GLATFELTER P H CO
Form 10-K
March 13, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2008**

**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number 1-03560**

**P. H. Glatfelter Company**
*(Exact name of registrant as specified in its charter)*

| **Pennsylvania** | **23-0628360** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(IRS Employer Identification No.)* |
| **96 South George Street, Suite 500**<br>**York, Pennsylvania 17401**<br>*(Address of principal executive offices)* | **(717) 225-4711**<br>*(Registrant s telephone number, including area code)* |

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of Class** | **Name of Exchange on Which Registered** |
|---|---|
| Common Stock, par value $.01 per share | New York Stock Exchange |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ.

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 þ No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant s knowledge, in definitive proxy of information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(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 o No þ.

Based on the closing price as of June 30, 2008, the aggregate market value of Common Stock of the Registrant held by non-affiliates was $606.2 million.

**Common Stock outstanding on March 5, 2009 totaled 45,474,571 shares.**

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following documents are incorporated by reference in this Annual Report on Form 10-K:

Proxy Statement to be dated on or about March 25, 2009 (Part III).

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**P. H. GLATFELTER COMPANY**
**ANNUAL REPORT ON FORM 10-K**
**For the Year Ended**

**DECEMBER 31, 2008**

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**PART I**

***ITEM 1 BUSINESS***

**Overview** Glatfelter began operations in 1864 and today, we believe we are one of the world s leading manufacturers of specialty papers and engineered (paper based) products. Headquartered in York, Pennsylvania, we own and operate manufacturing facilities located in Pennsylvania, Ohio, Germany, the United Kingdom, France and the Philippines.

We serve customers in numerous markets, including book publishing, carbonless and forms, envelope and converting, engineered products, food and beverage, composite laminates and other highly technical niche markets. Many of the markets in which we operate are characterized by higher-value-added products and, in some cases, by higher growth prospects and lower cyclicality than commodity paper markets. Examples of some of our key product offerings include papers for:

- trade book publishing;
- carbonless products;
- tea bag and coffee pods/pads and filters;
- specialized envelopes;
- playing cards;
- pressure-sensitive postage stamps;
- metallized papers for labels and packaging; and
- digital imaging applications.

**Acquisitions** Over the past several years we completed the acquisitions summarized in the following table:

| *Dollars in millions* | Date | Purchase Price | Est Annual Revenue | Primary Paper Products |
|---|---|---|---|---|
| **Business Location** | | | | |
| Lydney, England | Mar 06 | $ 65.0 | $ 75.0 | Tea bag & coffee papers |
| Chillicothe, Ohio | Apr 06 | 83.3 | 440.0 | Carbonless |
| Caerphilly, Wales | Nov 07 | 12.6 | 53.4 | Metallized |

These strategic acquisitions significantly increased our revenues and provide us with additional operating scale, opportunities for increased production capacity, and an expansion of our geographic reach.

**Our Business Units** We manage our business as two distinct units: the North America-based Specialty Papers business unit and the Europe-based Composite Fibers business unit. The following table summarizes consolidated net sales and the relative net sales contribution of each of our business units for the past three years:

| *Dollars in thousands* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Net sales | **$ 1,263,850** | $ 1,148,323 | $ 986,411 |
| *Business unit composition* | | | |
| Specialty Papers | **66.0%** | 69.9% | 70.3% |
| Composite Fibers | **34.0** | 30.1 | 29.7 |
| Total | **100.0%** | 100.0% | 100.0% |

Net tons sold by each business unit for the past three years were as follows:

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Specialty Papers | **743,755** | 726,657 | 653,734 |
| Composite Fibers | **85,599** | 72,855 | 68,148 |
| Other | | | 10 |
| Total | **829,354** | 799,512 | 721,892 |

***Specialty Papers*** Our North America-based Specialty Papers business unit focuses on producing papers for the following markets:

**Book publishing** papers for the production of high quality hardbound books and other book publishing needs;

**Carbonless and forms** papers for credit card receipts, multi-part forms, security papers and other end-user applications;

**Envelope and converting** papers for the direct mail market, shopping bags, and other converting applications; and

**Engineered products** for digital imaging, transfer, casting, release, postal, playing card and other niche specialty applications.

The markets in which Specialty Papers competes has undergone significant and rapid consolidation over the past several years resulting in fewer, more globally focused producers. Over 80% of the North American market share is now served by five paper companies, of which Glatfelter is one. Specialty Papers revenue composition by market consisted of the following for the years indicated:

| *In thousands* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Carbonless & forms | **$ 338,067** | $ 345,785 | $ 266,647 |
| Book publishing | **201,040** | 185,343 | 166,605 |
| Envelope & converting | **138,293** | 116,797 | 103,042 |
| Engineered products | **149,372** | 136,785 | 137,007 |
| Other | **7,127** | 17,583 | 20,359 |
| Total | **$ 833,899** | $ 802,293 | $ 693,660 |

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We believe we are one of the leading suppliers of book publishing papers in the United States and the second leading carbonless paper producer. The market for carbonless papers is declining approximately 8% to 10% per year. However, we have been successful in executing our strategy to replace this lost volume with book publishing papers, envelope & converting papers, forms and other products. Specialty Papers also produces paper that is converted into specialized envelopes in a wide array of colors, finishes and capabilities. These markets are generally more mature and declining. However, we compete on our customer service capabilities and have grown our market share each of the last three years.

Specialty Papers highly technical engineered products include those designed for multiple end uses, such as papers for pressure-sensitive postage stamps, greeting and playing cards, conical cups, digital imaging applications and for release paper applications. Such products comprise an array of distinct business niches that are in a continuous state of evolution. Many of these products are utilized by demanding, specialized customer and end-user applications. Some of our products are new and high growth while others are more mature and further along in the product life cycle. Because many of these products are technically complex and involve substantial customer-supplier development collaboration, they typically command higher per ton prices and generally exhibit greater pricing stability relative to commodity grade paper products.

***Composite Fibers*** Our Composite Fibers business unit, based in Gernsbach, Germany, serves customers globally and focuses on higher-value-added products in the following markets:

**Food & Beverage** paper used for tea bags and coffee pods/pads and filters;

**Composite Laminates** papers used in production of decorative laminates for furniture and flooring;

**Metallized** products used in the labeling of beer bottles, innerliners, gift wrap, self-adhesive labels and other consumer products applications; and

**Technical Specialties** is a diverse line of paper products used in batteries, medical masks and other highly engineered applications.

We believe this business unit maintains a market leadership position in the tea bag and coffee pods/pads and filters market and the composite laminates market. Since the completion of the Caerphilly acquisition, we have the second largest market share for metallized products globally. Composite Fibers revenue composition by market consisted of the following for the years indicated:

| *In thousands* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Food & beverage | **$ 252,545** | $ 218,961 | $ 180,258 |
| Metallized | **85,719** | 45,426 | 40,078 |
| Composite laminates | **58,705** | 52,972 | 50,734 |
| Technical specialties and other | **32,983** | 28,671 | 21,681 |
| Total | **$ 429,952** | $ 346,030 | $ 292,751 |

Our focus on products made from abaca pulp has made us the world s largest producer of tea bag and coffee pods/pads and filter papers. Many of this unit s papers are technically sophisticated. Most of the papers produced in the Composite Fibers business unit, except for metallized papers, are extremely lightweight and require very specialized fibers. Our engineering capabilities, specifically designed papermaking equipment and customer orientation position us well to compete in these global markets.

Additional financial information for each of our business units is included in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and in Item 8 Financial Statements and Supplementary Data, Note 21.

**Our Competitive Strengths** Since commencing operations over 140 years ago, we believe that Glatfelter has developed into one of the world s leading manufacturers of specialty papers and engineered products. We believe that the following competitive strengths have contributed to our success:

*Leading market positions in higher-value, niche segments.* We have focused our resources to achieve market-leading positions in certain higher-value, niche segments. Our products include various highly specialized paper products designed for technically demanding end uses. Consequently, many of our products achieve premium pricing relative to that of commodity paper grades. In 2008 and 2007, approximately 81% of our sales were derived from these higher-value, niche products. The specialized nature of these products generally provides greater pricing stability relative to commodity paper products.

*Customer-centric business focus.* We offer a unique and diverse product line that can be customized to serve the individual needs of our customers. Our customer focus allows us to develop close relationships with our key customers and to be adaptable in our product development, manufacturing, sales and marketing practices. We believe that this approach has led to the development of excellent customer relationships, defensible market positions, and increased pricing stability relative to commodity paper producers. Additionally, our

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customer-centric focus has been a key driver to our success in new product development.

*Significant investment in product development.* In order to keep up with our customers ever-changing needs, we continually enhance our product offerings through significant investment in product development. In each of the past three years, we invested approximately $8.0 million in product development activities. We derive a significant portion of our revenue from products developed, enhanced or improved as a result of these activities. Revenue generated from products developed, enhanced or improved within the five previous years as a result of these activities represented approximately 54% of net sales in each of the past three years ended December 31, 2008.

*Integrated and flexible production.* As a nearly fully integrated producer, we are able to mitigate changes in the costs of certain raw materials and energy. In Specialty Papers, our Spring Grove and Chillicothe facilities are vertically integrated operations producing in excess of 85% of the annual pulp required for their paper production. Our Spring Grove and Chillicothe facilities also generate 100% of the steam and substantially all of the electricity required for their operations. Our Specialty Papers mills also provide us with a flexible operating platform allowing us to shift certain production from one machine or mill to another should demand levels change.

In Composite Fibers, our Philippine mill processes abaca fiber to produce abaca pulp, a key raw material used by this business unit. The Philippine mill produces approximately 70% of the annual abaca pulp required for Composite Fibers production requirements.

**Our Business Strategy** Our vision is to become the global supplier of choice in specialty papers and engineered products. We are continuously developing and refining our strategies to strengthen our business and position it for the future. Execution of our strategies is dependent on our customer relationships, technology, operational flexibility and our new product development efforts. Components of our strategy include:

***Specialty Papers*** The North American uncoated free sheet market has been challenged by a supply and demand imbalance, particularly for commodity-like products. While the industry has narrowed the supply-demand gap by eliminating capacity, the imbalance continues. To be successful in the current market environment, our strategy is focused on:

- employing a low-cost approach to our manufacturing activities and continuously implementing cost reduction initiatives;
- improving business processes and deploying continuous improvement capabilities to maintain market leadership positions in customer service; and
- optimizing our products mix by growing book publishing, envelope, forms and engineered products and utilizing new product development capabilities to replace declining carbonless volumes.

***Composite Fibers*** A core component of this business unit s long-term strategy is to capture world-wide growth in its core markets of food & beverage, composite laminates and metallized papers. Composite Fibers strategy also includes enhancing product mix across all of its markets by utilizing new product development capabilities. In addition, the Composite Fibers business unit is focused on cost reduction initiatives including, among others, work-force efficiencies and improved supply chain management.

***Balance Sheet*** We are focused on prudent financial management and the maintenance of a conservative capital structure. We are committed to maintaining a strong balance sheet and preserving our flexibility so that we may pursue strategic opportunities, including strategic acquisitions, that will benefit our shareholders.

***Timberland Strategy*** In 2006, we initiated a strategy to sell substantially all of our timberlands. At the time the strategy was announced, we expected proceeds from the sales to generate approximately $150 million to $200 million on a pre-tax basis by the end of 2010. Through the end of 2008, we have sold approximately 48,000 acres of timberland for an aggregate proceeds of $121 million. As a result of conditions in the overall real estate and credit markets, we do not expect to complete a significant amount of additional sales in the near term. Although proceeds have been used to reduce debt obligations, the sale of timberland will require us to replace company owned timberland as a source of fiber with more costly purchased woods. We believe the interest expense reduction and the financial flexibility for investment opportunity offer a greater return than the additional higher cost for raw fiber.

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**Raw Material and Energy** The following table provides an overview of the estimated amount of principal raw materials ( PRM ) expected to be used in 2009 by each of our manufacturing facilities:

| | Estimated Annual Quantity (short tons) | Percent of PRM Purchased |
|---|---|---|
| ***Specialty Papers*** | | |
| Spring Grove | | |
| Pulpwood | 1,088,000 | 86 |
| Wood and other pulps | 37,000 | 100 |
| Chillicothe | | |
| Pulpwood | 1,045,000 | 100 |
| Wood and other pulps | 58,000 | 100 |
| ***Composite Fibers*** | | |
| Wood and other pulps | 35,120 | 100 |
| Abaca pulp | 12,650 | 30 |
| Synthetic fiber | 8,700 | 100 |
| Metallized base stock | 32,800 | 100 |
| Abaca fiber | 17,000 | 100 |

Our Spring Grove, Pennsylvania and Chillicothe, Ohio mills are vertically integrated operations producing in excess of 85% of the combined annual pulp required for paper production. The principal raw material used to produce this pulp is pulpwood, of which both hardwoods and softwoods are used. Hardwoods are available within a relatively short distance of our mills. Softwoods are obtained from a variety of locations including the states of Pennsylvania, Maryland, Delaware, Virginia, Kentucky, Tennessee and South Carolina. To protect our sources of pulpwood, we actively promote conservation and forest management among suppliers and woodland owners. In addition to sourcing the pulpwood in the open market, we have long-term supply contracts that provide access to timber at market prices.

In addition to integrated pulp making, both the Spring Grove and Chillicothe facilities generate 100% of the steam and 100% and 80%, respectively, of their electricity needs. Principal fuel sources vary by facility and include over 600,000 tons of coal, 870,000 MMBTUs of natural gas, as well as recycled pulping chemicals, bark, wood waste, and

fuel oil. Spring Grove s coal needs are met under a contract that expires at the end of 2009 and Chillicothe s coal needs are supplied under two contracts that expire in the fourth quarter of 2010.

The Spring Grove facility produces more electricity than it requires. Excess electricity is sold to the local power company under a long-term co-generation contract expiring in April 2010. Gross energy sales were $19.8 million, $19.6 million, and $19.1 million in 2008, 2007 and 2006, respectively. The continuation of this revenue stream at these levels is dependent on our ability to negotiate an electricity sales agreement at pricing at or above current contracted levels for periods beyond 2010. Our current electricity contract provides for pricing which is approximately 20% above current forward prices. In addition, our cost of coal is under a long-term supply contract that is currently below market. This coal contract expires at the end of 2009. The current market price for coal is approximately 30% to 35% above our current fixed-price contract. This cost, as well as the costs incurred for natural gas and other fuels used to generate electricity, has a major impact on the net revenue and overall profitability of the Specialty Paper business unit.

The Gernsbach, Scaër and Lydney facilities generate all of the steam required for their operations. The Gernsbach facility generated approximately 16% of its 2008 electricity needs and purchased the balance. The Scaër and Lydney facilities purchased 100% of their 2008 electric power requirements. Natural gas was used to produce substantially all internally generated energy at the Gernsbach, Scaër and Lydney facilities during 2008.

Our Philippines mill processes abaca fiber to produce a specialized pulp. This abaca pulp production provides a unique advantage by supplying a key raw material used by our Composite Fibers business unit. The supply of abaca fiber was somewhat constrained in 2008. As a result, the Composite Fibers business unit slowed its paper machines and used substitute grades of abaca and substitute fibers to meet customer demands. In addition, events may arise from the relatively unstable political and economic environment in which the Philippine facility operates that could interrupt the production of abaca pulp. Management periodically evaluates the availability of abaca pulp for our Composite Fibers business unit. Any extended interruption of the Philippine operation could have a material impact on our consolidated financial position and/or results of operations. We target to have approximately one month of fiber supply in stock and one month of fiber supply at sea available to us. In addition, we have established contingency plans for alternative sources of abaca pulp. However, the cost of obtaining abaca pulp from such alternative sources, if available, would likely be much higher.

Based on information currently available, we believe that we will continue to have ready access, for the foreseeable future, to all principal raw materials used in the production of our products. However, as discussed in the preceding paragraph, the supply of abaca fiber has been constrained and has adversely impacted pricing. The cost of our raw materials is subject to significant change, including, but not limited to, the costs of wood, pulp products, certain commodity chemicals and energy.

**Concentration of Customers** In the past three years, no single customer represented more than 10% of our consolidated net sales.

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**Competition** Our industry is highly competitive. We compete on the basis of product quality, customer service, product development, price and distribution. We offer our products throughout the United States and globally in approximately 85 countries. Competition in the markets in which we participate comes from companies of various sizes, some of which have greater financial and other capital resources than we do.

There are a number of companies in the United States that manufacture printing and converting papers. We believe we are one of the leading producers of book publishing papers and compete in these markets with, among others, Domtar and Fraser. In the envelope sector we compete with, among others, International Paper, Domtar and Blue Ridge. In the carbonless paper and forms market, we compete with Appleton Papers and, to a lesser extent, Nekoosa Papers, Inc. In our Specialty Papers engineered products markets and for the Composite Fibers business unit s markets, competition is product line specific as the necessity for technical expertise and specialized manufacturing equipment limits the number of companies offering multiple product lines. We compete with specialty divisions of large companies such as, among others, Ahlstrom, International Paper, MeadWestvaco, Sappi and Stora Enso. Service, product performance, technological advances and product pricing are important competitive factors with respect to all our products. We believe our reputation in these areas continues to be excellent.

**Capital Expenditures** Our business is capital intensive and requires extensive expenditures for new and enhanced equipment. These capital investments are necessary for environmental compliance, normal upgrades or replacements, business strategy and research and development. For 2009, we expect capital expenditures to total approximately $35 million.

**Environmental Matters** We are subject to loss contingencies resulting from regulation by various federal, state, local and foreign governmental authorities with respect to the environmental impact of our mills. To comply with environmental laws and regulations, we have incurred substantial capital and operating expenditures in past years. For a discussion of environmental matters, see Item 8 Financial Statements and Supplementary Data Note 20.

**Employees** The following table summarizes our workforce as of December 31, 2008:

| Location | Hourly | Salaried | Total | Union | Contract Period Start | Contract Period End |
|---|---|---|---|---|---|---|
| **U.S** | | | | | | |
| Corporate/Spring Grove | 610 | 380 | 990 | United Steelworkers of America (USW) & Office and Professional Employees International Union | Feb. 2008 | Jan. 2011 |
| Chillicothe/Fremont | 1,124 | 333 | 1,457 | | Aug. 2006 | Aug. 2009 |
| **International** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Gernsbach | 355 | 204 | 559 | Industriegewerkschaft Bergbau, Chemie, Energie-IG BCE | Dec. 2008 | Dec. 2009 |
| Scaër | 73 | 48 | 121 | Confederation Generale des Travailleurs & Force Ouvriere | Mar. 2008 | Feb. 2009(1) |
| Lydney | 69 | 220 | 289 | Unite the Union | Feb. 2008 | Jan. 2009(1) |
| Caerphilly | 102 | 32 | 134 | General Maintenance & Boiler s | Aug. 2008 | Dec. 2009 |
| Philippines | 55 | 28 | 83 | Newtech Pulp Workers Union & Federation of Democratic Labor Org. | Sept. 2007 | Sept. 2012 |
| Total worldwide employees | 2,388 | 1,245 | 3,633 | | | |

(1) Employees of these facilities are covered by one-year labor agreements. Negotiations to renew the agreements are underway. The terms and conditions of the existing agreements will remain in effect until new agreements are reached.

We consider the overall relationship with our employees to be satisfactory.

**Available Information** On our investor relations page of our Corporate website at www.glatfelter.com we make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and other related information as soon as reasonably practical after they are filed with the Securities and Exchange Commission. In addition, our website includes a Corporate Governance page consisting of, among others, our Governance Principles and Code of Business Conduct, Board of Directors and Executive Officers, Audit, Compensation, Finance and Nominating Committees of the Board of Directors and their respective Charters, Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter, our whistle-blower policy and other related material. We intend to satisfy the disclosure requirement for any future amendments to, or waivers from, our Code of Business Conduct or Code of Business Ethics for the CEO and Senior Financial Officers by posting such information on our website. We will

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provide a copy of the Code of Business Conduct or Code of Business Ethics for the CEO and Senior Financial Officers, without charge, to any person who requests one, by calling (717) 225-2724.

## *ITEM 1A RISK FACTORS*

### Risks Related to Our Business

***Our business and financial performance may be adversely affected by the adverse global economic environment or downturns in the target markets that we serve.***

Demand for our products in the markets we serve is primarily driven by demand for our customers products, which is often affected by general economic conditions. Downturns in our target markets could result in decreased demand for our products. In particular, our businesses will be adversely affected by the current global economic downturn and by softness in targeted markets. Our results could be adversely affected if economic conditions further weaken or fail to improve. Also, there may be periods during which demand for our products is insufficient to enable us to operate our production facilities in an economical manner. The economic impact may cause customer insolvencies which may result in their inability to satisfy their financial obligations to us. These conditions are beyond our ability to control and may have a significant impact on our sales and results of operations.

In addition to fluctuations in demand for our products in the markets we serve, the markets for our paper products are also significantly affected by changes in industry capacity and output levels. There have been periods of supply/demand imbalance in the pulp and paper industry, which have caused pulp and paper prices to be volatile. The timing and magnitude of price increases or decreases in the pulp and paper market have generally varied by region and by product type. A sustained period of weak demand or excess supply would likely adversely affect pulp and paper prices. This could have a material adverse affect on our operating and financial results.

***The impairment of financial institutions may adversely affect us.***

We, our customers and our vendors, have transactions and borrowing arrangements with U.S. and foreign commercial banks, and other financial institutions, some of whom may be exposed to ratings downgrade, bankruptcy, liquidity, default or similar risks, especially in connection with recent financial market turmoil. A ratings downgrade, bankruptcy, receivership, default or similar event involving such institutions may adversely affect the counterparty s performance under letters of credit, limit our access to capital, impact the ability of our suppliers to provide us with raw materials needed for our production, impact our customers ability to meet obligations to us, or adversely affect our liquidity position, future business and results of operations.

***The cost of raw materials and energy used to manufacture our products could increase and the availability of certain raw materials could become more constrained.***

We require access to sufficient and reasonably priced quantities of pulpwood, purchased pulps, pulp substitutes, abaca fiber and certain other raw materials. Our Spring Grove and Chillicothe locations are vertically integrated manufacturing facilities that generate in excess of 85% of their annual pulp requirements. However, as a result of selling timberlands over the past two years, purchased timber will represent a larger source of the total pulpwood used in our operations.

