primarily related to the sale of timberlands, from which cash proceeds totaled \$3.4 million.

Non-operating income (expense) as presented in the *Business Unit Performance* table includes \$6.5 million of interest expense for the first quarter of 2011, an increase of \$0.8 million in the quarterly comparison primarily due to the \$100.0 million in bonds issued in February 2010 being outstanding for a full quarter in 2011 compared with two months in the first quarter of 2010.

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

**Income taxes** For the first three months of 2011, we recorded a provision for income taxes of \$7.9 million on \$25.3 million of pretax income. The comparable amounts in the first quarter of 2010 were income tax expense of \$0.4 million on pretax income that was essentially break-even. During the first quarter of 2010, we incurred \$11.9 million of acquisition and integration costs, a significant portion of which are non-deductible.

**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 three months of 2011, Euro functional currency operations generated approximately 28.6% of our

sales and 27.5% of operating expenses and British Pound Sterling operations represented 8.3% of net sales and 8.1% 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.

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

| <i>In thousands</i>    | Three months<br>ended March<br>31<br><b>Favorable<br/>(unfavorable)</b> |
|------------------------|---|
| Net sales              | \$ (501)  |
| Costs of products sold | (464)   |
| SG&A expenses          | (12)  |
| Income taxes and other | 70  |
| Net income             | \$ (907)  |

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

#### **LIQUIDITY AND CAPITAL RESOURCES**

Our business is capital intensive and requires significant expenditures for new or enhanced equipment, for environmental compliance matters, to support our research and development efforts and for our business strategy. 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:

| <i>In thousands</i>                              | <b>Three months ended<br/>March 31</b> |            |
|--|--|------------|
|  | <b>2011</b>                            | 2010       |
| Cash and cash equivalents at beginning of period | \$ 95,788                              | \$ 135,420 |
| Cash provided by (used for)                      |  |            |
| Operating activities                             | 27,613                                 | 20,370     |
| Investing activities                             | (4,683)                                | (239,142)  |
| Financing activities                             | (4,307)                                | 113,074    |
| Effect of exchange rate changes on cash          | 1,526                                  | (3,147)    |
| Net cash provided (used)                         | 20,149                                 | (108,845)  |
| Cash and cash equivalents at end of period       | \$ 115,937                             | \$ 26,575  |

As of March 31, 2011, we had \$115.9 million in cash and cash equivalents and \$219.6 million available under our revolving credit agreement.

Operating cash flow improved by \$7.2 million in the first quarter of 2011 compared to the same quarter of 2010. The improvement in cash flow was largely due to the receipt of a \$17.8 million income tax refund, primarily due to cellulosic biofuel credits claimed in connection with the filing of our 2009 federal income tax return. This refund partially offset the increase in net cash used for working capital associated with growth in sales.

Net cash used by investing activities totaled \$4.7 million in the first quarter of 2011 compared with \$239.2 million in the first quarter of 2010. The 2010 first quarter reflects the Concert acquisition. Capital expenditures totaled \$8.1 million in the 2011 first quarter compared with \$6.1 million in the same quarter of 2010. Capital expenditures are expected to total \$60 million to \$65 million for 2011.

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For the first quarter of 2011, net cash used by financing activities was \$4.3 million, substantially all of which was payment of dividends. The comparable amount from financing activities in the first quarter of 2010 was a net provision of \$113.1 million reflecting increased borrowings to fund the Concert acquisition including the proceeds, net of debt issue costs and original issue discount, from the issuance of \$100.0 million of senior notes, at 95% of par.

Cash dividends paid on common stock totaled \$4.2 million in both the first quarters of 2011 and 2010. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

In April 2011, our Board of Directors authorized a share repurchase program for up to \$50.0 million of our outstanding common stock. We intend to make these repurchases over the next 12 months in accordance with applicable securities regulations. The timing and actual number of shares repurchased, if any, will depend on a variety of factors including the market price of the company's common stock, regulatory, legal and contractual requirements, and other market factors. The program, 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 sets forth our outstanding long-term indebtedness:

| <i>In thousands</i>  | <b>March<br/>31,<br/>2011</b> | Dec. 31,<br>2010 |
|--|-------------------------------|------------------|
| Revolving credit facility, due May 2014  | \$                            | \$               |
| 7 <sup>1</sup> / <sub>8</sub> % Notes, due May 2016                                  | <b>200,000</b>                | 200,000          |
| 7 <sup>1</sup> / <sub>8</sub> % Notes, due May 2016 - net of original issue discount | <b>95,698</b>                 | 95,529           |
| Term Loan, due January 2013  | <b>36,695</b>                 | 36,695           |
| Total long-term debt   | <b>332,393</b>                | 332,224          |
| Less current portion   |                               |                  |
| Long-term debt, net of current portion   | <b>\$ 332,393</b>             | \$ 332,224       |

Our credit agreement contains a number of customary compliance covenants. In addition, the Senior Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity, or a default under the credit

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agreement, which accelerates the debt outstanding thereunder. As of March 31, 2011, we met all of the requirements of our debt covenants. The significant terms of the debt obligations are set forth in Item 1 Financial Statements Note 11. Although we do not have immediate intentions to make additional use of our facility, we believe this agreement, and the banks that are party to it, provides us with ready access to liquidity should we need it.

