

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

Table of Contents

**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
*(State or other jurisdiction of
incorporation or organization)*

23-0628360
(IRS Employer Identification No.)

**96 South George Street, Suite 500
York, Pennsylvania 17401**
(Address of principal executive offices)

(717) 225-4711
(Registrant's telephone number, including area code)

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 No

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 No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for at least the past

90 days. Yes No .

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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).

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

DECEMBER 31, 2008

Table of Contents

	Page
<u>PART I</u>	
<u>Item 1</u>	1
<u>Item 1A</u>	6
<u>Item 2</u>	8
<u>Item 3</u>	9
<u>Item 4</u>	9
	9
<u>PART II</u>	
<u>Item 5</u>	10
<u>Item 6</u>	11
<u>Item 7</u>	12
<u>Item 7A</u>	21
<u>Item 8</u>	22
<u>Item 9A</u>	52
<u>PART III</u>	
<u>Item 10</u>	52
<u>Item 11</u>	52
<u>Item 12</u>	52
<u>Item 13</u>	52
<u>Item 14</u>	53
<u>PART IV</u>	
<u>Item 15</u>	53
<u>SIGNATURES</u>	56

CERTIFICATIONS

57

SCHEDULE II

59

Ex-3.(B)

Ex-10.(I)

Ex-10.(J)

Ex-10.(J)(A)

Ex-10.(R)

EX-10.(S)

Ex-21

Ex-23

EX-31.1

Ex-31.2

Ex-32.1

Ex-32.2

Table of Contents**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 cyclicalities 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:

<i>Dollars in millions</i>	Date	Purchase Price	Est Annual Revenue	Primary Paper Products
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:

<i>Dollars in thousands</i>	2008	2007	2006
Net sales	\$ 1,263,850	\$ 1,148,323	\$ 986,411
<i>Business unit composition</i>			
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:

<i>In thousands</i>	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

-1-
GLATFELTER

Table of Contents

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:

<i>In thousands</i>	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

-2-

GLATFELTER

Table of Contents

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.

-3-

GLATFELTER

Table of Contents

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
<i>Specialty Papers</i>		
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
<i>Composite Fibers</i>		
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.

-4-

GLATFELTER

Table of Contents

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	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	International Union	Aug. 2006	Aug. 2009

International

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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 Newtech Pulp Workers Union & Federation of Democratic Labor Org.	Aug. 2008	Dec. 2009
Philippines	55	28	83		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

Table of Contents

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 effect 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

-6-

GLATFELTER

Table of Contents

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

-7-

GLATFELTER

Table of Contents

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.

-8-

GLATFELTER

Table of Contents

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.

-9-

GLATFELTER

Table of Contents

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.

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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.

-10-
GLATFELTER

Table of Contents**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 <i>Dollars in thousands, except per share</i>	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

-11-
GLATFELTER

Table of Contents

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.

Table of Contents

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:

<i>In thousands, except per share</i>	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:

<i>In thousands, except per share</i>	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

Units, except tons	Year Ended December 31						Total	
	Specialty Papers		Composite Fibers		Other and Unallocated			
	2008	2007	2008	2007	2008	2007	2008	
Revenue	\$ 833,899	\$ 802,293	\$ 429,952	\$ 346,030	\$ (1)	\$	\$ 1,263,850	\$ 1,111,111
Expenses, net	9,364	9,445					9,364	
Operating income	843,263	811,738	429,952	346,030	(1)		1,273,214	1,111,111
Products sold	739,481	721,216	366,791	287,606	(10,840)	(7,366)	1,095,432	1,000,000
Restructuring	103,782	90,522	63,161	58,424	10,839	7,366	177,782	100,000
Dispositions of plant, and timberlands	54,596	56,561	38,206	32,541	5,095	27,042	97,897	100,000
Income before taxes					(856)	35	(856)	
Income before taxes and timberlands					(18,468)	(78,685)	(18,468)	
Income before taxes	49,186	33,961	24,955	25,883	25,068	58,974	99,209	100,000

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	

-13-
GLATFELTER

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

<i>In thousands</i>	Year Ended December 31		Change
	2008	2007	
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:

Business Unit	Percent of total	
	2008	2007
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:

<i>In thousands</i>	Year Ended December 31		Change
	2008	2007	
<i>Recorded as:</i>			
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:

<i>Dollars in thousands</i>	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

-14-

GLATFELTER

Table of Contents

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:

<i>In thousands</i>	Year Ended December 31
	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:

<i>In thousands, except per share</i>	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:

<i>In thousands, except per share</i>	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.

Table of Contents

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

Year Ended December 31

In thousands, except tons

Specialty Papers		Composite Fibers		Other and Unallocated		Total	
2007	2006	2007	2006	2007	2006	2007	2006