Our Philippine mill purchases abaca fiber to produce abaca pulp, which we use to manufacture our tea bag and coffee pods/pads and filter paper products at our Gernsbach, Scaër and Lydney facilities. However, the supply of abaca fiber has been constrained due to severe weather related damage to the source crop as well as selection by land owners of alternative uses of land in lieu of fiber producing activities. As a result of supply constraints, pricing pressure persists.

The cost of many of our production materials and costs, including petroleum based chemicals and freight charges, are influenced by the cost of oil. In addition, coal is a principal source fuel for both the Spring Grove and Chillicothe facilities. Natural gas is the principal source of fuel for our Chillicothe and Composite Fibers business unit facilities. Other input costs such as caustic, starch and others, have exhibited extreme upward pricing pressure. In addition, our vendors liquidity may be impacted by the economy creating supply shortages.

We may not be able to pass increased raw materials or energy costs on to our customers if the market will not bear the higher price or where existing agreements with our customers limit price increases. If price adjustments significantly trail increases in raw materials or energy prices our operating results could be adversely affected.

***Our industry is highly competitive and increased competition could reduce our sales and profitability.***

In recent years, the global paper industry in which we compete has been adversely affected by paper

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producing capacity exceeding the demand for products. As a result, the uncoated free sheet industry has taken steps to reduce underperforming capacity. However, slowing demand or increased competition could force us to lower our prices or to offer additional services at a higher cost to us, which could reduce our gross margins and net income. The greater financial resources of certain of our competitors may enable them to commit larger amounts of capital in response to changing market conditions. Certain competitors may also have the ability to develop product or service innovations that could put us at a competitive disadvantage.

Some of the factors that may adversely affect our ability to compete in the markets in which we participate include:

- the entry of new competitors into the markets we serve, including foreign producers;
- the willingness of commodity-based paper producers to enter our specialty markets when they are unable to compete or when demand softens in their traditional markets;
- the aggressiveness of our competitors pricing strategies, which could force us to decrease prices in order to maintain market share;
- our failure to anticipate and respond to changing customer preferences;
- our inability to develop new, improved or enhanced products; and
- our inability to maintain the cost efficiency of our facilities.

If we cannot effectively compete in the markets in which we operate, our sales and operating results would be adversely affected.

***We may not be able to develop new products acceptable to our customers.***

Our business strategy is market focused and includes investments in developing new products to meet the changing needs of our customers and to maintain our market share. Our success will depend in large part on our ability to develop and introduce new and enhanced products that keep pace with introductions by our competitors and changing customer preferences. If we fail to anticipate or respond adequately to these factors, we may lose opportunities for business with both current and potential customers. The success of our new product offerings will depend on several factors, including our ability to:

- anticipate and properly identify our customers needs and industry trends;
- price our products competitively;
- develop and commercialize new products and applications in a timely manner;
- differentiate our products from our competitors products; and
- invest in research and development activities efficiently.

Our inability to develop new products could adversely impact our business and ultimately harm our profitability.

***We are subject to substantial costs and potential liability for environmental matters.***

We are subject to various environmental laws and regulations that govern our operations, including discharges into the environment, and the handling and disposal of hazardous substances and wastes. We are also subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. To comply with environmental laws and regulations, we have incurred, and will continue to incur, substantial capital and operating expenditures. We anticipate that environmental regulation of our operations will continue to become more burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. Because environmental regulations are not consistent worldwide, our ability to compete globally may be adversely affected by capital and operating expenditures required for environmental compliance. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment, such as air and water quality, resulting from mills we operate or have operated. Potential obligations include compensation for the restoration of natural resources, personal injury and property damages.

We have exposure to liability for remediation and other costs related to the presence of polychlorinated biphenyls, or PCBs, in the lower Fox River on which our former Neenah, Wisconsin mill was located. We have financial reserves for environmental matters but we cannot be certain that those reserves will be adequate to provide for future obligations related to these matters, that our share of costs and/or damages for these matters 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.

Our environmental issues are complicated and should be reviewed in context; please see a more

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detailed discussion of these matters in Item 8 Financial Statements and Supplementary Data Note 20.

***We have operations in a potentially politically and economically unstable location.***

We own and operate a pulp mill in the Philippines where the operating environment is unstable and subject to political unrest. Our Philippine pulp mill produces abaca pulp, a significant raw material used by our Composite Fibers business unit. Our Philippine pulp mill is currently our main provider of abaca pulp. There are limited suitable alternative sources of readily available abaca pulp in the world. In the event of a disruption in supply from our Philippine mill, there is no guarantee that we could obtain adequate amounts of abaca pulp from alternative sources at a reasonable price or at all. As a consequence, any civil disturbance, unrest, political instability or other event that causes a disruption in supply could limit the availability of abaca pulp and would increase our cost of obtaining abaca pulp. Such occurrences could adversely impact our sales volumes, revenues and operating results.

***Our international operations pose certain risks that may adversely impact sales and earnings.***

We have significant operations and assets located in Germany, France, the United Kingdom, and the Philippines. Our international sales and operations are subject to a number of special risks, in addition to the risks in our domestic sales and operations, including differing protections of intellectual property, trade barriers, labor unrest, exchange controls, regional economic uncertainty, differing (and possibly more stringent) labor regulation, risk of governmental expropriation, domestic and foreign customs and tariffs, differing regulatory environments, difficulty in managing widespread operations and political instability. These factors may adversely affect our future profits. Also, in some foreign jurisdictions, we may be subject to laws limiting the right and ability of entities organized or operating therein to pay dividends or remit earnings to affiliated companies unless specified conditions are met. Any such limitations would restrict our flexibility in using funds generated in those jurisdictions.

***Foreign currency exchange rate fluctuations could adversely affect our results of operations.***

We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The majority of our business is transacted in U.S. dollars, however, a substantial portion of business is transacted in Euros, British Pound Sterling and Canadian dollars. With respect to the Euro and Canadian dollar, we generate substantially greater cash inflow in these currencies than we do outflow. However, with respect to the British Pound Sterling, we have greater outflows than inflows of this currency. As a result of these positions, we are exposed to changes in currency exchange rates.

Our ability to maintain our products price competitiveness is reliant, in part, on the relative strength of the currency in which the product is denominated compared to the currency of the market into which it is sold and the functional currency of our competitors. Changes in the rate of exchange of foreign currencies in relation to the U.S. dollar, and other currencies, may adversely impact our results of operations and our ability to offer products in certain markets at acceptable prices.

***In the event any of the above risk factors impact our business in a material way or in combination during the same period, we may be unable to generate sufficient cash flow to simultaneously fund our operations, finance capital expenditures, satisfy obligations and make dividend payments on our common stock.***

In addition to debt service obligations, our business is capital intensive and requires significant expenditures for equipment maintenance, new or enhanced equipment, environmental compliance, and research and development to support our business strategies. We expect to meet all of our near and long-term cash needs from a combination of operating cash flow, cash and cash equivalents, our existing credit facility and other long-term debt. If we are unable to generate sufficient cash flow from these sources, we could be unable to meet our near and long-term cash needs or

make dividend payments.

***ITEM 2 PROPERTIES***

Our leased corporate offices are located in York, Pennsylvania. We own and operate paper mills located in Pennsylvania; Ohio; the United Kingdom; Germany; and France. Our metallized paper production facility located in Caerphilly, Wales leases the building and land associated with its operations. We also own and operate a pulp mill in the Philippines. Substantially all of the equipment used in our papermaking and related operations, is also owned. All of our properties, other than those that are leased, are free from any material liens or encumbrances. We consider all of our buildings to be in good structural condition and well maintained and our properties to be suitable and adequate for present operations.

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The following table summarizes the estimated production capacity of each of our facilities:

| | Estimated Annual Production Capacity (short tons) | |
|---|---|---|
| **Specialty Papers** | | |
| Spring Grove | 332,000 | Uncoated |
| | 68,000 | Coated |
| Chillicothe | 400,000 | Uncoated |
| | 7,500 | Coated |
| **Composite Fibers** | | |
| Gernsbach | 40,000 | Lightweight |
| | 11,800 | Metallized |
| Scaër | 6,000 | Lightweight |
| Lydney | 16,800 | Lightweight |
| Caerphilly | 17,000 | Metallized |
| Philippines | 13,000 | Abaca pulp |

The Spring Grove facility includes five uncoated paper machines that have been rebuilt and modernized from time to time with the capacity to produce 332,000 tons. It has an off-line combi-blade coater and a Specialty Coater ( S-Coater ), which together yield a potential annual production capacity for coated paper of approximately 68,000 tons. Since uncoated paper is used in producing coated paper, this is not additional capacity. We view the S-Coater as an important asset that allows us to expand our engineered paper products business. The Spring Grove facility also includes a pulpmill that has a production capacity of approximately 650 tons of bleached pulp per day.

The Chillicothe facility operates four paper machines which together yield a potential annual production capacity of uncoated and carbonless paper of approximately 400,000 tons. In addition, this location produces 7,500 tons per year of other coated paper. This facility also includes a pulpmill that has a production capacity of approximately 955 tons of bleached pulp per day.

The Composite Fibers business unit s four facilities operate a combined ten papermaking machines with the capacity to produce approximately 60,700 tons of lightweight paper on an annual basis. In addition, the business unit has the capacity to produce an aggregate of 27,500 tons of metallized papers from its lacquering and metallizing operations in Gernsbach, Germany and Caerphilly, Wales.

Our Philippines facility consists of a pulpmill that supplies a majority of the abaca pulp requirements of the Composite Fibers paper mills.

***ITEM 3 LEGAL PROCEEDINGS***

We are involved in various lawsuits that we consider to be ordinary and incidental to our business. The ultimate outcome of these lawsuits cannot be predicted with certainty; however, we do not expect such lawsuits individually or in the aggregate, will have a material adverse effect on our consolidated financial position, liquidity or results of operations.

For a discussion of commitments, legal proceedings and related contingencies, see Item 8 Financial Statements and Supplementary Data Note 20.

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

Not Applicable no matters were submitted to a vote of security holders during the fourth quarter of 2008.

**EXECUTIVE OFFICERS**

The following table sets forth certain information with respect to our executive officers as of March 5, 2009.

| Name | Age | Office with the Company |
|---|---|---|
| George H. Glatfelter II | 57 | Chairman and Chief Executive Officer |
| Dante C. Parrini | 44 | Executive Vice President and Chief Operating Officer |
| John P. Jacunski | 43 | Senior Vice President and Chief Financial Officer |
| Thomas G. Jackson | 43 | Vice President General Counsel and Corporate Secretary |
| Debabrata Mukherjee | 39 | Vice President and General Manager, Specialty Papers Business Unit |
| Martin Rapp | 49 | Vice President and General Manager, Composite Fibers Business Unit |
| Mark A. Sullivan | 54 | Vice President Global Supply Chain |
| William T. Yanavitch II | 48 | Vice President Human Resources and Administration |
| David C. Elder | 40 | Vice President and Corporate Controller |

Officers are elected to serve at the pleasure of the Board of Directors. Except in the case of officers elected to fill a new position or a vacancy occurring at some other date, officers are generally elected at the organizational meeting of the Board of Directors held immediately after the annual meeting of shareholders.

**George H. Glatfelter II** is our Chairman and Chief Executive Officer. From April 2000 to February 2001, Mr. Glatfelter was Chairman, President and Chief Executive Officer. From June 1998 to April 2000, he was Chief Executive Officer and President.

Mr. Glatfelter serves as a director of Met-Pro Corporation.

**Dante C. Parrini** became Executive Vice President and Chief Operating Officer in February 2005. Prior to this, Mr. Parrini was Senior Vice President and General Manager, a position he held since January 2003. From December 2000 until January 2003, Mr. Parrini was Vice President Sales and Marketing. From July 2000 to December 2000, he was Vice President Sales and Marketing, Glatfelter Division and Corporate Strategic Marketing.

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**John P. Jacunski** became Senior Vice President & Chief Financial Officer in July 2006. From October 2003 until July 2006, he was Vice President and Corporate Controller. Mr. Jacunski was previously Vice President and Chief Financial Officer at WCI Steel, Inc. from June 1999 to October 2003. Prior to joining WCI, Mr. Jacunski was with KPMG, an international accounting and consulting firm, where he served in various capacities.

**Thomas G. Jackson** became Vice President, General Counsel and Secretary in June 2008. Prior to this, Mr. Jackson was Assistant General Counsel, Assistant Secretary and Director of Compliance a position he held since May 2007. From November 2006 until May 2007, Mr. Jackson was Assistant General Counsel for the Company. Prior to joining our company, Mr. Jackson was Director of Business Development at C&D Technologies, Inc. from August 2005 to September 2006 and prior to that was Deputy General Counsel at C&D Technologies from October 1999 to August 2005.

**Debabrata Mukherjee** was appointed Vice President & General Manager Specialty Papers Business Unit in April 2008. Dr. Mukherjee joined our Company in 1998 and since then has held various operational, sales and technical leadership positions within the Specialty Papers Business Unit. From March 2006 through March 2008, Dr. Mukherjee served as Division Vice President, Engineered & Converting Products. From February 2004 thru February 2006. Dr. Mukherjee served as Director, Engineered Products. Prior to joining Glatfelter, Dr. Mukherjee served in various capacities with Felix Schoeller, a German based global specialty paper manufacturer.

**Martin Rapp** joined Glatfelter in August 2006 and serves as Vice President and General Manager Composite Fibers Business Unit. Prior to this, Mr. Rapp was Vice President and General Manager of Avery Dennison s Roll Materials Business in Central and Eastern Europe since August 2002. From May 2000 until July 2002 Mr. Rapp was Partner and Managing Director of BonnConsult.

**Mark A. Sullivan** was appointed Vice President, Global Supply Chain in February 2005. Mr. Sullivan joined our company in December 2003, as Chief Procurement Officer. His experience includes a broad array of operations and supply chain management responsibilities during 20 years with the DuPont Company. He served with T-Mobile USA as an independent contractor during 2003, and Concur Technologies from 1999 until 2002.

**William T. Yanavitch II** rejoined the Company in May 2005 as Vice President Human Resources and Administration. Mr. Yanavitch served as Vice President Human Resources from July 2000 until his resignation in January 2005 at which time he became Corporate Human Resources Manager of Constellation Energy.

**David C. Elder** was appointed Vice President in March 2009 and has served as Corporate Controller and Chief Accounting Officer since July 2006. Prior to joining us in January 2006, Mr. Elder was Corporate Controller for YORK International Corporation, a position he held since December 2003. Prior thereto, he was the Director, Financial Planning and Analysis for YORK International Corporation from August 2000 to December 2003.

## PART II

### *ITEM 5 MARKET FOR THE REGISTRANT S COMMON STOCK AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

**Common Stock Prices and Dividends Declared Information**

The following table shows the high and low prices of our common stock traded on the New York Stock Exchange under the symbol GLT and the dividend declared per share for each quarter during the past two years.

| Quarter | High | Low | Dividend |
|---|---|---|---|
| **2008** | | | |
| **Fourth** | **$ 13.69** | **$ 7.50** | **$ 0.09** |
| **Third** | **15.76** | **12.51** | **0.09** |
| **Second** | **15.76** | **13.51** | **0.09** |
| **First** | **15.44** | **12.85** | **0.09** |
| 2007 | | | |
| Fourth | $ 17.23 | $ 14.00 | $ 0.09 |
| Third | 15.59 | 12.47 | 0.09 |
| Second | 16.30 | 12.92 | 0.09 |
| First | 18.05 | 14.86 | 0.09 |

As of March 5, 2009, we had 1,561 shareholders of record.

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**STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative 5-year total return of our common stock with the cumulative total returns of both a peer group and a broad market index. The peer group consists of AbitibiBowater, Inc., Neenah Paper, Inc., Schweitzer-Mauduit International and Wausau Paper Corp.

In addition, the chart includes a comparison to the Russell 2000, which we believe is an appropriate index for stocks such as ours.

The graph assumes that the value of the investment in our common stock, in each index, and in each of the peer groups (including reinvestment of dividends) was $100 on December 31, 2003 and charts it through December 31, 2008.

**ITEM 6** ***SELECTED FINANCIAL DATA***

Summary of Selected Consolidated Financial Data

| As of or for the year ended December 31<br>*Dollars in thousands, except per share* | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Net sales | **$ 1,263,850** | $ 1,148,323 | $ 986,411 | $ 579,121 | $ 543,524 |
| Energy sales, net | **9,364** | 9,445 | 10,726 | 10,078 | 9,953 |
| Total revenue | **1,273,214** | 1,157,768 | 997,137 | 589,199 | 553,477 |
| Reversal of (Shutdown and restructuring charges and unusual items) | **856** | (35) | (30,318) | (1,564) | (20,375) |
| Gains on dispositions of plant, equipment and timberlands, net | **18,468** | 78,685 | 17,394 | 22,053 | 58,509 |
| Gains from insurance recoveries | | | 205 | 20,151 | 32,785 |
| Net income (loss) | **57,888** | 63,472 | (12,236) | 38,609 | 56,102 |
| Earnings (loss) per share | | | | | |
| Basic | **1.28** | 1.41 | (0.27) | 0.88 | 1.28 |
| Diluted | **1.27** | 1.40 | (0.27) | 0.87 | 1.27 |
| Total assets | **1,057,309** | 1,287,067 | 1,225,643 | 1,044,977 | 1,052,270 |
| Total debt | **313,285** | 313,185 | 397,613 | 207,073 | 211,227 |

| | | | | | |
|---|---|---|---|---|---|
| Shareholders equity | **342,707** | 476,068 | 388,368 | 432,312 | 420,370 |
| Cash dividends declared per common share | **0.36** | 0.36 | 0.36 | 0.36 | 0.36 |
| Shares outstanding | **45,434** | 45,141 | 44,821 | 44,132 | 43,950 |
| Capital expenditures | **52,469** | 28,960 | 44,460 | 31,024 | 18,587 |
| Depreciation and amortization | **60,611** | 56,001 | 50,021 | 50,647 | 51,598 |
| Tons sold | **829,354** | 799,512 | 721,892 | 498,593 | 470,422 |
| Number of employees | **3,633** | 3,854 | 3,704 | 1,958 | 1,988 |

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## *ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

**Forward-Looking Statements** This Annual Report on Form 10-K 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-K are forward looking. We use words such as anticipates , believes , expects , future , intends and similar expressions to identify forward-looking statements. Forward-looking statements reflect management s current expectations and are inherently uncertain. Our actual results may differ significantly from such expectations. The following discussion includes forward-looking statements regarding expectations of, among others, net sales, costs of products sold, non-cash pension income, 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. changes in the cost or availability of raw materials we use, in particular pulpwood, market pulp, pulp substitutes, caustic soda and abaca fiber;

ii. changes in energy-related costs and commodity raw materials with an energy component;

iii. variations in demand, including the impact of any unplanned market-related downtime, and the pricing of our products;

iv. our ability to develop new, high value-added Specialty Papers and Composite Fibers products;

v. our ability to renew our electricity sales agreement at acceptable margins in relation to our current coal supply contract;

vi. the impact of competition, changes in industry paper production capacity, including the construction of new mills, the closing of mills and incremental changes due to capital expenditures or productivity increases;

vii. the impairment of financial institutions as a result of the current credit market conditions and any resulting impact on us, our customers, or our vendors;

viii. the gain or loss of significant customers and/or on-going viability of such customers;

ix. cost and other effects of environmental compliance, cleanup, damages, remediation or restoration, or personal injury or property damages related thereto, such as the costs of natural resource restoration or damages related to the presence of polychlorinated biphenyls ( PCBs ) in the lower Fox River on which our former Neenah mill was located;

x. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;

xi. geopolitical events, including war and terrorism;

xii.

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

xiii. adverse results in litigation; and

xiv. our ability to finance, consummate and integrate future acquisitions.

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

**Overview** Our results of operations for 2008 when compared with 2007 reflect improved pricing conditions and increased shipping volumes in each of our business units. However, each of our business units results in the comparison was adversely impacted by significantly higher input costs that offset, to a large degree, the benefits from higher selling prices.

Specialty Papers operating income in 2008 increased approximately 45% compared to 2007 largely due to initiatives taken to improve the operational effectiveness and overall profitability of the Chillicothe facility.

Net sales in our Composite Fibers business unit increased 24% primarily due to the 2007 Caerphilly acquisition, foreign currency translation and higher selling prices. However, operating income decreased 3.5% in 2008 compared to 2007.

The results of operations in 2007 include $26 million of pre-tax charges related to our estimated costs associated with the Fox River environmental matter. The results also include approximately $5.7 million of income tax benefits recorded as a result of a change in the German corporate income tax rate.

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As part of our strategy to monetize the value of our timberlands, we completed sales of these assets generating proceeds of $19.3 million and $84.4 million in 2008 and 2007 respectively. We also monetized a $43.2 million note received in 2007 as consideration for the sale of timberlands by pledging this asset to secure a $36.7 million borrowing. Proceeds from the new borrowing were used to reduce outstanding debt.

**RESULTS OF OPERATIONS**

***2008 versus 2007***

The following table sets forth summarized results of operations:

| *In thousands, except per share* | Year Ended December 31 **2008** | 2007 |
|---|---|---|
| Net sales | **$ 1,263,850** | $ 1,148,323 |
| Gross profit | **177,782** | 156,312 |
| Operating income | **99,209** | 118,818 |
| Net income | **57,888** | 63,472 |
| Earnings per diluted share | **1.27** | 1.40 |

The consolidated results of operations for the years ended December 31, 2008 and 2007 include the following non-routine items:

| *In thousands, except per share* | After-tax Income (loss) | Diluted EPS |
|---|---|---|
| **2008** | | |
| Gains on sale of timberlands | **$ 10,984** | **$ 0.24** |
| Reversal of shutdown and restructuring charges | **517** | **0.01** |
| Acquisition integration costs | **(889)** | **(0.02)** |
| 2007 | | |
| Gains on sale of timberlands | $ 44,052 | $ 0.97 |
| Environmental remediation | (15,979) | (0.35) |

| | | |
|---|---|---|
| Acquisition integration costs | (1,569) | (0.03) |

These items increased earnings by $10.6 million, or $0.23 per diluted share in 2008. Comparatively, the items identified above increased earnings in 2007 by $26.5 million, or $0.59 per diluted share.