We are subject to 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). Although we are in the process of analyzing the potential impact of these requirements, compliance could require significant capital expenditures. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 1 Financial Statements Note 14 for a summary of significant environmental matters.

We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, 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 March 31, 2011 and December 31, 2010, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 Financial Statements.

**Outlook** For Specialty Papers, we expect shipping volumes to be approximately 5% lower in the second quarter of 2011 compared with the first quarter of 2011 reflecting normal seasonal patterns. The impact of higher energy costs and purchased pulp are expected to be offset by higher selling prices and benefits from continuous improvement initiatives. We also plan to complete the annually scheduled maintenance outages at both the Chillicothe and Spring Grove facilities in the second quarter of 2011. The outages are expected to adversely impact second-quarter results by approximately \$19 million to \$20 million, pre-tax.

For Composite Fibers, we anticipate shipping volumes in the second quarter of 2011 to be slightly higher than the first quarter. Input costs for pulp, base paper, and other materials are expected to increase faster than selling prices. In addition, our continuous improvement efforts in manufacturing resulted in record output during the first quarter and an inventory build. Therefore, in the second quarter we may need to take actions to reduce this inventory build, which together with the rate of cost increase discussed above, could adversely impact sequential quarter earnings by approximately \$2 million.

Shipping volumes, selling prices and input costs for the Advanced Airlaid Materials business unit are all expected to be slightly higher than the first quarter of 2011. In addition, we expect to see continued benefit from our cost reduction and operations improvement initiatives.

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

| <i>Dollars in thousands</i>    | Year Ended December 31 |            |            |            |            | At March 31, 2011 |            |
|--------------------------------|------------------------|------------|------------|------------|------------|-------------------|------------|
|                                | 2011                   | 2012       | 2013       | 2014       | 2015       | Carrying Value    | Fair Value |
| <b>Long-term debt</b>          |                        |            |            |            |            |                   |            |
| Average principal outstanding  |                        |            |            |            |            |                   |            |
| At fixed interest rates        |                        |            |            |            |            |                   |            |
| Bond <sup>(1)</sup>            | \$ 300,000             | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 295,698        | \$ 309,642 |
| At variable interest rates     | 36,695                 | 36,695     | 1,407      |            |            | 36,695            | 37,500     |
|                                |                        |            |            |            |            | \$ 332,393        | \$ 347,142 |
| Weighted-average interest rate |                        |            |            |            |            |                   |            |
| On fixed rate debt             |                        |            |            |            |            |                   |            |
| Bond                           | 7.13%                  | 7.13%      | 7.13%      | 7.13%      | 7.13%      |                   |            |
| On variable rate debt          | 1.66                   | 1.66       | 1.66       |            |            |                   |            |

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

The table above presents average principal outstanding of our long-term debt and related interest rates for the next five years. The amounts set forth above for fixed rate bonds represent the coupon rate. Such amounts include \$100.0 million of bonds issued at a 5% original issue discount resulting in an 8.16% yield. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities. Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At March 31, 2011, we had long-term debt outstanding of \$332.4 million, of which \$36.7 million or 11.0% was at variable interest rates.

Variable-rate debt outstanding represents a cash collateralized borrowing incurred in connection with the 2007 installment timberland sale that accrues interest based on six month LIBOR plus a margin. At March 31, 2011, the weighted average interest rate paid on variable rate debt was 1.66%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$0.4 million.

We are subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. Dollar. During the first three months of 2011, Euro functional currency operations generated approximately 28.6% of our sales and 27.5% of operating expenses and British Pound Sterling operations represented 8.3% of net sales and 8.1% 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 March 31, 2011, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

**Changes in Internal Controls** There were no changes in our internal control over financial reporting during the three months ended March 31, 2011, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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**PART II**

**ITEM 6. EXHIBITS**

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

- 31.1 Certification of Dante C. Parrini, Chairman, President 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, President and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 32.2 Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

**SIGNATURES**

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

P. H. GLATFELTER COMPANY  
(Registrant)

May 6, 2011

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

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**EXHIBIT INDEX**

**Exhibit**

**Number Description**

- 31.1 Certification of Dante C. Parrini, Chairman, President and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 Chief Executive Officer, filed herewith.
- 31.2 Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 Chief Financial Officer, filed herewith.
- 32.1 Certification of Dante C. Parrini, Chairman, President and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer, filed herewith.
- 32.2 Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 Chief Financial Officer, filed herewith.

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