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

Management evaluates results of operations of the business units before non-cash pension income, charges related to the Fox River environmental reserves, restructuring related charges, unusual items, certain corporate level costs, effects of asset dispositions and insurance recoveries because it believes this is a more meaningful representation of the operating performance of its core papermaking businesses, the profitability of business units and the extent of cash flow generated from 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.

| **Unit Performance** | Year Ended December 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *nds, except tons* | Specialty Papers | | Composite Fibers | | Other and Unallocated | | Total | |
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2 |
| | **$ 833,899** | $ 802,293 | **$ 429,952** | $ 346,030 | **$ (1)** | $ | **$ 1,263,850** | $ 1,1 |
| es, net | **9,364** | 9,445 | | | | | **9,364** | |
| ue | **843,263** | 811,738 | **429,952** | 346,030 | **$ (1)** | | **1,273,214** | 1,1 |
| ducts sold | **739,481** | 721,216 | **366,791** | 287,606 | **(10,840)** | (7,366) | **1,095,432** | 1,0 |
| t | **103,782** | 90,522 | **63,161** | 58,424 | **10,839** | 7,366 | **177,782** | 1 |
| | **54,596** | 56,561 | **38,206** | 32,541 | **5,095** | 27,042 | **97,897** | 1 |
| and restructuring | | | | | **(856)** | 35 | **(856)** | |
| spositions of plant, and timberlands | | | | | **(18,468)** | (78,685) | **(18,468)** | ( |
| ting income | **49,186** | 33,961 | **24,955** | 25,883 | **25,068** | 58,974 | **99,209** | 1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ing income | | | | | **(18,183)** | (24,884) | **(18,183)** | ( |
| ore income taxes | **$ 49,186** | $ 33,961 | **$ 24,955** | $ 25,883 | **$ 6,885** | $ 34,090 | **$ 81,026** | $ |
| **ntary Data** | | | | | | | | |
| ld | **743,755** | 726,657 | **85,599** | 72,855 | | | **829,354** | 7 |
| n, depletion and n | **$ 35,010** | $ 34,882 | **$ 25,601** | $ 21,119 | $ | $ | **$ 60,611** | $ |
| enditures | **20,878** | 17,395 | **31,591** | 11,565 | | | **52,469** | |

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**Sales and Costs of Products Sold**

| *In thousands* | Year Ended December 31 **2008** | 2007 | Change |
|---|---|---|---|
| Net sales | **$ 1,263,850** | $ 1,148,323 | $ 115,527 |
| Energy sales net | **9,364** | 9,445 | (81) |
| Total revenues | **1,273,214** | 1,157,768 | 115,446 |
| Costs of products sold | **1,095,432** | 1,001,456 | 93,976 |
| Gross profit | **$ 177,782** | $ 156,312 | $ 21,470 |
| Gross profit as a percent of Net sales | **14.1%** | 13.6% | |

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

| | Percent of total **2008** | 2007 |
|---|---|---|
| **Business Unit** | | |
| Specialty Papers | **66.0%** | 69.9% |
| Composite Fibers | **34.0** | 30.1 |
| Total | **100.0%** | 100.0% |

**Net sales** totaled $1,263.9 million for the year ended December 31, 2008, an increase of $115.5 million, or 10.1%, compared to the previous year.

In the Specialty Papers business unit, net sales for 2008 increased $31.6 million to $833.9 million and operating income totaled $49.2 million, an increase of $15.2 million over the previous year. The improved operating income is primarily due to progress achieved in executing Chillicothe s profit improvement initiatives and improved operating efficiencies. Higher average selling prices contributed $36.4 million of the increase in net sales and volumes shipped increased 2.4%. These price and volume increases were partially offset by expected mix changes between carbonless

papers and uncoated papers, as well as lower sales of scrap paper. The benefits of higher average selling prices were offset by $37.7 million of higher costs, largely driven by fiber and energy. Unplanned operating downtime at the Spring Grove and Chillicothe facilities also reduced operating results by $4.3 million in 2008 compared to 2007.

In Composite Fibers, net sales were $430.0 million for 2008, an increase of $83.9 million from the previous year. The completion of the November 30, 2007 Caerphilly acquisition accounted for $40.9 million of the increase in net sales, the translation of foreign currencies benefited net sales by $14.4 million and higher average selling prices contributed $16.3 million. Total volumes shipped by this business unit increased 17.5%, including a 4.3% increase in Food & Beverage paper product shipments. Shipments of Composite Laminates were down 1.5% primarily due to the weak housing and related markets.

Energy and raw material costs in the Composite Fibers business unit were $17.1 million higher than a year ago, increasing at a rate faster than average selling prices. Operating income for Composite Fibers declined $0.9 million in the comparison and totaled $25.0 million for 2008. During 2008, this unit s results were adversely impacted by an aggregate of $6.2 million due to operating issues, market related downtime and accelerated depreciation related to completed or planned machine upgrades.

**Non-Cash Pension Income** Non-cash pension income resulted from the over-funded status of our pension plans. The following summarizes non-cash pension income for 2008 compared to 2007:

| | Year Ended December 31 | | |
|---|---|---|---|
| *In thousands* | **2008** | 2007 | Change |
| *Recorded as*: | | | |
| Costs of products sold | **$ 11,067** | $ 8,846 | $ 2,221 |
| SG&A expense | **4,995** | 4,050 | 945 |
| Total | **$ 16,062** | $ 12,896 | $ 3,166 |

The amount of pension income recognized each year is determined using various actuarial assumptions and certain other factors, including the fair value of our pension assets as of the beginning of the year. As discussed in Item 8 Financial Statements and Supplementary Data Note 11, the fair value of the plans assets has declined approximately 34% since the beginning of 2008. Accordingly, during 2009 we expect to recognize net pension expense totaling approximately $6 million, pre-tax.

**Selling, general and administrative ( SG&A )** expenses decreased $18.2 million in the year-to-year comparison and totaled $97.9 million in 2008 compared to $116.1 million a year ago. The decrease was primarily due to a $26.0 million charge for the Fox River environmental matter in 2007 partially offset by the inclusion in 2008 of a full year s result for the Caerphilly acquisition.

**Gain on Sales of Plant, Equipment and Timberlands** During 2008 and 2007, we completed sales of timberlands which are included in the following table:

| *Dollars in thousands* | **Acres** | **Proceeds** | **Gain** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **2008** | | | |
| Timberlands | **4,561** | **$ 19,279** | **$ 18,649** |
| Other | **n/a** | | **(181)** |
| Total | | **$ 19,279** | **$ 18,468** |
| 2007 | | | |
| Timberlands | 37,448 | $ 84,409 | $ 78,958 |
| Other | n/a | 377 | (273) |
| Total | | $ 84,786 | $ 78,685 |

In connection with each of the asset sales set forth above, we received cash proceeds with the exception of the sale of approximately 26,000 acres of timberland completed in November 2007. As consideration for the timberland sold in this transaction, we received a $43.2 million, 20-year interest-bearing note due from the

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buyer, Glawson Investments Corp. ( Glawson ), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc. In January 2008, we monetized this note receivable by pledging it as collateral for a new $36.7 million term note payable.

**Income taxes** During 2008, we recorded income tax expense totaling $23.1 million on pre tax income of $81.0 million. The comparable amounts in 2007 were income taxes of $30.5 million on a taxable income of $93.9 million. The effective rate in 2007 included a $5.7 million deferred income tax benefit related to the reduction of German corporate income tax rates passed into law July 2007. Overall, the decline in the effective tax rate from 2007 to 2008 was primarily due to higher gains from timberland sales in the prior year which are taxed at a higher rate.

**Foreign Currency** We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The functional currency in Germany and France is the Euro, in the UK it is the British Pound Sterling, and in the Philippines it is the Peso. During 2008, Euro functional currency operations generated approximately 20.6% of our sales and 19.9% of operating expenses and British Pound Sterling operations represented 10.6% of net sales and 11.2% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates. The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operation s results:

| *In thousands* | Year Ended December 31<br>**Favorable (unfavorable)** |
|---|---|
| Net sales | **$ 14,360** |
| Costs of products sold | **(10,435)** |
| SG&A expenses | **(855)** |
| Income taxes and other | **(1,033)** |
| Net income | **$ 2,037** |

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.

***RESULTS OF OPERATIONS***

***2007 versus 2006***

The following table sets forth summarized results of operations:

| *In thousands, except per share* | Year Ended December 31 2007 | 2006 |
|---|---|---|
| Net sales | $ 1,148,323 | $ 986,411 |
| Gross profit | 156,312 | 105,294 |
| Operating income | 118,818 | 94 |
| Net income (loss) | 63,472 | (12,236) |
| Earnings (loss) per diluted share | 1.40 | (0.27) |

The consolidated results of operations for the years ended December 31, 2007 and 2006 include the following significant items:

| *In thousands, except per share* | After-tax Income (loss) | Diluted EPS |
|---|---|---|
| 2007 | | |
| Gains on sale of timberlands | $ 44,052 | $ 0.97 |
| Environmental remediation | (15,979) | (0.35) |
| Acquisition integration costs | (1,569) | (0.03) |
| 2006 | | |
| Gains on sale of timberlands | 8,812 | 0.20 |
| Shutdown and restructuring charges | (35,212) | (0.79) |
| Acquisition integration costs | (8,647) | (0.19) |
| Debt redemption premium | (1,820) | (0.04) |
| Insurance recoveries | 130 | |

These items increased earnings by $26.5 million, or $0.59 per diluted share in 2007. Comparatively, the items identified above decreased earnings in 2006 by $36.7 million, or $0.82 per diluted share.

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

| ded December 31<br>*ands, except tons* | Specialty Papers | | Composite Fibers | | Other and Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 200 |
| s | $ 802,293 | $ 693,660 | $ 346,030 | $ 292,751 | $ | $ | $ 1,148,323 | $ 986, |
| sales, net | 9,445 | 10,726 | | | | | 9,445 | 10, |
| venue | 811,738 | 704,386 | 346,030 | 292,751 | | | 1,157,768 | 997, |
| products sold | 721,216 | 635,143 | 287,606 | 246,797 | (7,366) | 9,903 | 1,001,456 | 891, |
| rofit | 90,522 | 69,243 | 58,424 | 45,954 | 7,366 | (9,903) | 156,312 | 105, |
| | 56,561 | 50,285 | 32,541 | 28,458 | 27,042 | 13,738 | 116,144 | 92, |
| turing charges | | | | | 35 | 30,318 | 35 | 30, |
| n dispositions of<br>quipment and<br>nds | | | | | (78,685) | (17,394) | (78,685) | (17, |
| insurance<br>es | | | | | | (205) | | ( |
| erating income | 33,961 | 18,958 | 25,883 | 17,496 | 58,974 | (36,360) | 118,818 | |
| rating income<br>e) | | | | | (24,884) | (22,322) | (24,884) | (22, |
| (loss) from<br>ng operations<br>ncome taxes | $ 33,961 | $ 18,958 | $ 25,883 | $ 17,496 | $ 34,090 | $ (58,682) | $ 93,934 | $ (22, |
| nentary Data | | | | | | | | |
| s sold | 726,657 | 653,734 | 72,855 | 68,148 | | 10 | 799,512 | 721, |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ation expense | $ 34,882 | $ 32,824 | $ 21,119 | $ 17,197 | $ | $ | $ 56,001 | $ 50,( |
| expenditures | 17,395 | 36,484 | 11,565 | 7,976 | | | 28,960 | 44,4 |

**Sales and Costs of Products Sold**

| *In thousands* | Year Ended December 31 2007 | 2006 | Change |
|---|---|---|---|
| Net sales | $ 1,148,323 | $ 986,411 | $ 161,912 |
| Energy sales net | 9,445 | 10,726 | (1,281) |
| Total revenues | 1,157,768 | 997,137 | 160,631 |
| Costs of products sold | 1,001,456 | 891,843 | 109,613 |
| Gross profit | $ 156,312 | $ 105,294 | $ 51,018 |
| Gross profit as a percent of Net sales | 13.6% | 10.7% | |

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

| | Percent of total 2007 | 2006 |
|---|---|---|
| **Business Unit** | | |
| Specialty Papers | 69.9% | 70.3% |
| Composite Fibers | 30.1 | 29.7 |
| Total | 100.0% | 100.0% |

**Net sales** totaled $1.1 billion in 2007, an increase of $161.9 million, or 16.4%, compared to the previous year.

In the Specialty Papers business unit, net sales increased $108.6 million to $802.3 million and operating income totaled $34.0 million, an increase of $15.0 million over the previous year. The increase in net sales is attributable to the Chillicothe acquisition that was completed April 3, 2006 and an overall favorable pricing environment that

contributed a $16.1 million benefit in 2007 with prices increasing in all product markets. Shipping volumes increased 11% in the comparison. Specialty Papers production costs increased in the comparison primarily due to higher shipping volumes. Higher raw material prices largely driven by energy and pulp, and wood material usage adversely impacted production costs by $19.2 million. These adverse factors were partially offset by improved material usage and machine yields.

In Composite Fibers, net sales were $346.0 million in 2007, an increase of $53.3 million from the prior year and operating income totaled $25.9 million, an increase of $8.4 million in the comparison. The completion of the March 13, 2006 Lydney acquisition accounted for approximately $17.5 million of the increase in net sales and the translation of foreign currencies benefitted net sales by $19.6 million. On a constant currency basis, average selling prices increased on average 0.3% and volumes increased approximately 7% with increases realized in food and beverage, technical specialties and metallized product markets. Energy and raw material costs in this business unit were $3.2 million higher than a year ago.

The reported amounts of costs of products sold in 2006 included a $25.4 million charge for inventory write-downs and accelerated depreciation on property and equipment abandoned in connection with the Neenah facility shutdown. In the preceding Business Unit Performance table, this amount is included in the Other and Unallocated column.

**Non-Cash Pension Income** Non-cash pension income results from the net over-funded status of our pension plans. The amount of pension income recognized each year is determined using various actuarial assumptions and certain other factors, including the fair value of our pension assets as of the beginning of the year. The following summarizes non-cash pension income, before

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the curtailment charges recorded in connection with the Neenah shutdown during 2006:

| *In thousands* | Year Ended December 31 2007 | 2006 | Change |
|---|---|---|---|
| *Recorded as*: | | | |
| Costs of products sold | $ 8,846 | $ 15,480 | $ (6,634) |
| SG&A expense | 4,050 | 1,513 | 2,537 |
| Total | $ 12,896 | $ 16,993 | $ (4,097) |

**Selling, general and administrative ( SG&A )** expenses increased $23.7 million in the year-to-year comparison and totaled $116.1 million in 2007 compared to $92.5 million a year ago. The increase was due to a $26.0 million charge for the Fox River environmental matter and the inclusion of a full year s results for the Chillicothe and Lydney acquisitions in the current period s results. These unfavorable factors were partially offset in the comparison by $12.2 million of lower acquisition integration costs.

**Gain on Sales of Plant, Equipment and Timberlands** During 2007 and 2006 we completed sales of timberlands. The following table summarizes these transactions:

| *Dollars in thousands* | Acres | Proceeds | Gain |
|---|---|---|---|
| 2007 | | | |
| Timberlands | 37,448 | $ 84,409 | $ 78,958 |
| Other | n/a | 377 | (273) |
| Total | | $ 84,786 | $ 78,685 |
| 2006 | | | |
| Timberlands | 5,923 | $ 17,130 | $ 15,677 |
| Other | n/a | 3,941 | 1,717 |
| Total | | $ 21,071 | $ 17,394 |

In connection with each of the asset sales set forth above, we received cash proceeds with the exception of the sale of approximately 26,000 acres of timberland completed in November 2007. As consideration for the timberland sold in this transaction we received a $43.2 million, 20-year interest-bearing note due from the buyer, Glawson Investments Corp. ( Glawson ), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc. In January 2008, we monetized this note receivable by pledging it as collateral for a new $36.7 million term note payable.

**Shutdown and Restructuring Charges Neenah Facility Shutdown** In connection with our agreement to acquire the Chillicothe operations, we permanently closed the Neenah, WI facility. Production at this facility ceased effective June 30, 2006 and certain products previously manufactured at the Neenah facility have been transferred to Chillicothe. Results of operations in 2006 included charges totaling $54.4 million including the $25.4 million charge to cost of goods discussed previously.

The remaining reserve as of December 31, 2006 associated with this restructuring initiative totaled $2.8 million. During 2007, we made payments totaling $1.7 million; thus, the remaining reserve balance was $1.1 million at December 31, 2007.

**Non-operating income (expense)** During April 2006, we completed the placement of a $200 million bond offering, the proceeds of which were used to redeem the then outstanding $150 million notes scheduled to mature in July 2007. In connection with the early redemption, a charge of $2.9 million, related to a redemption premium and the write-off of unamortized debt issuance costs, was recorded in Consolidated Statement of Income as Non-operating expense under the caption Other-net.

**Income taxes** During 2007, we recorded income tax expense totaling $30.5 million on pre tax income of $93.9 million. The comparable amounts in 2006 were income tax benefits of $10.0 million on a pre-tax loss of $22.2 million. For 2007, income tax expense is net of a $5.7 million deferred income tax benefit related to the reduction of German corporate income tax rates passed into law July 2007.

**Foreign Currency** We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The functional currency in Germany and France is the Euro, in the UK it is the British Pound Sterling, and in the Philippines is the Peso. During 2007, Euro functional currency operations generated approximately 19.9% of our sales and 18.8% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.8% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates. The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operation s results:

| *In thousands* | Year Ended December 31<br>Favorable (unfavorable) |
|---|---|
| Net sales | $ 19,563 |
| Costs of products sold | (17,952) |
| SG&A expenses | (1,927) |

| | |
|---|---|
| Income taxes and other | 79 |
| Net loss | $ (237) |

The above table only presents the financial reporting impact of foreign currency translations. It does not present the impact of certain competitive advantages or

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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:

| | Year Ended December 31 | |
|---|---|---|
| *In thousands* | **2008** | 2007 |
| Cash and cash equivalents at beginning of period | **$ 29,833** | $ 21,985 |
| Cash provided by (used for) | | |
| Operating activities | **53,425** | 100,332 |
| Investing activities | **(33,190)** | 4,733 |
| Financing activities | **(12,879)** | (99,371) |
| Effect of exchange rate changes on cash | **(4,955)** | 2,154 |
| Net cash provided | **2,401** | 7,848 |
| Cash and cash equivalents at end of period | **$ 32,234** | $ 29,833 |

Operating cash flow declined by $46.9 million in the comparison as stronger overall gross profit was offset by higher levels of working capital. Accounts receivable were higher reflecting higher shipping volumes and selling prices. Overall inventory levels were lower, however higher input costs and replenishment of key raw materials at year end 2008 used approximately $10.0 million. In addition, cash paid for income taxes increased $17.4 million in 2008 compared to 2007 and we used approximately $13.0 million in connection with the Fox River and Ecusta environmental matters.

Net cash used for investing activities increased in the comparison primarily due to a $23.5 million increase in capital expenditures, which includes an investment of approximately $11 million to upgrade the capabilities of one of our inclined wire paper machines in Germany. In addition, the increase in net cash used for investing activities reflects $22.3 million less in proceeds from timberland sales in 2008 than in 2007. In 2009, capital expenditures are expected to be reduced to approximately $35 million reflecting our decision, in light of current economic conditions, to delay most discretionary spending.

During 2008 and 2007, cash dividends paid on common stock totaled approximately $16.5 million and $16.4 million, respectively. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend

payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

During 2008, net debt, defined as total debt less term notes secured by letters of credit and less cash balances, declined $39.0 million to $210.4 million as proceeds from operations and timberland sales were used to reduce debt outstanding. Our Term loan, due in April 2011 has mandatory quarterly repayment requirements approximating $3.4 million per quarter in 2009.

During 2008, $13 million of required principal payments were made under our Term Loan. In 2009, we are required to make $13.8 million of quarterly principal repayments. The following table sets forth our outstanding long-term indebtedness:

| | December 31 | |
|---|---|---|
| *In thousands* | **2008** | 2007 |
| Revolving credit facility, due April 2011 | **$ 6,724** | $ 35,049 |
| Term loan, due April 2011 | **30,000** | 43,000 |
| 71/8% Notes, due May 2016 | **200,000** | 200,000 |
| 2008 Term Loan, due January 2013 | **36,695** | - |
| Note payable, due March 2013 | **34,000** | 34,000 |
| Total long-term debt | **307,419** | 312,049 |
| Less current portion | **(13,759)** | (11,008) |
| Long-term debt, excluding current portion | **$ 293,660** | $ 301,041 |

The significant terms of the debt instruments are more fully discussed in Item 8- Financial Statements and Supplementary Data Note 17.

In January 2008, we monetized a note received as consideration from the sale of timberlands. In this transaction, we entered into a new $36.7 million term loan agreement (the 2008 Term Loan ) with a financial institution. The 2008 Term Loan matures in five years, bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.20% per annum. This is secured by, among other assets, a $43.2 million note received from the buyers of certain timberland sold in November 2007. For a more complete description of the 2008 Term Loan, refer to Note 17.

In January 2009, we used $6.5 million to satisfy a commitment we had to fund certain Fox River remediation activities. For complete details of this obligation, refer to Item 8 Financial Statements, Note 20.

We are subject to loss contingencies resulting from regulation by various federal, state, local and foreign governmental authorities with respect to the environmental impact of mills we operate, or have operated. To comply with environmental laws and regulations, we have incurred substantial capital and operating expenditures in past

years. We anticipate that environmental regulation of our operations will continue to be burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our

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operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 8 Financial Statements and Supplementary Data Note 20 for a summary of significant environmental matters.

We expect to meet all of our near and long-term cash needs from a combination of operating cash flow, cash and cash equivalents, and our existing credit facilities. However, as discussed in Item 8 Financial Statements and Supplementary Data Note 20, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

Our credit agreement, as amended, contains a number of customary compliance covenants. In addition, the 71/8% Notes contain a cross default provision that in the event of a default under the credit agreement, the 71/8% Notes would become currently due. As of December 31, 2008, we met all of the requirements of our debt covenants.

**Off-Balance-Sheet Arrangements** As of December 31, 2008 and 2007, 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 8 Financial Statements and Supplementary Data.

**Contractual Obligations** The following table sets forth contractual obligations as of December 31, 2008.

| | | Payments Due During the Year Ended December 31, | | | |
|---|---|---|---|---|---|
| *In millions* | Total | 2009 | 2010 to 2011 | 2012 to 2013 | 2014 and beyond |
| Long-term debt[1] | $ 422 | $ 31 | $ 56 | $ 102 | $ 233 |
| Operating leases[2] | 22 | 7 | 5 | 2 | 8 |
| Purchase obligations[3] | 178 | 130 | 48 | | |
| Other long term obligations[4],[5] | 104 | 11 | 19 | 18 | 56 |
| Total | $ 726 | $ 179 | $ 128 | $ 122 | $ 297 |

(1) Represents principal and interest payments due on long-term debt. We have $200.0 million of debt maturing in May 2016 and bearing a fixed rate of interest at 71/8%, payable semiannually, a $36.7 million note maturing in January 2013 bearing interest at six-month reserve adjusted LIBOR plus a margin rate of 1.20% per annum, and a $34.0 million note maturing in March 2013 and bearing a fixed rate of interest of 3.10%. In addition, at December 31, 2008, $6.7 million was outstanding under our revolving credit facility and $30 million was outstanding under a term loan. Both the revolving credit facility and the term loan bear a variable interest rate (3.03% and 2.34%, respectively, as of December 31, 2008) and mature in April 2011.

(2) Represents rental agreements for various land buildings, and computer and office equipment.

(3) Represents open purchase order commitments and other obligations, primarily for raw material forward purchases and pulpwood contracts with minimum annual purchase obligations. In certain situations, prices are subject to variations based on market prices. In such situations, the information above is based on prices in effect at December 31, 2008 or expectations based on historical experience and/or current market conditions.

(4) Primarily represents expected benefits to be paid pursuant to medical retirement plans and nonqualified pension plans over the next ten years and expected costs of asset retirement obligations.

(5) Since we are unable to reasonably estimate the timing of ultimate payment, the amounts set forth above do not include any payments that may be made related to uncertain tax positions, including potential interest, accounted for in accordance with FASB Interpretation No. 48. As discussed in more detail in Item 8 Financial Statements, Note 9, Income Taxes , such amounts totaled $29.2 million at December 31, 2008.

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**Critical Accounting Policies and Estimates** The preceding discussion and analysis of our consolidated financial position and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, long-lived assets, pension and post-retirement obligations, environmental liabilities and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following represent the most significant and subjective estimates used in the preparation of our consolidated financial statements.

**Inventory Reserves** We maintain reserves for excess and obsolete inventories to reflect our inventory at the lower of its stated cost or market value. Our estimate for excess and obsolete inventory is based upon our assumptions about future demand and market conditions. If actual conditions are less favorable than those we have projected, we may need to increase our reserves for excess and obsolete inventories. Any increases in our reserves will adversely impact our results of operations. The establishment of a reserve for excess and obsolete inventory establishes a new cost basis in the inventory. Such reserves are not reduced until the product is sold. If we are able to sell such inventory, any related reserves would be reversed in the period of sale.

**Long-lived Assets** We evaluate the recoverability of our long-lived assets, including plant, equipment, timberlands and intangible assets periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Our evaluations include analyses based on the cash flows generated by the underlying assets, profitability information, including estimated future operating results, trends or other determinants of fair value. If the value of an asset determined by these evaluations is less than its carrying amount, a loss is recognized for the difference between the fair value and the carrying value of the asset. Future adverse changes in market conditions or poor operating results of the related business may indicate an inability to recover the carrying value of the assets, thereby possibly requiring an impairment charge in the future.

**Pension and Other Post-Retirement Obligations** Accounting for defined-benefit pension plans, and any curtailments thereof, requires various assumptions, including, but not limited to, discount rates, expected long-term rates of return on plan assets and future compensation growth rates. Accounting for our retiree medical plans, and any curtailments thereof, also requires various assumptions, which include, but are not limited to, discount rates and annual rates of increase in the per capita costs of health care benefits. We evaluate these assumptions at least once each year or as facts and circumstances dictate and we make changes as conditions warrant. Changes to these assumptions will increase or decrease our reported income, which will result in changes to the recorded benefit plan assets and liabilities.

**Environmental Liabilities** We maintain accruals for losses associated with environmental obligations when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing legislation and remediation technologies. These accruals are adjusted periodically as assessment and remediation actions continue and/or further legal or technical information develops. Such undiscounted liabilities are exclusive of any insurance or other claims against third parties. Recoveries of environmental remediation costs from other parties, including insurance carriers, are recorded as assets when their receipt is assured beyond a reasonable doubt.

**Income Taxes** We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our balance sheets, as well as operating loss and tax credit carry forwards. These deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when such amounts are expected to reverse or be utilized. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against our deferred tax assets, which may result in a substantial increase in our effective tax rate and a material adverse impact on our reported results.

Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations

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where the ultimate tax determination is less than certain. We and our subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Other significant accounting policies, not involving the same level of uncertainties as those discussed above, are nevertheless important to an understanding of the Consolidated Financial Statements. Refer to Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements for additional accounting policies.

***ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS***

| | Year Ended December 31 | | | | | At December 31, 2008 | |
|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | 2009 | 2010 | 2011 | 2012 | 2013 | Carrying Value | Fair Value |
| **Long-term debt** | | | | | | | |
| Average principal outstanding | | | | | | | |
| At fixed interest rates Bond | $ 200,000 | $ 200,000 | $ 200,000 | $ 200,000 | $ 200,000 | $ 200,000 | $ 167,727 |
| At fixed interest rates Note payable | 34,000 | 34,000 | 34,000 | 34,000 | 7,825 | 34,000 | 36,164 |
| At variable interest rates | 66,539 | 52,780 | 40,004 | 36,695 | 1,407 | 73,419 | 75,202 |
| | | | | | | $ 307,419 | $ 279,093 |
| Weighted-average interest rate | | | | | | | |
| Fixed interest rate debt Bond | 7.13% | 7.13% | 7.13% | 7.13% | 7.13% | | |
| Fixed interest rate debt Note payable | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | | |
| Variable interest rate debt | 3.06 | 3.25 | 3.46 | 3.52 | 3.52 | | |

The table above presents average principal outstanding and related interest rates for the next five years. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities.

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At December 31, 2008, we had long-term debt outstanding of $307.4 million, of which $73.4 million or 24% was at variable interest rates. Variable-rate debt outstanding represents borrowings under our revolving credit facility and term loans that incur interest based on the domestic prime rate or a Eurocurrency rate, at our option, plus a margin. At December 31, 2008, the weighted-average interest rate paid was approximately 3.1%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by $0.7 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 2008, Euro functional currency operations generated approximately 20.6% of our sales and 19.9% of operating expenses and British Pound Sterling operations represented 10.6% of net sales and 11.2% of operating expenses.

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*ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

**MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of P. H. Glatfelter Company (the Company ) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the chief executive and chief financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

As of December 31, 2008, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has determined that the Company s internal control over financial reporting as of December 31, 2008 is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

The Company s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorizations of management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on our financial statements.

The Company s internal control over financial reporting as of December 31, 2008, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2008.

The Company s management, including the chief executive officer and chief financial officer, does not expect that our internal control over financial reporting will prevent or detect all errors and all frauds. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of P. H. Glatfelter Company

We have audited the internal control over financial reporting of P.H. Glatfelter Company and subsidiaries (the Company ) as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2008 of the Company and our report dated March 11, 2009 expressed an unqualified opinion on those financial statements and financial statement schedule.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 11, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of P.H. Glatfelter Company

We have audited the accompanying consolidated balance sheets of P.H. Glatfelter Company and subsidiaries (the Company ) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of P.H. Glatfelter Company and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 11 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R),* as of December 31, 2006.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB No. 109* as of January 1, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2009, expressed an unqualified opinion on the Company s internal control over financial reporting.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 11, 2009

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**P. H. GLATFELTER COMPANY and SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**

| *In thousands, except per share* | Year Ended December 31 **2008** | 2007 | 2006 |
|---|---|---|---|
| Net sales | **$ 1,263,850** | $ 1,148,323 | $ 986,411 |
| Energy sales net | **9,364** | 9,445 | 10,726 |
| Total revenues | **1,273,214** | 1,157,768 | 997,137 |
| Costs of products sold | **1,095,432** | 1,001,456 | 891,843 |
| Gross profit | **177,782** | 156,312 | 105,294 |
| Selling, general and administrative expenses | **97,897** | 116,144 | 92,481 |
| (Reversals of) Shutdown and restructuring charges | **(856)** | 35 | 30,318 |
| Gains on disposition of plant, equipment and timberlands, net | **(18,468)** | (78,685) | (17,394) |
| Insurance recoveries | | | (205) |
| Operating income | **99,209** | 118,818 | 94 |
| Other nonoperating income (expense) | | | |
| Interest expense | **(23,160)** | (29,022) | (24,453) |
| Interest income | **4,975** | 3,933 | 3,132 |
| Other net | **2** | 205 | (1,001) |
| Total other nonoperating expense | **(18,183)** | (24,884) | (22,322) |
| Income (loss) before income taxes | **81,026** | 93,934 | (22,228) |
| Income tax provision (benefit) | **23,138** | 30,462 | (9,992) |
| Net income (loss) | **$ 57,888** | $ 63,472 | $ (12,236) |
| **Weighted average shares outstanding** | | | |
| Basic | **45,247** | 45,035 | 44,584 |
| Diluted | **45,572** | 45,422 | 44,584 |
| **Earnings (loss) per share** | | | |
| Basic | **$ 1.28** | $ 1.41 | $ (0.27) |
| Diluted | **1.27** | 1.40 | (0.27) |

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

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**P. H. GLATFELTER COMPANY and SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

| *Dollars in thousands, except par values* | December 31 **2008** | 2007 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 32,234** | $ 29,833 |
| Accounts receivable (less allowance for doubtful accounts: 2008 $2,633; 2007 $3,117) | **132,635** | 122,980 |
| Inventories | **193,354** | 193,042 |
| Prepaid expenses and other current assets | **33,596** | 27,557 |
| Total current assets | **391,819** | 373,412 |
| **Plant, equipment and timberlands net** | **493,564** | 519,866 |
| **Other long-term assets** | **171,926** | 393,789 |
| Total assets | **$ 1,057,309** | $ 1,287,067 |
| **Liabilities and Shareholders Equity** | | |
| **Current liabilities** | | |
| Current portion of long-term debt | **$ 13,759** | $ 11,008 |
| Short-term debt | **5,866** | 1,136 |
| Accounts payable | **59,750** | 73,195 |
| Dividends payable | **4,089** | 4,063 |
| Environmental liabilities | **5,734** | 7,038 |
| Other current liabilities | **100,904** | 101,116 |
| Total current liabilities | **190,102** | 197,556 |
| **Long-term debt** | **293,660** | 301,041 |
| **Deferred income taxes** | **90,158** | 189,156 |
| **Other long-term liabilities** | **140,682** | 123,246 |
| Total liabilities | **714,602** | 810,999 |
| **Commitments and contingencies** | | |
| **Shareholders equity** | | |
| Common stock, $.01 par value; authorized 120,000,000 shares; issued 54,361,980 shares (including shares in treasury: 2008 8,928,004; 2007 9,219,476) | **544** | 544 |
| Capital in excess of par value | **45,806** | 44,697 |
| Retained earnings | **605,001** | 563,608 |
| Accumulated other comprehensive income (loss) | **(176,133)** | 4,061 |
| | **475,218** | 612,910 |
| Less cost of common stock in treasury | **(132,511)** | (136,842) |

| | | |
|---|---|---|
| Total shareholders equity | **342,707** | 476,068 |
| Total liabilities and shareholders equity | **$ 1,057,309** | $ 1,287,067 |

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

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**P.H. GLATFELTER COMPANY and SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| *In thousands* | Year Ended December 31 **2008** | 2007 | 2006 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | **$ 57,888** | $ 63,472 | $ (12,236) |
| Adjustments to reconcile to net cash (used) provided by operations: | | | |
| Depreciation, depletion and amortization | **60,611** | 56,001 | 50,021 |
| (Cash used) reserve for environmental matters | **(13,012)** | 26,000 | |
| Pension income | **(16,062)** | (12,896) | (16,993) |
| (Reversals of) shutdown and restructuring charges | **(856)** | 35 | 37,066 |
| Deferred income taxes | **3,265** | 8,004 | (12,726) |
| Gains on dispositions of plant, equipment and timberlands, net | **(18,468)** | (78,685) | (17,394) |
| Share-based compensation | **4,350** | 3,850 | 2,335 |
| Change in operating assets and liabilities | | | |
| Accounts receivable | **(17,668)** | 16,662 | (17,622) |
| Inventories | **(9,975)** | 8,493 | (8,869) |
| Prepaid and other assets | **871** | (2,461) | 4,413 |
| Liabilities | **2,481** | 11,857 | (36,422) |
| Net cash provided (used) by operations | **53,425** | 100,332 | (28,427) |
| **Investing activities** | | | |
| Expenditures for purchases of plant, equipment and timberlands | **(52,469)** | (28,960) | (44,460) |
| Proceeds from disposal of plant, equipment and timberlands | **19,279** | 41,616 | 21,071 |
| Acquisitions, net of cash acquired | | (7,923) | (158,442) |
| Net cash (used) provided by investing activities | **(33,190)** | 4,733 | (181,831) |
| **Financing activities** | | | |
| Net (repayments of) proceeds from revolving credit facility | **(24,197)** | (30,656) | 43,522 |
| Net (repayments of) proceeds from other short-term debt | **2,927** | (6,916) | (995) |
| Net (repayments of) proceeds from $100 million term loan facility | **(13,000)** | (53,000) | 94,829 |
| Net proceeds from $200 million 71/8% note offering | | | 196,440 |
| Repayment of $150 million 67/8 notes | | | (152,675) |
| Proceeds from borrowing under Term Loan due 2013 | **36,695** | | |
| Payment of dividends | **(16,469)** | (16,350) | (16,023) |
| Proceeds and excess tax benefits from stock options exercised and other | **1,165** | 7,551 | 8,290 |
| Net cash (used) provided by financing activities | **(12,879)** | (99,371) | 173,388 |
| Effect of exchange rate changes on cash | **(4,955)** | 2,154 | 1,413 |
| Net increase (decrease) in cash and cash equivalents | **2,401** | 7,848 | (35,457) |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at the beginning of period | **29,833** | 21,985 | 57,442 |
| Cash and cash equivalents at the end of period | **$ 32,234** | $ 29,833 | $ 21,985 |
| **Supplemental cash flow information** | | | |
| Cash paid for | | | |
| Interest | **$ 21,243** | $ 28,498 | $ 26,218 |
| Income taxes | **20,011** | 2,614 | 17,579 |

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

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**P. H. GLATFELTER COMPANY and SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**
**For the Years Ended December 31, 2008, 2007 and 2006**

| *thousands, except shares outstanding* | Common Stock | Capital in Excess of Par Value | Retained Earnings | Deferred Compensation | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Shareholders Equity |
|---|---|---|---|---|---|---|---|
| alance at January 1, 2006 | $ 544 | $ 43,450 | $ 547,810 | $ (2,295) | $ (5,343) | $ (151,854) | $ 432,312 |
| et loss | | | (12,236) | | | | (12,236) |
| reign currency translation adjustments | | | | | 12,343 | | |
| djustment to minimum pension liability ior to adoption of SFAS No. 158 | | | | | 583 | | |
| her comprehensive income | | | | | 12,926 | | 12,926 |
| omprehensive income | | | | | | | 690 |
| eversal of minimum pension liability der SFAS No. 158 | | | | | 3,909 | | 3,909 |
| dditional net pension liability, net of tax nefit of $27,318 | | | | | (43,829) | | (43,829) |
| doption of SFAS No. 123(R) | | (2,295) | | 2,295 | | | |
| x effect on employee stock options ercised | | 792 | | | | | 792 |
| sh dividends declared ($0.36 per share) | | | (16,085) | | | | (16,085) |
| are-based compensation expense RSU | | 1,107 | | | | | 1,107 |
| elivery of treasury shares | | | | | | | |
| rformance Shares | | 7 | | | | 200 | 207 |
| 1(k) plans | | 46 | | | | 1,608 | 1,654 |

| | | | | | | |
|---|---|---|---|---|---|---|
| rector compensation | | 8 | | | 105 | 113 |
| mployee stock options exercised net | | (827) | | | 8,325 | 7,498 |
| alance at December 31, 2006 | 544 | 42,288 | 519,489 | (32,337) | (141,616) | 388,368 |
| omprehensive income | | | | | | |
| et income | | | 63,472 | | | 63,472 |
| reign currency translation adjustments | | | | 24,966 | | |
| hange in benefit plans net funded status, t of tax benefit of $7,167 | | | | 11,432 | | |
| her comprehensive income | | | | 36,398 | | 36,398 |
| omprehensive income | | | | | | 99,870 |
| umulative effect of adopting of FIN 48 | | | (2,974) | | | (2,974) |
| x effect on employee stock options ercised | | 89 | | | | 89 |
| ash dividends declared ($0.36 per share) | | | (16,379) | | | (16,379) |
| hare-based compensation expense | | 2,348 | | | | 2,348 |
| elivery of treasury shares | | | | | | |
| 1(k) plans | | 85 | | | 3,049 | 3,134 |
| rector compensation | | 1 | | | 162 | 163 |
| mployee stock options exercised net | | (114) | | | 1,563 | 1,449 |
| alance at December 31, 2007 | 544 | 44,697 | 563,608 | 4,061 | (136,842) | 476,068 |
| omprehensive income | | | | | | |
| et income | | | **57,888** | | | **57,888** |
| reign currency translation adjustments | | | | **(32,029)** | | |
| | | | | **(148,165)** | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| hange in benefit plans net funded status, t of tax benefit of $92,570 | | | | | | |
| her comprehensive income | | | | **(180,194)** | | **(180,194)** |
| omprehensive income | | | | | | **(122,306)** |
| x effect on employee stock options ercised | **38** | | | | | **38** |
| sh dividends declared ($0.36 per share) | | **(16,495)** | | | | **(16,495)** |
| are-based compensation expense | **3,244** | | | | | **3,244** |
| elivery of treasury shares | | | | | | |
| SUs | **(1,739)** | | | | **1,400** | **(339)** |
| 1(k) plans | **(248)** | | | | **1,768** | **1,520** |
| rector compensation | **(43)** | | | | **206** | **163** |
| mployee stock options exercised net | **(143)** | | | | **957** | **814** |
| alance at December 31, 2008 | **$ 544** | **$ 45,806** | **$ 605,001** | $ **$ (176,133)** | **$ (132,511)** | **$ 342,707** |

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

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**P. H. GLATFELTER COMPANY**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. ORGANIZATION

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

## 2. ACCOUNTING POLICIES

**Principles of Consolidation** The consolidated financial statements include the accounts of Glatfelter and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

**Accounting Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements are reasonable, based upon currently available facts and known circumstances, but recognizes that actual results may differ from those estimates and assumptions.

**Cash and Cash Equivalents** We classify all highly liquid instruments with an original maturity of three months or less at the time of purchase as cash equivalents.

**Inventories** Inventories are stated at the lower of cost or market. Raw materials, in-process and finished inventories of our domestic manufacturing operations are valued using the last-in, first-out (LIFO) method, and the supplies inventories are valued principally using the average-cost method. Inventories at our foreign operations are valued using a method that approximates average cost.

**Plant, Equipment and Timberlands** For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

The range of estimated service lives used to calculate financial reporting depreciation for principal items of plant and equipment are as follows:

| | | |
|---|---|---|
| Buildings | 10 | 45 Years |
| Machinery and equipment | 7 | 35 Years |
| Other | 4 | 40 Years |

**Maintenance and Repairs** Maintenance and repairs costs are charged to income and major renewals and betterments are capitalized. At the time property is retired or sold, the net carrying value is eliminated and any resultant gain or loss is included in income.

**Valuation of Long-lived Assets, Intangible Assets and Goodwill** We evaluate long-lived assets for impairment when a specific event indicates that the carrying value of an asset may not be recoverable. Recoverability is assessed based on estimates of future cash flows expected to result from the use and eventual disposition of the asset. If the

sum of expected undiscounted cash flows is less than the carrying value of the asset, the asset s fair value is estimated and an impairment loss is recognized for any deficiencies. Goodwill is reviewed for impairment on a discounted cash flow basis at least annually. Impairment losses, if any, are recognized for the amount by which the carrying value of the asset exceeds its fair value.

**Asset Retirement Obligations** In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 143, *Accounting for Asset Retirement Obligations , as interpreted by Financial Accounting Standards Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143* ( FIN 47 ), we accrue asset retirement obligations, if any, in the period in which obligations relating to future asset retirements are incurred and when a reasonable estimate of fair value can be determined. Under these standards, costs are to be accrued at estimated fair value, and a related long-lived asset is capitalized. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset for which the obligation exists. Upon settlement of the liability, we recognize a gain or loss for any difference between the settlement amount and the liability recorded.

**Income Taxes** Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ( SFAS No. 109 ). Under SFAS No. 109, tax expense includes U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of

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international subsidiaries not deemed to be permanently invested. Tax credits and other incentives reduce tax expense in the year the credits are claimed. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported in deferred income taxes. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. We establish a valuation allowance for deferred tax assets for which realization is not more likely than not.

Effective January 1, 2007, income tax contingencies are accounted for in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( FIN 48 ). Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is less than certain. We and our subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and record any necessary adjustments in the period in which the facts that give rise to a revision become known.

**Treasury Stock** Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the weighted-average cost basis.

**Foreign Currency Translation** Our subsidiaries outside the United States use their local currency as the functional currency. Accordingly, translation gains and losses and the effect of exchange rate changes on transactions designated as hedges of net foreign investments are included as a component of other comprehensive income (loss). Transaction gains and losses are included in income in the period in which they occur.

**Revenue Recognition** We recognize revenue on product sales when the customer takes title and assumes the risks and rewards of ownership. We record revenue net of an allowance for customer returns and rebates.

Revenue from energy sales is recognized when electricity is delivered to the customer. Certain costs associated with the production of electricity, such as fuel, labor, depreciation and maintenance are netted against energy sales for presentation on the Consolidated Statements of Income. Costs netted against energy sales totaled $10.4 million, $10.2 million, $8.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Our current contract to sell electricity generated in excess of our own use expires in the year 2010 and requires that the customer purchase all of our excess electricity up to a certain level. The price for the electricity is determined pursuant to a formula and varies depending upon the amount sold in any given year.

**Environmental Liabilities** Accruals for losses associated with environmental obligations are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing legislation and remediation technologies. Costs related to environmental remediation are charged to expense. These accruals are adjusted periodically as assessment and remediation actions continue and/or further legal or technical information develops. Such undiscounted liabilities are exclusive of any insurance or other claims against third parties. Environmental costs are capitalized if the costs extend the life of the asset, increase its capacity and/or mitigate or prevent contamination from future operations. Recoveries of environmental remediation costs from other parties, including insurance carriers, are recorded as assets when their receipt is assured beyond a reasonable doubt.

**Accumulated Other Comprehensive Income** The amounts reported on the consolidated Statement of Shareholders Equity for Accumulated Other Comprehensive Income at December 31, 2008 consist of $180.6 million of additional defined benefit liabilities, net of tax, and $4.5 million of gains from foreign currency translation adjustments.

**Earnings Per Share** Basic earnings per share are computed by dividing net income by the weighted-average common shares outstanding during the respective periods. Diluted earnings per share are computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method.

**Fair Value of Financial Instruments** The amounts reported on the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, other assets, and short-term debt approximate fair value. The following table sets forth carrying value and fair value of long-term debt:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| *In thousands* | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt | **$ 307,419** | **$ 279,093** | $ 312,049 | $ 301,300 |

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## 3. RECENT PRONOUNCEMENTS

In September 2006, SFAS No. 157, *Fair Value Measurements*, was issued. SFAS No. 157, which defines fair value, establishes a framework for measurement and requires expanded disclosures about the fair value measurements, was effective for us beginning January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial position or results of operations.

In December 2007, SFAS No. 141(R), *Business Combinations* was issued. This statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. In addition, under SFAS No. 141(R), changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. With respect to us, SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. However, after adoption of SFAS No. 141(R), changes in estimates of deferred tax assets and liabilities, and final settlements of all income tax uncertainties that related to a business combination which are made after the measurement period will impact income tax expense. We expect SFAS No. 141(R) will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time.

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

## 4. ACQUISITIONS

**Metallised Products Limited** On November 30, 2007, through Glatfelter-UK Limited ( GLT-UK ), a wholly-owned subsidiary, we completed our acquisition of Metallised Products Limited ( MPL ), a privately owned company that manufactures a variety of metallized paper products for consumer and industrial applications. MPL is based in Caerphilly, Wales.

Under terms of the agreement, we agreed to purchase the stock of MPL for $7.2 million cash and assumed $5.8 million of debt in addition to $1.4 million of transaction costs. The acquisition was financed from our existing cash balance. This facility employed about 165 people at the time of the acquisition and had 2007 revenues of approximately $53.4 million.

The following table summarizes the allocation of the purchase price to assets acquired and liabilities assumed:

*In thousands*

**Assets**

| | |
|---|---|
| Cash | $ 730 |
| Accounts receivable | 7,718 |
| Inventory | 4,731 |
| Property and equipment | 9,663 |
| Other assets | 903 |
| Goodwill | 2,239 |
| Total | 25,984 |
| **Liabilities** | |
| Acquisition related liabilities including accounts payable and accrued expenses | 11,783 |
| Long term debt | 5,830 |
| Total | 17,613 |
| Total purchase price | $ 8,371 |

**5. NEENAH FACILITY SHUTDOWN**

In 2006, we committed to a plan to permanently close the Neenah, WI facility. Production at this facility ceased effective June 30, 2006 and certain products previously manufactured at the Neenah facility have been transferred to Chillicothe.

The remaining reserve as of December 31, 2006 associated with this restructuring initiative totaled $2.8 million. During 2007, we made payments totaling $1.7 million; thus, the remaining reserve balance was $1.1 million at December 31, 2007. In 2008, we reversed $0.9 million into income upon the sale of the property and the remaining balance at December 31, 2008 totaled $0.2 million.

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The following table summarizes shutdown reserve activity during the year ended December 31, 2006:

| *In thousands* | Beg. balance | Amount Accrued | Less non-cash charges and cash payments | Balance |
|---|---|---|---|---|
| **Non-cash charges** | | | | |
| Accelerated depreciation | $ | $ 22,466 | $ (22,466) | $ |
| Inventory write-down | | 2,905 | (2,905) | |
| Pension curtailments and other retirement benefit charges | | 7,675 | (7,675) | |
| Total non cash charges | | 33,046 | (33,046) | |
| **Cash charges** | | | | |
| Severance and benefit continuation | | 7,653 | (6,026) | 1,627 |
| Contract termination costs | | 11,367 | (11,367) | |
| Other | | 2,379 | (1,229) | 1,150 |
| Total cash charges | | 21,399 | (18,622) | 2,777 |
| Total | $ | $ 54,445 | $ (51,668) | $2,777 |

The Neenah shutdown resulted in the elimination of approximately 200 positions that had been supporting our Specialty Papers business unit. Approximately $25.4 million of the Neenah shutdown related charges are recorded as part of costs of products sold in the accompanying statements of income. The amounts accrued for severance and benefit continuation are recorded as other current liabilities in the accompanying consolidated balance sheets. As part of the Neenah shutdown, we terminated our long-term steam supply contract, as provided for within the contract, resulting in a termination fee of approximately $11.4 million as of the end of the second quarter 2006.

**6. RESTRUCTURING CHARGES**

**European Restructuring and Optimization Program ( EURO Program )** During the fourth quarter of 2005, we began to implement this restructuring program, a comprehensive series of initiatives designed to improve the performance of our Composite Fibers business unit. In 2006, we recorded restructuring charges of $1.2 million associated with the related work force efficiency plans at the Gernsbach, Germany facility. This charge reflects severance, early retirement and related costs for the affected employees.

**7. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS**

During 2008, 2007 and 2006, we completed sales of timberlands. The following table summarizes these transactions:

| *Dollars in thousands* | **Acres** | **Proceeds** | **Gain** |
|---|---|---|---|
| **2008** | | | |
| Timberlands | **4,561** | **$ 19,279** | **$ 18,649** |
| Other | **n/a** | | **(181)** |
| Total | | **$ 19,279** | **$ 18,468** |
| 2007 | | | |
| Timberlands | 37,448 | $ 84,409 | $ 78,958 |
| Other | n/a | 377 | (273) |
| Total | | $ 84,786 | $ 78,685 |
| 2006 | | | |
| Timberlands | 5,923 | $ 17,130 | $ 15,677 |
| Other | n/a | 3,941 | 1,717 |
| Total | | $ 21,071 | $ 17,394 |

The amounts set forth above for 2008 include a $2.9 million gain from the sale of 246 acres of timberlands for cash consideration to George H. Glatfelter II, our chairman and chief executive officer, and his spouse. The 246 acres of timberlands had been independently appraised and marketed for public sale by the Company. Based on those appraisals and the marketing process that was pursued, the Company and its Board believed that the sale price agreed to with the Glatfelters constituted fair market value for the timberland. In accordance with terms of our credit facility, we are required to use the proceeds from timberland sales to reduce amounts outstanding under our term loan.

In connection with the asset sales set forth above we received cash proceeds with the exception of the sale of approximately 26,000 acres of timberland completed in November 2007. As consideration for the timberland sold in this transaction we received a $43.2 million, 20-year interest-bearing note due from the buyer, Glawson Investments Corp. ( Glawson ), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc.

**8. EARNINGS PER SHARE**

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

| *In thousands, except per share* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Net income (loss) | **$57,888** | $63,472 | $(12,236) |

| | | | |
|---|---|---|---|
| Weighted average common shares outstanding used in basic EPS | **45,247** | 45,035 | 44,584 |
| Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards | **325** | 387 | |
| Weighted average common shares outstanding and common share equivalents used in diluted EPS | **45,572** | 45,422 | 44,584 |
| Basic EPS | **$1.28** | $1.41 | $(0.27) |
| Diluted EPS | **1.27** | 1.40 | (0.27) |

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

| *In thousands* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Potential common shares | **1,132** | 438 | 1,280 |

## 9. 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.

The provision for income taxes from operations consisted of the following:

| | Year Ended December 31 | | |
|---|---|---|---|
| *In thousands* | **2008** | 2007 | 2006 |
| Current taxes | | | |
| Federal | **$5,647** | $8,388 | $1,009 |
| State | **2,609** | 4,422 | 1,013 |
| Foreign | **11,617** | 6,397 | 712 |
| | **19,873** | 19,207 | 2,734 |
| Deferred taxes and other | | | |
| Federal | **9,026** | 11,766 | (11,903) |
| State | **86** | 2,674 | (2,970) |
| Foreign | **(5,847)** | (3,185) | 2,147 |
| | **3,265** | 11,255 | (12,726) |
| Income tax provision (benefit) | **$23,138** | $30,462 | $(9,992) |

The amounts set forth above for total deferred taxes and other include deferred taxes of $3.0 million, $8.0 million and $(12.7) million at December 31, 2008, 2007 and 2006, respectively. Other taxes totaled $0.2 million at December 31, 2008 and $3.3 million at December 31, 2007 and related to uncertain tax positions expected to be taken in future tax filings.

The following are the domestic and foreign components of pretax income from operations:

| | Year Ended December 31 | | |
|---|---|---|---|
| *In thousands* | **2008** | 2007 | 2006 |
| United States | **$61,387** | $70,051 | $(30,010) |
| Foreign | **19,639** | 23,883 | 7,782 |

| | | | |
|---|---|---|---|
| Total pretax income (loss) | **$81,026** | $93,934 | $(22,228) |

A reconciliation between the income tax provision, computed by applying the statutory federal income tax rate of 35% to income before income taxes, and the actual income tax is as follows:

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2008** | 2007 | 2006 |
| Federal income tax provision at statutory rate | **35.0%** | 35.0% | (35.0)% |
| State income taxes, net of federal income tax benefit | **3.1** | 3.5 | (6.7) |
| Foreign income tax rate differential | **(2.5)** | 0.2 | 3.8 |
| Change in statutory tax rates | | (5.8) | |
| Tax credits | **(5.7)** | (2.8) | (8.1) |
| Change in unrecognized tax benefits, net | **2.5** | 4.0 | 3.8 |
| Charitable contribution valuation allowance release | **(1.8)** | | |
| Other | **(2.0)** | (1.7) | (2.8) |
| Total provision for income taxes | **28.6%** | 32.4% | (45.0)% |

The sources of deferred income taxes were as follows at December 31:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| *In thousands* | **Current Asset (Liability)** | **Non current Asset (Liability)** | Current Asset (Liability) | Non-current Asset (Liability) |
| Reserves | **$ 8,983** | **$ 11,086** | $ 10,301 | $ 10,008 |
| Compensation | **3,292** | **3,368** | 3,369 | 2,819 |
| Post-retirement benefits | **1,619** | **18,748** | 1,409 | 16,104 |
| Property | **13** | **(107,921)** | 104 | (109,858) |
| Pension | **781** | **(13,507)** | 833 | (98,445) |
| Installment sales | | **(25,148)** | | (25,492) |
| Inventories | **(803)** | | 366 | |
| Other | **475** | **6,909** | 501 | (1,454) |
| Tax carryforwards | | **28,006** | | 29,458 |
| Subtotal | **14,360** | **(78,459)** | 16,883 | (176,860) |
| Valuation allowance | **(2,547)** | **(10,215)** | (3,280) | (12,296) |
| Total | **$ 11,813** | **$ (88,674)** | $ 13,603 | $ (189,156) |

Current and non-current deferred tax assets and liabilities are included in the following balance sheet captions:

| | December 31 | |
|---|---|---|
| *In thousands* | **2008** | 2007 |

| | | |
|---|---|---|
| Prepaid expenses and other current assets | **$ 14,421** | $ 16,982 |
| Other long term assets | **1,484** | |
| Other current liabilities | **2,608** | 3,379 |
| Deferred income taxes | **90,158** | 189,156 |

At December 31, 2008, we had state and foreign tax net operating loss ( NOL ) carryforwards of $96.0 million and $31.0 million, respectively. These NOL carryforwards are available to offset future taxable income, if any. The state NOL carryforwards expire between 2015 and 2027; the foreign NOL carryforwards do not expire.

In addition, we had federal foreign tax credit carryforwards of $0.3 million, which expire in 2013, and various state tax credit carryforwards totaling $0.1 million, which expire between 2014 and 2027.

We have established a valuation allowance of $12.8 million against the net deferred tax assets, primarily due to the uncertainty regarding the ability to utilize state tax credit carryforwards and certain deferred foreign tax credits.

Tax credits and other incentives reduce tax expense in the year the credits are claimed. In 2008, we recorded

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tax credits of $4.7 million related to research and development credits, fuels tax, and the electricity production tax credits. In 2007 and 2006 similar tax credits of $2.6 million and $1.8 million, respectively, were recorded.

At December 31, 2008 and 2007, unremitted earnings of subsidiaries outside the United States deemed to be permanently reinvested totaled $107.4 million and $92.5 million, respectively. Because the unremitted earnings of subsidiaries are deemed to be permanently reinvested as of December 31, 2008, no deferred tax liability has been recognized in our consolidated financial statements.

As of December 31, 2008 and December 31, 2007, we had $29.2 million and $26.1 million of gross unrecognized tax benefits respectively. As of December 31, 2008, if such benefits were to be recognized, approximately $25.3 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

| *In millions* | **2008** | 2007 |
|---|---|---|
| Balance at January 1 | **$ 26.1** | $ 20.7 |
| Increases in tax positions for prior years | **0.4** | 0.3 |
| Decreases in tax positions for prior years | | (0.5) |
| Increases in tax positions for current year | **3.2** | 6.1 |
| Lapse in statue of limitations | **(0.5)** | (0.5) |
| Balance at December 31 | **$ 29.2** | $ 26.1 |

The current year increase was primarily due to tax positions taken, or expected to be taken, on certain foreign income tax returns.

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

| | **Open Tax Year** | |
|---|---|---|
| **Jurisdiction** | **Examination in progress** | **Examination not yet initiated** |
| United States | | |
| Federal | 2004-2006 | 2007 and 2008 |
| State | 2004 | 2003 2008 |
| Germany[(1)] | 2003-2006 | 2007 and 2008 |
| France | N/A | 2006 2008 |

| | | |
|---|---|---|
| United Kingdom | N/A | 2006 2008 |
| Philippines | 2005 2007 | 2008 |

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to $8.8 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 2008 and 2007, respectively, totaled $2.6 million and $1.8 million. We did not record any penalties associated with uncertain tax positions during 2008 or 2007.

**10. STOCK-BASED COMPENSATION**

On April 25, 2005, shareholders approved the P. H. Glatfelter 2005 Long Term Incentive Plan ( 2005 Plan ) to authorize, among other things, the issuance of up to 1,500,000 shares of Glatfelter common stock to eligible participants. The 2005 Plan provides for the issuance of restricted stock units, restricted stock awards, non-qualified stock options, performance shares, incentive stock options and performance units. As of December 31, 2008, 380,917 shares of common stock were available for future issuance under the 2005 Plan.

During 2008, 2007 and 2006, we recognized non-cash stock-based compensation expense totaling $4.4 million, $3.8 million and $2.3 million, respectively. Since the approval of the 2005 Plan, we have issued to eligible participants restricted stock units and stock only stock appreciation rights.

**Restricted Stock Units ( RSU )** Awards of RSU are made under our 2005 Plan. Under terms of the awards, the RSUs vest based solely on the passage of time on a graded scale over a three, four, and five-year period. The following table summarizes RSU activity during the past three years:

| *Units* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Beginning balance | **505,173** | 411,154 | 290,662 |
| Granted | **137,649** | 127,423 | 145,398 |
| Forfeited | **(25,214)** | (33,404) | (24,906) |
| Restriction lapsed/shares delivered | **(130,620)** | | |
| Ending balance | **486,988** | 505,173 | 411,154 |
| *Dollars in thousands* | | | |
| Compensation expense | **$ 1,772** | $ 1,768 | $ 1,107 |

The weighted average grant fair value per unit for awards in 2008, 2007 and 2006 was $14.82, $15.32

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and $16.10, respectively. As of December 31, 2008, unrecognized compensation expense for outstanding RSUs totaled $2.6 million. The weighted average remaining period over which the expense will be recognized is 3.3 years.

**Non-Qualified Stock Options and Stock Only Stock Appreciation Rights (SOSARs)** The following tables summarize the activity with respect to non-qualified stock options and SOSARS:

| | **2008** | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|
| **Non-Qualified Options** | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | **700,270** | **$ 13.81** | 906,210 | $ 14.06 | 1,553,209 | $ 14.06 |
| Granted | | | | | | |
| Exercised | **(64,400)** | **12.64** | (105,190) | 13.78 | (560,239) | 13.38 |
| Canceled | **(98,170)** | **13.08** | (100,750) | 17.07 | (86,760) | 17.27 |
| Outstanding at end of year | **537,700** | **14.08** | 700,270 | 13.81 | 906,210 | 14.17 |
| Exercisable at end of year | **537,700** | **$ 14.08** | 700,270 | $ 13.81 | 906,210 | $ 14.17 |

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Non-Qualified Options** | Shares | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| $10.78 to $11.36 | **39,000** | **4.9** | **$ 11.22** | **39,000** | **$ 11.22** |
| 12.95 to 14.44 | **295,000** | **2.6** | **13.38** | **295,000** | **13.38** |
| 15.47 to 15.47 | **186,200** | **3.0** | **15.47** | **186,200** | **15.47** |
| 17.54 to 17.54 | **17,500** | **3.3** | **17.54** | **17,500** | **17.54** |
| | **537,700** | **2.9** | | **537,700** | |

All options expire on the earlier of termination or, in some instances, a defined period subsequent to termination of employment, or ten years from the date of grant. The exercise price represents the quoted market price of Glatfelter common stock on the date of grant, or the average quoted market prices of Glatfelter common stock on the first day before and after the date of grant for which quoted market price information was available if such information was not available on the date of grant.

Under terms of the SOSAR, the recipients received the right to receive 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, which vest ratably over a three year period.

| | **2008** | | 2007 | |
|---|---|---|---|---|
| **SOSARS** | **Shares** | **Wtd Avg Exercise Price** | Shares | Wtd Avg Exercise Price |
| Outstanding at Jan. 1, | **484,800** | **$ 15.30** | | |
| Granted | **284,240** | **13.49** | 493,100 | $ 15.31 |
| Exercised | | | | |
| Canceled | **(50,230)** | **14.63** | (8,300) | 15.94 |
| Outstanding at Dec. 31, | **718,810** | **$ 14.63** | 484,800 | $ 15.30 |
| Exercisable at Dec. 31, | **150,967** | **15.30** | | |
| Vested and expected to vest | **690,418** | | 460,560 | |
| Weighted average granted date fair value per share | | **$ 3.77** | | $ 4.63 |
| Aggregate grant date fair value *(in thousands)* | | **$ 1,002** | | $ 2,079 |
| Black-Scholes Assumptions | | | | |
| Dividend yield | | **2.67%** | | 2.35% |
| Risk free rate of return | | **3.71** | | 4.27 |
| Volatility | | **32.09** | | 31.87 |
| Expected life | | **6 yrs** | | 6 yrs |

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

We hav e both funded and, with respect to our international operations, unfunded noncontributory defined-benefit pension plans covering substantially all of our employees. The benefits are based, in the case of certain plans, on average salary and years of service and, in the case of other plans, on a fixed amount for each year of service. U.S. Plan provisions and funding meet the requirements of the Employee Retirement Income Security Act of 1974. We use a December 31-measurement date for all of our defined benefit plans.

We also provide certain health care benefits to eligible retired employees. These benefits include a comprehensive medical plan for retirees prior to age 65 and fixed supplemental premium payments to certain retirees over age 65 to help defray the costs of Medicare. The plan is partially funded and claims are paid as reported.

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| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| *In millions* | **2008** | 2007 | **2008** | 2007 |
| **Change in Benefit Obligation** | | | | |
| Balance at beginning of year | **$ 373.3** | $ 378.7 | **$55.3** | $57.9 |
| Service cost | **8.3** | 9.6 | **2.1** | 2.0 |
| Interest cost | **23.1** | 21.8 | **3.2** | 3.0 |
| Plan amendments | **6.5** | (6.4) | | (1.2) |
| Actuarial (gain)/loss | **2.6** | (7.1) | **2.5** | (1.7) |
| Participant contributions | | | **0.9** | 0.8 |
| Benefits paid | **(27.5)** | (23.3) | **(5.4)** | (5.5) |
| Balance at end of year | **$ 386.3** | $ 373.3 | **$58.6** | $55.3 |
| **Change in Plan Assets** | | | | |
| Fair value of plan assets at beginning of year | **$ 603.6** | $ 579.0 | **$9.9** | $10.5 |
| Actual return on plan assets | **(177.7)** | 45.6 | **(2.9)** | 0.8 |
| Employer contributions | **2.2** | 2.3 | **3.2** | 3.3 |
| Participant contributions | | | **0.9** | 0.8 |
| Benefits paid | **(27.5)** | (23.3) | **(5.4)** | (5.5) |
| Fair value of plan assets at end of year | **400.6** | 603.6 | **5.7** | 9.9 |
| Funded status at end of year | **$ 14.3** | $ 230.3 | **$(52.9)** | $(45.4) |

The net prepaid pension cost for qualified pension plans is primarily included in Other assets, and the accrued pension cost for non-qualified pension plans and accrued post-retirement benefit costs are primarily included in Other long-term liabilities on the Consolidated Balance Sheets at December 31, 2008 and 2007.

Amounts recognized in the consolidated balance sheets consist of the following as of December 31:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| *In millions* | **2008** | 2007 | 2008 | 2007 |
| Other long-term assets | **$ 44.5** | $ 259.4 | **$** | $ |
| Other long-term liabilities | **(30.2)** | (29.1) | **(52.9)** | (45.4) |
| Net amount recognized | **$ 14.3** | $ 230.3 | **$(52.9)** | $(45.4) |

The components of amounts recognized as Accumulated other comprehensive income consist of the following on a pre-tax basis:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| *In millions* | **2008** | 2007 | **2008** | 2007 |
| Prior service cost/(credit) | **$ 16.5** | $ 12.4 | **$ (6.5)** | $ (7.8) |

| | | | | |
|---|---|---|---|---|
| Net actuarial loss | **259.9** | 29.7 | **23.4** | 18.3 |

The accumulated benefit obligation for all defined benefit pension plans was $367.3 million and $355.5 million at December 31, 2008 and 2007, respectively.

The weighted-average assumptions used in computing the benefit obligations above were as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Discount rate benefit obligation | **6.25%** | 6.25% | **6.25%** | 6.25% |
| Future compensation growth rate | **4.0** | 4.0 | **4.0** | 4.0 |

Information for pension plans with an accumulated benefit obligation in excess of plan assets was as follows:

| *In millions* | **2008** | 2007 |
|---|---|---|
| Projected benefit obligation | **$ 30.2** | $ 29.3 |
| Accumulated benefit obligation | **27.2** | 27.8 |
| Fair value of plan assets | | |

Net periodic benefit (income) cost includes the following components:

| | Year Ended December 31 | | |
|---|---|---|---|
| *In millions* | **2008** | 2007 | 2006 |
| **Pension Benefits** | | | |
| Service cost | **$8.3** | $9.6 | $6.0 |
| Interest cost | **23.1** | 21.8 | 20.1 |
| Expected return on plan assets | **(50.1)** | (47.5) | (44.9) |
| Amortization of prior service cost | **2.3** | 2.4 | 1.8 |
| Amortization of actuarial loss | **0.3** | 0.8 | |
| Net periodic benefit income | **(16.1)** | (12.9) | (17.0) |
| Special termination benefits | | | 4.4 |
| Total net periodic benefit income | **$(16.1)** | $(12.9) | $(12.6) |
| **Other Benefits** | | | |
| Service cost | **$2.1** | $2.0 | $1.7 |
| Interest cost | **3.2** | 3.0 | 3.0 |
| Expected return on plan assets | **(0.8)** | (0.9) | |
| Amortization of prior service cost | **(1.3)** | (1.0) | (0.7) |
| Amortization of actuarial loss | **1.3** | 1.0 | 1.3 |
| Net periodic benefit cost | **4.5** | 4.1 | 5.3 |
| Special termination benefits | | | 3.3 |

| | | | |
|---|---|---|---|
| Total net periodic benefit cost | **$4.5** | $4.1 | $8.6 |

The estimated net loss and prior service cost for our defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $12.5 million and $2.1 million, respectively.

The weighted-average assumptions used in computing the net periodic benefit (income) cost information above were as follows:

| | Year Ended December 31 | | |
|---|---|---|---|
| *In millions* | **2008** | 2007 | 2006 |
| **Pension Benefits** | | | |
| Discount rate benefit expense | **6.25%** | 5.75% | 5.5% |
| Future compensation growth rate | **4.0** | 4.0 | 4.0 |
| Expected long-term rate of return on plan assets | **8.5** | 8.5 | 8.5 |
| | | | |
| **Other Benefits** | | | |
| Discount rate benefit expense | **6.25%** | 5.75% | 5.5% |
| Expected long-term rate of return on plan assets | **8.5** | 8.5 | |

To develop the expected long-term rate of return assumption, we considered the historical returns and the future expected returns for each asset class, as well as the target asset allocation of the pension portfolio.

Assumed health care cost trend rates used to determine benefit obligations at December 31 were as follows:

| | **2008** | 2007 |
|---|---|---|
| Health care cost trend rate assumed for next year | **8.75%** | 9.5% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | **4.5** | 5.0 |
| Year that the rate reaches the ultimate rate | **2021** | 2015 |

Assumed health care cost trend rates have a significant effect on the amounts reported for health care

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plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

| *In millions* | One Percentage Point Increase | One Percentage Point decrease |
|---|---|---|
| Effect on: | | |
| Post-retirement benefit obligation | $ 3.8 | $ 3.5 |
| Total of service and interest cost components | 0.4 | 0.4 |

**Plan Assets** Glatfelter s pension plan weighted-average allocations at December 31, 2008 and 2007, by asset category, are as follows:

| | **2008** | 2007 |
|---|---|---|
| **Asset Category** | | |
| Equity securities | **63%** | 72% |
| Cash and fixed income | **37** | 28 |
| Total | **100%** | 100% |

Our objective is to achieve an above-market rate of return on our pension plan assets. Based upon this objective, along with the timing of benefit payments and the risks associated with various asset classes available for investment, we have established the following asset allocation guidelines:

| | Minimum | Target | Maximum |
|---|---|---|---|
| Equity | 60% | 70% | 80% |
| Fixed Income & Other | 20 | 30 | 40 |

Real estate can be between 0% and 5% of the target equity allocation. Glatfelter stock can also be between 0% and 5% of the target equity allocation, although there were no holdings of Glatfelter stock as of December 31, 2008 or 2007. Our investment policy prohibits the investment in certain securities without the approval of the Finance Committee of the Board of Directors. Regarding Fixed Income securities, the weighted-average credit quality will be at least AA with a BBB minimum credit quality for each issue.

**Cash Flow** We do not expect to make contributions to our qualified pension plans in 2009. Contributions expected to be made in 2009 under our non-qualified pension plans and other benefit plans are summarized below:

| *In thousands* | |
|---|---|
| Nonqualified pension plans | **$ 1,618** |
| Other benefit plans | **4,091** |

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| *In thousands* | **Pension Benefits** | **Other Benefits** |
|---|---|---|
| 2009 | $ 29,462 | $ 5,712 |
| 2010 | 28,768 | 5,653 |
| 2011 | 29,097 | 5,657 |
| 2012 | 29,346 | 5,406 |
| 2013 | 30,054 | 5,006 |
| 2014 through 2018 | 169,745 | 23,098 |

**Defined Contribution Plans** We maintain 401(k) plans for certain hourly and salaried employees. Employees may contribute up to 15% of their salary to these plans, subject to certain restrictions. We will match a portion of the employee s contribution, subject to certain limitations, in the form of shares of Glatfelter common stock. The expense associated with our 401(k) match was $0.9 million, $1.5 million and $1.2 million in 2008, 2007 and 2006, respectively.

## 12. INVENTORIES

Inventories, net of reserves were as follows:

| *In thousands* | **2008** | 2007 |
|---|---|---|
| Raw materials | **$ 49,083** | $ 41,119 |
| In-process and finished | **97,390** | 102,219 |
| Supplies | **46,881** | 49,704 |
| Total | **$ 193,354** | $ 193,042 |

If we had valued all inventories using the average-cost method, inventories would have been $16.9 million and $12.9 million higher than reported at December 31, 2008 and 2007, respectively. During 2008 and 2007, we liquidated certain LIFO inventories, the effect of which did not have a significant impact on results of operations.

## 13. PLANT, EQUIPMENT AND TIMBERLANDS

Plant, equipment and timberlands at December 31 were as follows:

| *In thousands* | **2008** | 2007 |
|---|---|---|
| Land and buildings | **$ 131,258** | $ 136,875 |
| Machinery and equipment | **964,502** | 960,133 |

| | | |
|---|---|---|
| Other | **90,535** | 90,448 |
| Accumulated depreciation | **(722,630)** | (680,804) |
| | **463,665** | 506,652 |
| Construction in progress | **17,141** | 11,607 |
| Asset retirement Lagoons | **11,085** | |
| Timberlands, less depletion | **1,673** | 1,607 |
| Total | **$ 493,564** | $ 519,866 |

**14. GOODWILL AND INTANGIBLE ASSETS**

The following table sets forth information with respect to goodwill and other intangible assets which are recorded in the caption Other long-term assets in the accompanying Consolidated Balance Sheets:

| | **December 31** | |
|---|---|---|
| *In thousands* | **2008** | 2007 |
| Goodwill Composite Fibers | **$ 16,513** | $ 18,520 |
| Specialty Papers | | |
| Customer relationships | **$ 6,155** | $ 6,155 |
| Composite Fibers | | |
| Technology and related | **3,931** | 5,409 |
| Customer relationships | **291** | 401 |
| Total intangibles | **10,377** | 11,965 |
| Accumulated amortization | **(2,534)** | (1,032) |
| Net intangibles | **$ 7,843** | $ 10,933 |

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| *In thousands* | **2008** | 2007 |
|---|---|---|
| Aggregate amortization expense: | | |
| 2008 | **$ 999** | $ 1,032 |
| Estimated amortization expense: | | |
| 2009 | **$ 999** | |
| 2010 | **999** | |
| 2011 | **999** | |
| 2012 | **999** | |
| 2013 | **999** | |

In connection with the acquisition of MPL, we recorded $2.2 million of goodwill. The remaining weighted average useful life of intangible assets was 9 years at December 31, 2008.

## 15. OTHER LONG-TERM ASSETS

Other long-term assets consist of the following:

| | **December 31** | |
|---|---|---|
| *In thousands* | **2008** | 2007 |
| Pension | **$ 44,460** | $ 259,445 |
| Installment notes receivable | **81,033** | 81,033 |
| Goodwill and intangibles | **24,356** | 29,453 |
| Other | **22,077** | 23,858 |
| Total | **$ 171,926** | $ 393,789 |

## 16. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| *In thousands* | December 31 **2008** | 2007 |
|---|---|---|
| Accrued payroll and benefits | **$ 39,672** | $ 37,210 |
| Other accrued compensation and retirement benefits | **6,560** | 5,963 |
| Income taxes payable | **6,163** | 10,195 |
| Accrued rebates | **16,205** | 19,707 |
| Other accrued expenses | **32,304** | 28,041 |
| Total | **$ 100,904** | $ 101,116 |

**17. LONG-TERM DEBT**

Long-term debt is summarized as follows:

| *In thousands* | December 31 **2008** | 2007 |
|---|---|---|
| Revolving credit facility, due April 2011 | **$ 6,724** | $ 35,049 |
| Term Loan, due April 2011 | **30,000** | 43,000 |
| 71/8% Notes, due May 2016 | **200,000** | 200,000 |
| Term Loan, due January 2013 | **36,695** | |
| Note payable due March 2013 | **34,000** | 34,000 |
| Total long-term debt | **307,419** | 312,049 |
| Less current portion | **(13,759)** | (11,008) |
| Long-term debt, excluding current portion | **$ 293,660** | $ 301,041 |

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

2011.

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

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

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

The credit agreement contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios, each as defined in the credit agreement, including a consolidated minimum net worth test and a maximum debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio. A breach of these requirements, of which we were not aware of any at December 31, 2008, would give rise to certain remedies under the credit agreement as amended, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

On April 28, 2006 we completed an offering of $200.0 million aggregate principal amount of our 71/8% Senior Notes due 2016. Net proceeds from this offering totaled approximately $196.4 million, after deducting the commissions and other fees and expenses relating to the offering. The proceeds were primarily used to redeem $150.0 million aggregate principal amount of our then outstanding 67/8% notes due July 2007, plus the

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payment of applicable redemption premium and accrued interest.

Interest on these Senior Notes accrues at the rate of 71/8% per annum and is payable semiannually in arrears on May 1 and November 1.

Prior to May 1, 2011, we may redeem all, but not less than all, of the notes at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, plus a make-whole premium. On or after May 1, 2011, we may redeem some or all of the notes at specified redemption prices. In addition, prior to May 1, 2009, we may redeem up to 35% of the aggregate principal amount of the notes using the net proceeds from certain equity offerings.

The 71/8% Senior Note agreement contains a cross-default clause that provides if there were to be an event of default under the credit agreement discussed earlier, we would also be in default under the 71/8% Senior Notes.

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

On March 21, 2003, we sold timberlands and received as consideration a $37.9 million 10-year interest bearing note receivable from the timberland buyer. We pledged this note as collateral under a $34.0 million promissory note payable to SunTrust Financial (the Note Payable ). The Note Payable, as amended, bears a fixed rate of interest of 3.10% and matures in March 2013.

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

| *In thousands* | |
|---|---|
| 2009 | $13,759 |
| 2010 | 13,759 |
| 2011 | 9,206 |
| 2012 | |
| 2013 | 70,695 |
| Thereafter | 200,000 |

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

At December 31, 2008 and 2007, we had $12.1 million and $14.1 million, respectively, of letters of credit issued to us by a financial institution. Such letters of c redit reduce amounts available under our revolving credit facility. The letters of credit provide financial assurances for i) commitments made related to the Fox River environmental matter, ii) for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program, and iii) assurance related to the purchase of certain utilities for our manufacturing facilities. We bear the

credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. As of December 31, 2008, no amounts were outstanding under the letters of credit. In January 2009, a $6.5 million letter of credit included in the amount above was cancelled in connection with the cash funding to the Fox River OU1 escrow account for the same amount.

**18. ASSET RETIREMENT OBLIGATION**

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

| *In thousands* | **Liability** |
|---|---|
| Original estimate | **$11,487** |
| Accretion | **229** |
| Payments | **(110)** |
| Balance at December 31, 2008 | **$11,606** |

Of the total liability set forth above, $1.6 million is recorded in the accompanying consolidated balance sheet under the caption Other current liabilities and $10.0 million is recorded under the caption Other long-term liabilities.

**19. SHAREHOLDERS EQUITY**

The following table summarizes outstanding shares of common stock:

| | Year Ended December 31, | | |
|---|---|---|---|
| *In thousands* | **2008** | 2007 | 2006 |
| Shares outstanding at beginning of year | **45,143** | 44,821 | 44,132 |
| Treasury shares issued for: | | | |
| Restricted stock performance awards | **94** | | 14 |
| 401(k) plan | **119** | 206 | 108 |
| Director compensation | **14** | 11 | 7 |
| Employee stock options exercised | **64** | 105 | 560 |
| Shares outstanding at end of year | **45,434** | 45,143 | 44,821 |

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## 20. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

**Contractual Commitments** The following table summarizes the minimum annual payments due on noncancelable operating leases and other similar contractual obligations having initial or remaining terms in excess of one year:

| *In thousands* | **Leases** | **Other** |
|---|---|---|
| 2009 | **$6,544** | $130,361 |
| 2010 | **3,080** | 30,151 |
| 2011 | **1,876** | 18,101 |
| 2012 | **1,194** | |
| 2013 | **834** | |
| Thereafter | **7,952** | |

Other contractual obligations primarily represent minimum purchase commitments under energy and pulp wood supply contracts and other purchase obligations.

At December 31, 2008, required minimum annual payments due under operating leases and other similar contractual obligations aggregated $21.5 million and $178.6 million, respectively.

***Fox River Neenah, Wisconsin***

***Background*** We have significant uncertainties associated with environmental claims arising out of the presence of polychlorinated biphenyls ( PCBs ) in sediments in the lower Fox River and in the Bay of Green Bay Wisconsin ( Site ). As part of the 1979 acquisition of the Bergstrom Paper Company we acquired a facility located at the Site (the Neenah Facility ). In part, the Neenah Facility used wastepaper as a source of fiber. At no time did the Neenah Facility utilize PCBs in the pulp and paper making process, but discharges to the lower Fox River from the Neenah Facility which may have contained PCBs from wastepaper may have occurred from 1954 to the late 1970s. Any PCBs that our Neenah Facility discharged into the lower Fox River resulted from the presence of PCBs in NCR®-brand carbonless copy paper in the wastepaper that was recycled at the Neenah Facility. We closed the Neenah Facility in June 2006.

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

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

Our liabilities, if any, for this contamination primarily arise under the federal Comprehensive Environmental, Response, Compensation and Liability Act ( CERCLA or Superfund ). The Governments have sought to recover response actions or response costs, which are the costs of studying and cleaning up contamination, from various responsible parties. In addition, various natural resource trustee agencies of the United States, the States of Wisconsin and Michigan, and several Indian Tribes have sought to recover natural resource damages ( NRDs ), including natural resource damage assessment costs. Parties that have incurred response costs or NRDs either voluntarily or in response to the governments and trustees demands may have an opportunity to seek contribution or other recovery of some or all of those costs from other parties who are jointly and severally responsible under Superfund for those costs. Therefore, as we incur costs, we also acquire a claim against other parties who may not have paid their equitable share of those costs. As others incur costs, they acquire a claim against us to the extent that they claim that we have not paid our equitable share of the total. Any party that resolves its liability to the United States or a state in a judicially or administratively approved settlement agreement obtains protection from contribution claims for matters addressed in the settlement.

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

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

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

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

**Past Costs Demand.** By letter dated January 15, 2009, EPA demanded that we and six other parties reimburse EPA for approximately $17.6 million in costs that EPA claims it incurred as necessary costs of response not subject to any other agreement in this matter. The supporting documentation provided by EPA has not yet allowed us fully to evaluate this demand, and, accordingly we are unable to reasonably estimate our potential liability.

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

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

Notably, in April 2004, the United States District Court for the Eastern District of Wisconsin entered a consent decree ( OU1 Consent Decree ) in *United States v. P.H. Glatfelter Co.*, No. 2:03-cv-949, under which we and WTM I Corp. have been implementing the remedy in OU1, dividing costs evenly in addition to a $7 million contribution from Menasha Corp. and a $10 million contribution that the United States contributed from a separate settlement in *United States v. Appleton Papers Inc.*, No. 2:01-cv-816, obligating NCR and Appleton Papers to contribute to certain NRD projects. In June 2008, the parties entered into an amendment to the OU1 Consent Decree ( Amended OU1 Consent Decree ). The amendment allows for implementation of the amended remedy for OU1. It also commits us and WTM I to implement that remedy without a cost limitation on that commitment. The court entered the Amended OU1 Consent Decree in August 2008.

Further, in November 2007, EPA issued an administrative order for remedial action ( UAO ) to Appleton Papers Inc., CBC Coating, Inc. (formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation, us, U.S. Paper Mills Corp., and WTM I Company directing those respondents to implement the amended remedy in OU2-5. Shortly following issuance of the UAO, Appleton Papers Inc. and NCR Corp. commenced litigation against us and others, as described below. Accordingly, we have no vehicle for complying with the UAO s overall requirements other than answering a judgment in the litigation, and we have so informed EPA. However, in February 2009, the EPA sent a demand to each of the respondents on the UAO other than WTM I demanding payment of the government s oversight

costs under the UAO for the period from November 2007 through August 2008. In February 2009, we notified the EPA that we believed that its demand could prove distracting to litigation commenced by Appleton Papers and NCR against the other UAO respondents. In order to remove this distraction, and in the spirit of cooperation, we would satisfy the EPA s demand, an amount which was insignificant, in full. We have paid this amount.

**Cost estimates.** Estimates of the Site remediation change over time as we, or others, gain additional experience. In addition, disagreement exists over the likely costs for some of this work. The Governments estimate that the total cost of implementing the amended remedy in OU1 will be approximately $102 million. Because we have completed a significant amount of work in this portion of the river, we believe the costs of

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completing the remedial actions specified in the amended ROD can be completed for this amount. However, it is reasonably possible costs could exceed this amount by up to $10 million. The cost of implementing the remedy set forth in the amended ROD for OU2-5 (the downstream portions of the Site) is estimated by the Governments to total between $270 million and $499 million, reflecting a contingency factor of plus or minus 30%. However, based on independent estimates commissioned by various potentially responsible parties, we believe the actual costs to be incurred to implement the remedy of OU2-5 will exceed the Government s estimate by a significant amount.

**NRDs.** The trustees claim that we are jointly and severally responsible for NRDs with a value between $176 million and $333 million. We deny (a) liability for most of these NRDs, (b) that if anyone is liable, that we are jointly and severally liable for the full amount, and (c) that the trustees can pursue this claim at this late date as the limitations period for NRD claims is three years from discovery.

**Allocation.** Since 1991, various potentially responsible parties have, without success, attempted to agree on a binding, final, allocation of costs and damages among themselves. All costs that they have incurred to date have been incurred individually, or under interim, nonbinding allocations. However, the consent decree in *United States v. P.H. Glatfelter Co.* affords us and WTM I contribution protection for claims seeking to reallocate costs of implementing the OU1 remedy, and Fort James Operating Co. (now Georgia-Pacific) has certain rights under its consent decree. Otherwise, the parties have not litigated their internal allocation with us.

NCR and Appleton Papers Inc. have commenced litigation in the United States District Court for the Eastern District of Wisconsin captioned *Appleton Papers Inc. v. George A. Whiting Paper Co.*, No. 2:08-cv-16, seeking to reallocate costs and damages allegedly incurred or paid or to be incurred or paid by NCR or Appleton Papers. They have to date joined a number of defendants, dismissed some of those, filed a parallel action, and consolidated the two cases. At present, the case involves allocation claims among the two plaintiffs and 28 defendants**:** us, George A. Whiting Paper Co., Menasha Corporation, Green Bay Packaging Inc., International Paper Company, Leicht Transfer & Storage Company, Neenah Foundry Company, Newpage Wisconsin System Inc., The Procter & Gamble Paper Products Company, Wisconsin Public Service Corp., the Cities of Appleton, De Pere, and Green Bay, Brown County, Green Bay Metropolitan Sewerage District, Heart of the Valley Metropolitan Sewerage District, Neenah-Menasha Sewerage Commission, WTM I Company, U.S. Paper Mills Corporation, Georgia-Pacific Consumer Products LP, Georgia-Pacific LLC, Fort James Operating Company, CBC Coating Company, Inc., Fort James Corporation, Kimberly-Clark Corporation, LaFarge North America Inc., Union Pacific Railroad Company, and the United States Army Corps of Engineers. As the result of certain third-party claims, federal agencies other than the Corps of Engineers are also involved in this allocation. That litigation may be expected to result in an allocation of responsibility, at least as among these parties.

Eleven of the defendants have represented to the court that they have reached an agreement in principle with the United States to resolve their liability for this site. This group includes George A. Whiting Paper Co.; Green Bay Metropolitan Sewerage District; Green Bay Packaging, Inc.; Heart of the Valley Metropolitan Sewerage District; International Paper Co.; LaFarge North America Inc.; Leicht Transfer and Storage Co.; Neenah Foundry Co.; Procter & Gamble Paper Products Co.; Union Pacific Railroad Co.; and Wisconsin Public Service Corp. We understand that this settlement will be on a *de minimis* basis, but no consent decree has yet been lodged with the court. A settlement would remove these parties from the litigation.

The court has entered a case management order segmenting this litigation for discovery and trial. The first phase of the proceeding, addressing a single set of issues, is currently scheduled for trial beginning in December 2009. Resolution of that issue could adjudicate the entire case or it may resolve issues sufficiently that the parties can then settle the remaining disputes. However, there can be no assurance that this trial will result, directly or indirectly, in a judgment or settlement disposing of all claims among the parties.

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

To date we have spent or have committed to spend nearly $50 million implementing the remedy in OU1, and under the various agreements, orders, and decrees under which we and others have performed work, incurred costs, or paid damages in connection with the Site.

**Reserves for the Fox River Site.** As of December 31, 2008, our total reserve for our claimed liability at the Fox River, including our remediation obligations at OU1, our claimed liability for the remediation of OU2-5, our claimed liability for NRDs associated with PCB contamination at the Site and all pending, threatened or

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asserted and unasserted claims against us relating to PCB contamination at the Site totaled $20.9 million which includes additional amounts that were reserved in the first and third quarter of 2007 which, in aggregate, increased our reserve by $26.0 million. Of our total reserve for the Fox River, $4.3 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remaining $16.6 million is recorded under the caption Other long term liabilities.

Under the OU1 Consent Decree which was signed in 2004, we contributed $27.0 million to past and future costs and NRDs. We later contributed $6.0 million under an agreed supplement to the OU1 Consent Decree and have since contributed an additional $9.5 million under the Amended Consent Decree. This amount includes $3.0 million contributed in July 2008 and $6.5 million in January 2009. WTM I has contributed parallel amounts. These funds are placed into an escrow account from which we and WTM I pay for work on the project. As required by the Amended Consent Decree, in a quarterly report submitted to EPA in November 2008, we and WTM I concluded that the amounts in the escrow account would be sufficient to pay for the estimated cost of the work at OU1, including operation, maintenance, and other post-construction expenses. However, there can be no assurance that these amounts will in fact suffice. WTM I has filed a bankruptcy petition in the Bankruptcy Court in Richmond. There can be no assurance should additional amounts be required to complete the project that WTM I will be able to fulfill its obligation to pay half the additional cost.

We believe that we have strong defenses to liability for remediation of OU2-5 including the existence of ample data that indicates that PCBs did not leave OU1 in concentrations that could have caused or contributed to the need for cleanup in OU2-5. Others, including the EPA and other PRPs, disagree with us and, as a result, the EPA has issued a UAO to us and to others to perform the OU2-5 work. NCR and Appleton Papers have recently commenced the Whiting Litigation and have joined us and others. Additional litigation associated with the remediation of the Site is likely. As illustrated by the Whiting Litigation, we also note that there exist additional potentially responsible parties other than the PRPs who were named in the UAO or who have been joined in the Whiting Litigation, including the owners of public wastewater treatment facilities who discharged PCB-contaminated wastewater to the Fox River and entities providing PCB-containing wastepaper to each of the recycling mills.

Even if we are not successful in establishing that we are not liable for the remediation of OU2-5, we do not believe that we would be allocated a significant percentage share of liability in any equitable allocation of the remediation costs and other potential damages associated with OU2-5. The accompanying consolidated financial statements do not include reserves for any future litigation or defense costs for the Fox River, and because litigation has commenced, the costs to do so could be significant.

In setting our reserve for the Fox River, we have assessed our defenses to liability, including matters raised in the Whiting Litigation, and assumed that we will not bear the entire cost of remediation and damages to the exclusion of other known PRPs at the Site who are also potentially jointly and severally liable. The existence and ability of other PRPs to participate has also been taken into account in setting our reserve, and is generally based on our evaluation of recent publicly available financial information on each PRP, and any known insurance, indemnity or cost sharing agreements between PRPs and third parties. In addition, our assessment is based upon the magnitude, nature, location and circumstances associated with the various discharges of PCBs to the river and the relationship of those discharges to identified contamination. We will continue to evaluate our exposure and the level of our reserves, including, but not limited to, our potential share of the costs and NRDs, if any, associated with the Fox River site.

Other than with respect to the Amended OU1 Consent Decree, the amount and timing of future expenditures for environmental compliance, cleanup, remediation and personal injury, NRDs and property damage liabilities cannot be ascertained with any certainty due to, among other things, the unknown extent and nature of any contamination, the response actions that may ultimately be required, the availability of remediation equipment, and landfill space, and the number and financial resources of any other PRPs.

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

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location of contamination, the location of discharge, and a party s role in causing discharge, must be considered in order for the allocation to be equitable.

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

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

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

Based on currently available information, we believe that the remaining work to complete the remediation of OU1 can be completed with the amounts in the OU1 Escrow Account. Our assessment assumes that: 1) we and WTM I successfully negotiate acceptable contracts covering the work provided for in the amended OU1 ROD; and 2) the remedial measures provided in the amended OU1 ROD are successfully implemented. However, if we are unsuccessful in managing our costs to implement the amended OU1 ROD**,** additional charges may be necessary and such amounts could be material.

**Summary** Our current assessment is that we will be able to manage these environmental matters without a long-term, material adverse impact on the Company. These matters could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our loan covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to these matters, that our share of costs and/or damages for these matters 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. With regard to the Fox River site, if we are not successful in managing the completion of the remaining remedial work at OU1 and/or should the United States seek to enforce the UAO for OU2-5 against us which requires us either to perform directly or to contribute significant amounts towards the performance of that work, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.

***Ecusta Environmental Matters*** Beginning in April 2003, government authorities, including the North Carolina Department of Environment and Natural Resources ( NCDENR ), initiated discussions with us and other parties regarding, among other environmental issues, certain landfill closure liabilities associated with our former Ecusta mill and its properties (the Ecusta Property ). The discussions focused on NCDENR s desire to establish a plan and secure financial resources to close three landfills located at the Ecusta Property and to address other environmental matters at the facility. During the third quarter of 2003, the discussions ended with NCDENR s conclusion to hold us responsible for the closure of three landfills. Accordingly, in 2003 we established reserves totaling approximately $7.6 million representing estimated landfill closure costs. We have completed the closure of two landfills and are in the process of closing the third; in addition, we have accepted responsibility for decommissioning a fourth

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landfill (collectively, the Landfill Closure and Post-Closure Obligations ).

In September 2005, we established an additional $2.7 million reserve for potential environmental liabilities associated with the Ecusta Property relating to: (i) mercury releases from the Electro-Chemical Building; (ii) contamination in and operation of the aeration and stabilization basin (the ASB ), which is part of the Ecusta Property s wastewater treatment system; (iii) a previously closed ash landfill ( Brown #1 Landfill ); and (iv) contamination in the vicinity of a former caustic building.

On January 25, 2008, we entered into a series of agreements (the DRV Transaction ) pursuant to which we transferred potential liabilities for certain environmental matters at the Ecusta Property to Davidson River Village, LLC ( DRV ), which contemporaneously purchased the facility. As part of the DRV Transaction, DRV assumed, and indemnified us for, liability arising from environmental matters and conditions at the Ecusta Property with certain enumerated exceptions, including the Landfill Closure and Post-Closure Obligations and investigation and remediation (if necessary) of any pollutants that may have migrated from the Ecusta Property to the Davidson and French Broad Rivers (the River Areas ), which liabilities were retained by us.

DRV s assumption of liability and indemnification of us was secured in a number of ways: (i) an escrow account was established in the amount of $4.4 million, of which we contributed $2.2 million, to pay for the estimated cost of the assessment and remediation of on-site mercury contamination at the Ecusta Property; (ii) DRV caused two irrevocable letters of credit totaling $7.0 million issued by Bank of America in our favor; and (iii) DRV purchased an insurance policy that provides insurance coverage in the event mercury remediation costs exceed $11.4 million in addition to $25 million of potential third party liability. Thus, in consideration of the amount we contributed to the escrow account and bearing a share of the cost of the insurance policies, our potential liability for future claims with respect to the previously disclosed environmental matters has been transferred to DRV. Our reserve associated with this matter was adequate to cover the amounts contributed towards resolution of these matters. As of December 31, 2008, approximately $2.1 million of amounts held in escrow related to the DRV Transaction are recorded in the accompanying balance sheet under the caption Prepaid expenses and other current assets and a corresponding reserve for potential liabilities in the same amount is recorded under the caption Other current liabilities. Notwithstanding our contractual and legal agreements pursuant to the DRV transaction, we remain contingently liable in the unlikely event DRV fails to perform and the letters of credit and the insurance policy are insufficient to satisfy the remediation required by EPA.

With respect to the River Areas, we entered into two agreements with the U.S. Environmental Protection Agency ( EPA ) and/or NCDENR. Specifically, we completed risk assessments of the River Areas to determine the nature and extent of contamination and threat to the public health, welfare or the environment caused by any hazardous substances released from the Ecusta Property to the River Areas and, if necessary, to identify and evaluate remedial alternatives to prevent, mitigate or remedy such a release. Based on the results of the risk assessment, we do not believe there is any indication of levels of contamination that would warrant any remediation activities be performed in the River Areas. We are in the process of finalizing a report to the EPA.

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## 21. SEGMENT AND GEOGRAPHIC INFORMATION

The following table sets forth profitability and other information by business unit for the year ended December 31:

| Specialty Papers | | | Composite Fibers | | | Other and Unallocated | | |
|---|---|---|---|---|---|---|---|---|
| 2007 | 2006 | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 | **2008** |
| $802,293 | $693,660 | **$429,952** | $346,030 | $292,751 | **$(1)** | $ | $ | **$1,263,850** |
| 9,445 | 10,726 | | | | | | | **9,364** |
| 811,738 | 704,386 | **429,952** | 346,030 | 292,751 | **$(1)** | | | **1,273,214** |
| 721,216 | 635,143 | **366,791** | 287,606 | 246,797 | **(10,840)** | (7,366) | 9,903 | **1,095,432** |
| 90,522 | 69,243 | **63,161** | 58,424 | 45,954 | **10,839** | 7,366 | (9,903) | **177,782** |
| 56,561 | 50,285 | **38,206** | 32,541 | 28,458 | **5,095** | 27,042 | 13,738 | **97,897** |
| | | | | | **(856)** | 35 | 30,318 | **(856)** |
| | | | | | **(18,468)** | (78,685) | (17,394) | **(18,468)** |
| | | | | | | | (205) | |
| 33,961 | 18,958 | **24,955** | 25,883 | 17,496 | **25,068** | 58,974 | (36,360) | **99,209** |
| | | | | | **(18,183)** | (24,884) | (22,322) | **(18,183)** |
| $33,961 | $18,958 | **$24,955** | $25,883 | $17,496 | **$6,885** | $34,090 | $(58,682) | **$81,026** |
| $287,107 | $315,556 | **$208,875** | $232,759 | $213,311 | $ | $ | $ | **$493,564** |
| 17,395 | 36,484 | **31,591** | 11,565 | 7,976 | | | | **52,469** |
| 34,882 | 32,824 | **25,601** | 21,119 | 17,197 | | | | **60,611** |

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 non-cash net pension income, charges related to the Fox River environmental reserves, restructuring related charges, unusual items, certain corporate level costs, effects of asset dispositions and insurance recoveries because it believes this is a more meaningful representation of the operating performance of its core papermaking businesses, the profitability of business units and the extent of cash flow generated from 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 Our North America-based Specialty Papers business unit focuses on producing papers for the following markets:

**Book publishing** papers for the production of high quality hardbound books and other book publishing needs;

**Carbonless and forms** papers for credit card receipts, multi-part forms, security papers and other end-user applications;

**Envelope and converting** papers for the direct mail market, shopping bags, and other converting applications; and

**Engineered products** for digital imaging, transfer, casting, release, postal, playing card and other niche specialty applications.

Specialty Papers revenue composition by market consisted of the following for the years indicated:

| *In thousands* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Carbonless & forms | **$ 338,067** | $ 345,785 | $ 266,647 |
| Book publishing | **201,040** | 185,343 | 166,605 |
| Envelope & converting | **138,293** | 116,797 | 103,042 |
| Engineered products | **149,372** | 136,785 | 137,007 |
| Other | **7,127** | 17,583 | 20,359 |
| Total | **$ 833,899** | $ 802,293 | $ 693,660 |

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Our Composite Fibers business unit, based in Gernsbach, Germany, serves customers globally and focuses on higher-value-added products in the following markets:

**Food & Beverage** paper used for tea bags and coffee pods/pads and filters;

**Composite Laminates** papers used in production of decorative laminates for furniture and flooring;

**Metallized** products used in the labeling of beer bottles, innerliners, gift wrap, self-adhesive labels and other consumer products applications; and

**Technical Specialties** is a diverse line of paper products used in batteries, medical masks and other highly engineered applications.

Composite Fibers revenue composition by market consisted of the following for the years indicated:

| *In thousands* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Food & beverage | **$ 252,545** | $ 218,961 | $ 180,258 |
| Metallized | **85,719** | 45,426 | 40,078 |
| Composite laminates | **58,705** | 52,972 | 50,734 |
| Technical specialties and other | **32,983** | 28,671 | 21,681 |
| Total | **$ 429,952** | $ 346,030 | $ 292,751 |

We sell a significant portion of our specialty papers through wholesale paper merchants. No individual customer accounted for more than 10% of our consolidated net sales in 2008, 2007 or 2006.

Our net sales to external customers and location of net plant, equipment and timberlands are summarized below. Net sales are attributed to countries based upon origin of shipment.

| | **2008** | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|
| *In thousands* | Net sales | Plant, Equipment and Timberlands Net | Net sales | Plant, Equipment and Timberlands Net | Net sales | Plant, Equipment and Timberlands Net |
| United States | **$ 869,325** | **$ 284,689** | $ 832,724 | $ 287,107 | $ 719,720 | $ 315,556 |
| Germany | **216,011** | **131,304** | 190,796 | 133,505 | 173,267 | 128,290 |
| United Kingdom | **134,212** | **53,054** | 87,054 | 74,000 | 60,115 | 63,061 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other | **44,302** | **24,517** | 37,749 | 25,254 | 33,309 | 21,960 |
| Total | **$ 1,263,850** | **$ 493,564** | $ 1,148,323 | $ 519,866 | $ 986,411 | $ 528,867 |

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## 22. GUARANTOR FINANCIAL STATEMENTS

Our 71/8% Notes have been fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries, PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, GLT International Finance, LLC, Glatfelter Holdings, LLC and Glatfelter Holdings II, LLC.

The following presents our consolidating statements of income and cash flow for the years ended December 31, 2008, 2007 and 2006 and our consolidating balance sheets as of December 31, 2008 and 2007. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis.

**Condensed Consolidating Statement of Income for the year ended December 31, 2008**

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 833,900 | $ 45,640 | $ 429,950 | $ (45,640) | $ 1,263,850 |
| Energy sales net | 9,364 | | | | 9,364 |
| Total revenues | 843,264 | 45,640 | 429,950 | (45,640) | 1,273,214 |
| Costs of products sold | 729,425 | 44,448 | 367,005 | (45,446) | 1,095,432 |
| Gross profit | 113,839 | 1,192 | 62,945 | (194) | 177,782 |
| Selling, general and administrative expenses | 56,425 | 1,910 | 39,562 | | 97,897 |
| Reversal of shutdown and restructuring charges | (856) | | | | (856) |
| Gains on dispositions of plant, equipment and timberlands, net | 183 | (18,651) | | | (18,468) |
| Operating income (loss) | 58,087 | 17,933 | 23,383 | (194) | 99,209 |
| Non-operating income (expense) | | | | | |
| Interest expense | (19,940) | (14) | (3,206) | | (23,160) |
| Other income (expense) net | 36,376 | 11,130 | (4,383) | (38,146) | 4,977 |
| Total other income (expense) | 16,436 | 11,116 | (7,589) | (38,146) | (18,183) |
| Income (loss) before income taxes | 74,523 | 29,049 | 15,794 | (38,340) | 81,026 |
| Income tax provision (benefit) | 16,635 | 11,486 | 4,211 | (9,194) | 23,138 |

| | | | | | |
|---|---|---|---|---|---|
| Net income (loss) | $ 57,888 | $ 17,563 | $ 11,583 | $ (29,146) | $ 57,888 |

**Condensed Consolidating Statement of Income for the year ended December 31, 2007**

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 802,293 | $ 42,801 | $ 346,030 | $ (42,801) | $ 1,148,323 |
| Energy sales net | 9,445 | | | | 9,445 |
| Total revenues | 811,738 | 42,801 | 346,030 | (42,801) | 1,157,768 |
| Costs of products sold | 716,015 | 40,181 | 287,931 | (42,671) | 1,001,456 |
| Gross profit | 95,723 | 2,620 | 58,099 | (130) | 156,312 |
| Selling, general and administrative expenses | 80,112 | 1,845 | 34,187 | | 116,144 |
| (Reversal of) Shutdown and restructuring charges | 201 | | (166) | | 35 |
| Gains on dispositions of plant, equipment and timberlands, net | 76 | (78,761) | | | (78,685) |
| Operating income | 15,334 | 79,536 | 24,078 | (130) | 118,818 |
| Non-operating income (expense) | | | | | |
| Interest expense | (26,980) | (3) | (2,039) | | (29,022) |
| Other income (expense) net | 75,806 | 15,910 | (5,939) | (81,639) | 4,138 |
| Total other income (expense) | 48,826 | 15,907 | (7,978) | (81,639) | (24,884) |
| Income (loss) before income taxes | 64,160 | 95,443 | 16,100 | (81,769) | 93,934 |
| Income tax provision (benefit) | 688 | 35,992 | 555 | (6,773) | 30,462 |
| Net income (loss) | $ 63,472 | $ 59,451 | $ 15,545 | $ (74,996) | $ 63,472 |

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**Condensed Consolidating Statement of Income for the year ended December 31, 2006**

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $693,661 | $36,432 | $292,750 | $(36,432) | $986,411 |
| Energy sales net | 10,726 | | | | 10,726 |
| Total revenues | 704,387 | 36,432 | 292,750 | (36,432) | 997,137 |
| Costs of products sold | 647,877 | 33,340 | 247,041 | (36,415) | 891,843 |
| Gross profit | 56,510 | 3,092 | 45,709 | (17) | 105,294 |
| Selling, general and administrative expenses | 60,119 | 2,501 | 29,861 | | 92,481 |
| Shutdown and restructuring charges | 29,073 | | 1,245 | | 30,318 |
| Gains on dispositions of plant, equipment and timberlands, net | (1,761) | (15,960) | 327 | | (17,394) |
| Gains from insurance recoveries | (205) | | | | (205) |
| Operating income | (30,716) | 16,551 | 14,276 | (17) | 94 |
| Non-operating income (expense) | | | | | |
| Interest expense | (20,942) | (463) | (3,048) | | (24,453) |
| Other income (expense) net | 22,643 | 14,767 | (5,477) | (29,802) | 2,131 |
| Total other income (expense) | 1,701 | 14,304 | (8,525) | (29,802) | (22,322) |
| Income (loss) before income taxes | (29,015) | 30,855 | 5,751 | (29,819) | (22,228) |
| Income tax provision (benefit) | (16,779) | 11,062 | 1,908 | (6,183) | (9,992) |
| Net income (loss) | $(12,236) | $19,793 | $3,843 | $(23,636) | $(12,236) |

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

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | $8,860 | $756 | $22,618 | $ | $32,234 |
| Other current assets | 266,899 | 256,834 | 88,288 | (252,436) | 359,585 |
| Plant, equipment and timberlands net | 277,215 | 7,470 | 208,879 | | 493,564 |
| Other assets | 510,144 | 175,927 | (29,767) | (484,378) | 171,926 |
| Total assets | $1,063,118 | $440,987 | $290,018 | $(736,814) | $1,057,309 |
| **Liabilities and Shareholders Equity** | | | | | |
| Current liabilities | $336,182 | $17,072 | $85,668 | $(248,820) | $190,102 |
| Long-term debt | 222,965 | | 70,695 | | 293,660 |
| Deferred income taxes | 53,976 | 24,615 | 26,272 | (14,705) | 90,158 |
| Other long-term liabilities | 107,288 | 13,838 | 8,941 | 10,615 | 140,682 |
| Total liabilities | 720,411 | 55,525 | 191,576 | (252,910) | 714,602 |
| Shareholders equity | 342,707 | 385,462 | 98,442 | (483,904) | 342,707 |
| Total liabilities and shareholders equity | $1,063,118 | $440,987 | $290,018 | $(736,814) | $1,057,309 |

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**Condensed Consolidating Balance Sheet as of December 31, 2007**

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | $6,693 | $162 | $22,978 | $ | $29,833 |
| Other current assets | 257,804 | 277,958 | 37,008 | (229,191) | 343,579 |
| Plant, equipment and timberlands net | 279,511 | 7,591 | 232,764 | | 519,866 |
| Other assets | 749,913 | 212,513 | (78,513) | (490,124) | 393,789 |
| Total assets | $1,293,921 | $498,224 | $214,237 | $(719,315) | $1,287,067 |
| **Liabilities and Shareholders Equity** | | | | | |
| Current liabilities | $319,516 | $39,285 | $64,423 | $(225,668) | $197,556 |
| Long-term debt | 267,041 | | 34,000 | | 301,041 |
| Deferred income taxes | 138,615 | 33,557 | 32,236 | (15,252) | 189,156 |
| Other long-term liabilities | 92,681 | 14,310 | 8,489 | 7,766 | 123,246 |
| Total liabilities | 817,853 | 87,152 | 139,148 | (233,154) | 810,999 |
| Shareholders equity | 476,068 | 411,072 | 75,089 | (486,161) | 476,068 |
| Total liabilities and shareholders equity | $1,293,921 | $498,224 | $214,237 | $(719,315) | $1,287,067 |

**Condensed Consolidating Statement of Cash Flows for the year ended December 31, 2008**

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net cash provided (used) by Operating activities | $15,641 | $26,929 | $34,455 | $(23,600) | $53,425 |
| Investing activities | | | | | |
| Purchase of plant, equipment and timberlands | (19,998) | (880) | (31,591) | | (52,469) |

| | | | | | |
|---|---|---|---|---|---|
| Proceeds from disposal plant, equipment and timberlands | 19,279 | | | | 19,279 |
| Repayments from (advances of) intercompany loans, net | 4,593 | (19,678) | (17,502) | 32,587 | |
| Return (contributions) of intercompany capital, net | | 24,997 | | (24,997) | |
| Total investing activities | (719) | (880) | (31,591) | | (33,190) |
| Financing activities | | | | | |
| Net (repayments of) proceeds from indebtedness | (39,196) | | 41,621 | | 2,425 |
| Payment of dividends to shareholders | (16,469) | | | | (16,469) |
| (Repayments) borrowings of intercompany loans, net | 39,280 | (7,174) | 481 | (32,587) | |
| Return of intercompany capital, net | | | (24,997) | 24,997 | |
| Payment of intercompany dividends | | (23,600) | | 23,600 | |
| Proceeds from stock options exercised and other | 1,165 | | | | 1,165 |
| Total financing activities | (15,220) | (30,774) | 17,105 | 16,010 | (12,879) |
| Effect of exchange rate on cash | (2,128) | | (2,827) | | (4,955) |
| Net increase (decrease) in cash | 2,167 | 594 | (360) | | 2,401 |
| Cash at the beginning of period | 6,693 | 162 | 22,978 | | 29,833 |
| Cash at the end of period | $8,860 | $756 | $22,618 | $ | $32,234 |

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**Condensed Consolidating Statement of Cash Flows for the year ended December 31, 2007**

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net cash provided (used) by Operating activities | $92,366 | $(40,334) | $48,300 | $ | $100,332 |
| Investing activities | | | | | |
| Purchase of plant, equipment and timberlands | (16,334) | (1,091) | (11,535) | | (28,960) |
| Proceeds from disposal plant, equipment and timberlands | 199 | 41,041 | 376 | | 41,616 |
| Acquisitions, net of cash acquired | | | (7,923) | | (7,923) |
| Total investing activities | (16,135) | 39,950 | (19,082) | | 4,733 |
| Financing activities | | | | | |
| Net (repayments of) proceeds from indebtedness | (71,570) | | (19,002) | | (90,572) |
| Payment of dividends | (16,350) | | | | (16,350) |
| Proceeds from stock options exercised and other | 7,551 | | | | 7,551 |
| Total financing activities | (80,369) | | (19,002) | | (99,371) |
| Effect of exchange rate on cash | 604 | | 1,550 | | 2,154 |
| Net increase (decrease) in cash | (3,534) | (384) | 11,766 | | 7,848 |
| Cash at the beginning of period | 10,227 | 546 | 11,212 | | 21,985 |
| Cash at the end of period | $6,693 | $162 | $22,978 | $ | $29,833 |

**Condensed Consolidating Statement of Cash Flows for the year ended December 31, 2006**

| *In thousands* | Parent Company | Guarantors | Non Guarantors | Adjustments/ Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net cash provided (used) by Operating activities | $(75,468) | $23,795 | $13,860 | $9,386 | $(28,427) |

| | | | | | |
|---|---|---|---|---|---|
| Investing activities | | | | | |
| Purchase of plant, equipment and timberlands | (35,527) | (957) | (7,976) | | (44,460) |
| Proceeds from disposal plant, equipment and timberlands | 4,632 | 16,436 | 3 | | 21,071 |
| Acquisitions | (89,217) | (69,225) | 0 | | (158,442) |
| Total investing activities | (120,112) | (53,746) | (7,973) | | (181,831) |
| Financing activities | | | | | |
| Net (repayments of) proceeds from indebtedness | 199,016 | | (8,476) | (9,419) | 181,121 |
| Payment of dividends | (16,023) | | | | (16,023) |
| Proceeds from stock options exercised and other | 8,290 | | | | 8,290 |
| Total financing activities | 191,283 | | (8,476) | (9,419) | 173,388 |
| Effect of exchange rate on cash | | 2 | 1,411 | 0 | 1,413 |
| Net increase (decrease) in cash | (4,297) | (29,949) | (1,178) | (33) | (35,457) |
| Cash at the beginning of period | 14,524 | 30,495 | 12,390 | 33 | 57,442 |
| Cash at the end of period | $10,227 | $546 | $11,212 | $ | $21,985 |

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**23. QUARTERLY RESULTS (UNAUDITED)**

*In thousands, except per share*

| | Net sales | | Gross Profit | | Net Income (loss) | | Diluted Earnings (loss) Per Share | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| First | **$ 305,499** | $ 280,989 | **$ 44,258** | $ 36,709 | **$ 19,675** | $3,253 | **$ 0.43** | $ 0.07 |
| Second | **320,224** | 288,091 | **32,398** | 28,800 | **3,156** | 1,998 | **0.07** | 0.04 |
| Third | **339,822** | 291,859 | **57,172** | 46,880 | **21,662** | 7,812 | **0.47** | 0.17 |
| Fourth | **298,305** | 287,384 | **43,954** | 43,923 | **13,395** | 50,409 | **0.29** | 1.12 |

The information set forth above includes the following, on an after-tax basis:

| | Gains on Sales of Plant, Equipment and Timberlands | | Acquisition Integration Costs | | Reversal of (charges for) Shutdown and Restructuring Costs | | Environmental Reserve | |
|---|---|---|---|---|---|---|---|---|
| *In thousands* | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| First | **$ 8,662** | $ 1,914 | **$ (411)** | $ (406) | **$** | $(147) | **$** | $ 3,695 |
| Second | | 3,486 | **(177)** | (704) | **532** | | | |
| Third | **2,371** | 1,415 | **(240)** | (322) | | | | 12,286 |
| Fourth | **(9)** | 37,237 | **(61)** | (97) | **10** | (85) | | |

***ITEM 9A CONTROLS AND PROCEDURES***

**Disclosure Controls and Procedures**

Our chief executive officer and our chief 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 December 31, 2008, have concluded that, as of the evaluation date, our disclosure controls and procedures were effective.

**Internal Control Over Financial Reporting.**

Management s report on the Company s internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included in Item 8 Financial Statements and Supplementary Data.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended December 31, 2008, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. In the course of completing our evaluation of internal control over financial reporting we implemented certain changes and enhancements to our controls.

**PART III**

***ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

***Directors*** The information with respect to directors required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 25, 2009. Our board of directors has determined that, based on the relevant experience of the members of the Audit Committee, the members are *audit committee financial experts* as this term is set forth in the applicable regulations of the SEC.

***Executive Officers of the Registrant*** The information with respect to the executive officers required under this Item is set forth in Part I of this report.

We have adopted a Code of Business Ethics for the CEO and Senior Financial Officers in compliance with applicable rules of the Securities and Exchange Commission that applies to our chief executive officer, chief financial officer and our principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethical Business Conduct is filed as an exhibit to this Annual Report on Form 10-K and is available on our website, free of charge, at www.glatfelter.com.

***ITEM 11 EXECUTIVE COMPENSATION***

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 25, 2009.

***ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT***

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 25, 2009.

***ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 25, 2009.

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*ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES*

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 25, 2009.

Our Chief Executive Officer has certified to the New York Stock Exchange that he is not aware of any violations by the Company of the NYSE corporate governance listing standards.

**PART IV**

*ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES.*

**(a)** 1. Our Consolidated Financial Statements as follows are included in Part II, Item 8:

i. Consolidated Statements of Income for the Years Ended December 31, 2008, 2007 and 2006
ii. Consolidated Balance Sheets as of December 31, 2008 and 2007
iii. Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006
iv. Consolidated Statements of Shareholders Equity for the Years Ended December 31, 2008, 2007 and 2006
v. Notes to Consolidated Financial Statements for the Years Ended December 31, 2008, 2007 and 2006

2. Financial Statement Schedules (Consolidated) are included in Part IV:

i. Schedule II Valuation and Qualifying Accounts For Each of the Three Years in the Period Ended December 31, 2008

**(b) Exhibit Index**

| Exhibit Number | | Description of Documents | Incorporated by Reference to | |
|---|---|---|---|---|
| | | | Exhibit | Filing |
| 2 | (a) | Asset Purchase Agreement, dated February 21, 2006, among NewPage Corporation, Chillicothe Paper Inc. and P. H. Glatfelter Company | 2.1 | February 21, 2006 Form 8-K |
| | (b) | Agreement for Sale of Assets (Lydney), dated March 8, 2006, by and among J R Crompton Limited, Nicholas James Dargan and Willian Kenneth Dawson, as administrators and Glatfelter-UK Limited and the Company | 10 | March 31, 2006 Form 10-Q |
| | (c) | Agreement, dated as of November 30, 2007, between Metallised Products Limited ( MPL ) and Glatfelter Lydney Limited, a wholly-owned indirect subsidiary of P. H. Glatfelter Company to acquire MPL, filed herewith. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the Securities and Exchange Commission upon request) | | |
| 3 | (a) | | 3(b) | |

| | | | | | |
|---|---|---|---|---|---|
| | | | Articles of Incorporation, as amended through December 20, 2007 (restated for the purpose of filing on EDGAR) | | 2007 Form 10-K |
| | (b) | | By-Laws as amended through February 18, 2009, filed herewith | | |
| 4 | (a) | | Indenture, dated as of April 28, 2006, by and between the Company and SunTrust Bank, as trustee relating to 71/8 Notes due 2016 | 4.1 | May 3, 2006 Form 8-K |
| | (b) | | First Supplemental Indenture, dated as of September 22, 2006, among Glatfelter Holdings, LLC, Glatfelter Holdings II, LLC, the Existing Subsidiary Guarantors named therein and SunTrust Bank relating to 71/8 Notes due 2016 | 4.3 | September 22, 2006 Form S-4/A |
| 10 | (a) | | P. H. Glatfelter Company Management Incentive Plan, effective January 1, 1982, as amended and restated effective January 1, 1994** | 10(a) | 2000 Form 10-K |
| | (b) | | P. H. Glatfelter Company 2005 Management Incentive Plan, adopted as of April 27, 2005 | 10.4 | April 27, 2005 Form 8-K |
| | (c) | | P. H. Glatfelter Company Supplemental Executive Retirement Plan, as amended and restated effective April 23, 1998 and further amended December 20, 2000** | 10(c) | 2000 Form 10-K |
| | (d) | | Description of Executive Salary Continuation Plan** | 10(g) | 1990 Form 10-K |
| | (e) | | P. H. Glatfelter Company Supplemental Management Pension Plan, effective as of April 23, 1998** | 10(f) | 1998 Form 10-K |
| | (f) | | P. H. Glatfelter Company 1992 Key Employee Long-Term Incentive Plan, as amended December 20, 2000** | 10(g) | 2000 Form 10-K |
| | (g) | | P. H. Glatfelter Company 2005 Long-Term Incentive Plan, adopted as of April 27, 2005 | 10.1 | April 27, 2005 Form 8-K |
| | (g) | (A) | Form of Top Management Restricted Stock Unit Award Certificate** | 10.2 | April 27, 2005 Form 8-K |
| | (g) | (B) | Form of Non-Employee Director Restricted Stock Unit Award Certificate** | 10.3 | April 27, 2005 Form 8-K |
| | (h) | | P. H. Glatfelter Company Deferred Compensation Plan for Directors, effective as of April 22, 1998** | 10(h) | 1998 Form 10-K |
| | (i) | | Change in Control Employment Agreement by and between P. H. Glatfelter Company and George H. Glatfelter II, dated as of December 8, 2008, filed herewith** | | |
| | (j) | | Form of Change in Control Employment Agreement by and between P. H. Glatfelter Company and certain employees, dated as of December 8, 2008, filed herewith** | | |

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| Exhibit Number | | Description of Documents | Incorporated by Reference to | |
|---|---|---|---|---|
| | | | Exhibit | Filing |
| (j) | (A) | Schedule of Change in Control Employment Agreements, filed herewith** | | |
| (k) | | Agreement between the State of Wisconsin and Certain Companies Concerning the Fox River, dated as of January 31, 1997, among P. H. Glatfelter Company, Fort Howard Corporation, NCR Corporation, Appleton Papers Inc., Riverside Paper Corporation, U.S. Paper Mills, Wisconsin Tissue Mills Inc. and the State of Wisconsin | 10(i) | 1996 Form 10-K |
| (l) | | Credit Agreement, dated as of April 3, 2006, by and among the Company, certain of the Company s subsidiaries as guarantors, the banks party thereto, PNC Bank, National Association, as agent for the banks under the Credit Agreement, PNC Capital Markets LLC and Credit Suisse Securities (USA) LLC, as joint arrangers and bookrunners, and Credit Suisse Securities (USA) LLC, as syndication agent | 10.1 | April 7, 2006 Form 8-K |
| (l) | (A) | First Amendment to Credit Agreement among the Company, certain of the Company s subsidiaries, certain lenders party thereto and PNC Bank, National Association, in its capacity as agent for such lenders, dated April 25, 2006 | 10.1 | June 30, 2007 Form 10-Q |
| (l) | (B) | Second Amendment to Credit Agreement among the Company, certain of the Company s subsidiaries, certain lenders party thereto and PNC Bank, National Association, in its capacity as agent for such lenders, dated December 22, 2006 | 10.2 | June 30, 2007 Form 10-Q |
| (l) | (C) | Third Amendment to Credit Agreement among the Company, certain of the Company s subsidiaries, certain lenders party thereto and PNC Bank, National Association, in its capacity as agent for such lenders, dated June 8, 2007 | 10.3 | June 30, 2007 Form 10-Q |
| (m) | | Contract for the Purchase and Bargain Sale of Property, dated as of December 16, 2002, by and among Glatfelter Pulp Wood Company (a wholly owned subsidiary of the Registrant), the Conservation Fund and Fidelity National Title Insurance Company | 10(o) | 2002 Form 10-K |
| (n) | | Term Loan Agreement, dated as of March 21, 2003, among GPW Timberlands, LLC (a wholly owned subsidiary of the Registrant) and SunTrust Bank, as Administrative Agent | 10.3 | March 31, 2003 Form 10-Q |
| (n) | (A) | First Amendment to Term Loan Agreement dated January 31, 2008, by and during GPW Timberlands, LLC, P.H. Glatfelter Company and Sun Trust Bank, an administrative agent | 10(n)(A) | 2007 Form 10-K |
| (o) | | | 10.2 | |

| | | | | |
|---|---|---|---|---|
| | | Consent Decree for Remedial Design and Remedial Action at Operable Unit 1 of the Lower Fox River and Green Bay site by and among the United States of America and the State of Wisconsin v. P. H. Glatfelter Company and WTMI Company (f/k/a Wisconsin Tissue Mills, Inc.) | | October 1, 2003 Form 8-K/A No. 1 |
| (o) | (A) | Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.) | 10(o) | 2007 Form 10-K |
| (o) | (B) | Second Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.) | 10.1 | Nov 15, 2008 Form 8-K |
| (p) | | Administrative Order for Remedial Action dated November 13, 2008; issued by the United States Environmental Protection Agency | 10.2 | Nov 15, 2008 Form 8-K |
| (q) | | Amended Consent Decree for Remedial Design and Remedial Action at Operable Unit 1 of the Lower Fox River and Green Bay Site by and among the United States of America and the State of Wisconsin v. P. H. Glatfelter and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.), certain Appendices have been intentionally omitted, copies of which can be obtained free of charge from the Registrant) | 10.1 | June 30, 2008 Form 8-K |
| (r) | | Compensatory Arrangements with Certain Executive Officers, filed herewith** | | |
| (s) | | Summary of Non-Employee Director Compensation (effective January 1, 2007), filed herewith** | | |
| (t) | | Service Agreement, commencing on August 1, 2006, between the Registrant (through a wholly owned subsidiary) and Martin Rapp** | 10(r) | 2006 Form 10-K |
| (u) | | Retirement Pension Contract, dated October 31, 2007, between Registrant (through a wholly owned subsidiary) and Martin Rapp** | 10(t) | 2007 Form 10-K |
| (v) | | Form of Stock-Only Stock Appreciation Right Award Certificate** | 10(s) | 2006 Form 10-K |
| (w) | | Form of 2008 Top Management Restricted Stock Unit Award Certificate** | 10(t) | 2006 Form 10-K |
| (x) | | Separation Agreement and General Release entered into between Jeffrey J. Norton and P. H. Glatfelter Company dated as of October 25, 2008 | 10.1 | Sept. 30, 2008 Form 10-Q |
| (y) | | Timberland Purchase & Sale Agreement Virginia Timberlands, entered into by and among Glawson Investments Corp., GIC Investments LLC and Glatfelter Pulp Wood Company, dated and effective as of August 8, 2007 | 10.1 | Sept. 30, 2007 Form 10-Q |
| (z) | | Term Loan Agreement dated January 15, 2008, among GPW Virginia Timberlands LLC, certain lenders party thereto and SunTrust Bank, in its capacity as agent for such lenders | 10(x) | 2007 Form 10-K |
| (aa) | | | 10.2 | |

| | | | |
|---|---|---|---|
| | Contract for Sale for Sale of Real Estate between Glatfelter Pulp Wood Company, a wholly owned subsidiary of the Company, and George H. Glatfelter II and Beverly G. Glatfelter, dated May 8, 2008 | | June 30, 2008 Form 10Q |
| 14 | Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter | 14 | 2003 Form 10-K |
| 21 | Subsidiaries of the Registrant, filed herewith | | |

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| Exhibit Number | Description of Documents | Incorporated by Reference to | |
|---|---|---|---|
| | | Exhibit | Filing |
| 23 | Consent of Independent Registered Public Accounting Firm, filed herewith | | |
| 31.1 | Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act Of 2002, 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, filed herewith | | |
| 32.1 | Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, 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, filed herewith | | |

* Confidential treatment has been received for certain portions thereof pursuant to a confidential treatment request filed with the Commission on August 7, 2007. Such provisions have been filed separately with the Commission.

** Management contract or compensatory plan

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## 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)
March 12, 2009

By /s/ George H. Glatfelter II

George H. Glatfelter II
Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

| Date | Signature | Capacity |
|---|---|---|
| March 12, 2009 | /s/ George H. Glatfelter II<br><br>George H. Glatfelter II<br>Chairman and Chief Executive Officer | Principal Executive Officer and Director |
| March 12, 2009 | /s/ John P. Jacunski<br><br>John P. Jacunski<br>Senior Vice President and<br>Chief Financial Officer | Principal Financial Officer |
| March 12, 2009 | /s/ David C. Elder<br><br>David C. Elder<br>Vice President and Corporate Controller | Controller |
| March 12, 2009 | /s/ Kathleen A. Dahlberg<br><br>Kathleen A. Dahlberg | Director |
| March 12, 2009 | /s/ Nicholas DeBenedictis<br><br>Nicholas DeBenedictis | Director |
| March 12, 2009 | /s/ Richard C. Ill | Director |

| | | |
|---|---|---|
| | Richard C. Ill | |
| March 12, 2009 | /s/ J. Robert Hall | Director |
| | J. Robert Hall | |
| March 12, 2009 | /s/ Ronald J. Naples | Director |
| | Ronald J. Naples | |
| March 12, 2009 | /s/ Richard L. Smoot | Director |
| | Richard L. Smoot | |
| March 12, 2009 | /s/ Lee C. Stewart | Director |
| | Lee C. Stewart | |

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CERTIFICATION PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, George H. Glatfelter II, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2008 of P. H. Glatfelter Company ( Glatfelter );

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. Glatfelter s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of Glatfelter s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in Glatfelter s internal control over financial reporting that occurred during Glatfelter s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter s internal control over financial reporting; and

5. Glatfelter s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter s auditors and the audit committee of the Glatfelter s board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter s internal control over financial reporting.

Date: March 12, 2009

By:
/s/ George H. Glatfelter II

George H. Glatfelter II
Chairman and Chief Executive Officer

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CERTIFICATION PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, John P. Jacunski, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2008 of P. H. Glatfelter Company ( Glatfelter );

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. Glatfelter s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of Glatfelter s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in Glatfelter s internal control over financial reporting that occurred during Glatfelter s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter s internal control over financial reporting; and

5. Glatfelter s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter s auditors and the audit committee of the Glatfelter s board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter s internal control over financial reporting.

Date: March 12, 2009

By:
/s/
John P. Jacunski
John P. Jacunski
Senior Vice President and Chief Financial Officer

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**Schedule II**

**P. H. GLATFELTER COMPANY AND SUBSIDIARIES**
**SUPPLEMENTAL FINANCIAL STATEMENT SCHEDULE**

**For each of the three years ended December 31, 2008**
**Valuation and Qualifying Accounts**

| | Allowance for | | | | | |
|---|---|---|---|---|---|---|
| *In thousands* | Doubtful Accounts | | | Sales Discounts and Deductions | | |
| | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Balance, beginning of year | **$ 3,117** | $3,613 | $931 | **$4,345** | $2,585 | $2,045 |
| Provision[(a)] | **(36)** | 781 | 2,771 | **6,620** | 6,723 | 3,153 |
| Write-offs, recoveries and discounts allowed | **(296)** | (1,319) | (137) | **(6,045)** | (5,195) | (2,795) |
| Other[(b)] | **(152)** | 42 | 48 | **(1,551)** | 232 | 182 |
| Balance, end of year | **$ 2,633** | $3,117 | $3,613 | **$3,369** | $4,345 | $2,585 |

The provision for doubtful accounts is included in selling, general and administrative expense and the provision for sales discounts and deductions is deducted from sales. The related allowances are deducted from accounts receivable.

(a) The amount in 2006 includes $1.8 million of doubtful account allowances acquired in connection with the Chillicothe and Lydney acquisitions.

(b) Relates primarily to changes in currency exchange rates and, in 2008 a change in presentation of certain customer rebates.