GLATFELTER P H CO
Form 10-Q
May 11, 2009

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

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

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD from _____ to _____**

For the quarterly period ended March 31, 2009
Commission file number 1-3560
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 York, Pennsylvania 17401	**(717) 225-4711**
(Address of principal executive offices)	(Registrant s telephone number, including area code)

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

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

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

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

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.

As of April 30, 2009, P. H. Glatfelter Company had 45,516,606 shares of common stock outstanding.

P. H. GLATFELTER COMPANY
REPORT ON FORM 10-Q
for the QUARTERLY PERIOD ENDED
MARCH 31, 2009
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PART I
Item 1 Financial Statements

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

In thousands, except per share	**Three months ended March 31** **2009**	2008
Net sales	**$ 291,552**	$ 305,499
Energy sales net	**1,931**	1,984
Total revenues	**293,483**	307,483
Costs of products sold	**250,169**	263,225
Gross profit	**43,314**	44,258
Selling, general and administrative expenses	**24,513**	24,135
Gains on dispositions of plant, equipment and timberlands, net	**(699)**	(14,518)
Operating income	**19,500**	34,641
Non-operating income (expense)		
Interest expense	**(5,126)**	(6,145)
Interest income	**708**	1,604
Other net	**17**	68
Total other income (expense)	**(4,401)**	(4,473)
Income before income taxes	**15,099**	30,168
Income tax provision	**3,561**	10,493
Net income	**$ 11,538**	$ 19,675
Earnings per share		
Basic	**$ 0.25**	$ 0.44
Diluted	**0.25**	0.43
Cash dividends declared per common share	**0.09**	0.09
Weighted average shares outstanding		
Basic	**45,595**	45,157
Diluted	**45,610**	45,468

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

P. H. GLATFELTER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

In thousands	**March 31 2009**	December 31 2008
Assets		
Current assets		
Cash and cash equivalents	**$ 23,672**	$ 32,234
Accounts receivable net	**130,467**	132,635
Inventories	**199,647**	193,354
Prepaid expenses and other current assets	**35,698**	33,596
Total current assets	**389,484**	391,819
Plant, equipment and timberlands net	**476,332**	493,564
Other assets	**168,493**	171,926
Total assets	**$ 1,034,309**	$ 1,057,309
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	**$ 13,759**	$ 13,759
Short-term debt	**6,534**	5,866
Accounts payable	**53,752**	59,750
Dividends payable	**4,138**	4,089
Environmental liabilities	**5,740**	5,734
Other current liabilities	**86,984**	100,904
Total current liabilities	**170,907**	190,102
Long-term debt	**295,283**	293,660
Deferred income taxes	**89,399**	90,158
Other long-term liabilities	**136,760**	140,682
Total liabilities	**692,349**	714,602
Commitments and contingencies		
Shareholders equity		
Common stock	**544**	544
Capital in excess of par value	**45,914**	45,806
Retained earnings	**612,413**	605,001

Accumulated other comprehensive loss	**(185,310)**	(176,133)
	473,561	475,218
Less cost of common stock in treasury	**(131,601)**	(132,511)
Total shareholders equity	**341,960**	342,707
Total liabilities and shareholders equity	**$ 1,034,309**	$ 1,057,309

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

P. H. GLATFELTER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

In thousands	**Three months ended March 31** **2009**	2008
Operating activities		
Net income	**$ 11,538**	$ 19,675
Adjustments to reconcile to net cash provided (used) by operations:		
Depreciation, depletion and amortization	**14,428**	14,718
Pension expense (income)	**1,357**	(3,769)
Deferred income tax provision	**1,109**	1,578
Gains on dispositions of plant, equipment and timberlands, net	**(699)**	(14,518)
Stock-based compensation	**1,039**	1,008
Cash used for environmental matters	**(6,777)**	(9,040)
Change in operating assets and liabilities		
Accounts receivable	**(23)**	(14,576)
Inventories	**(8,554)**	(2,338)
Prepaid and other current assets	**2,535**	(648)
Accounts payable	**(5,370)**	2,359
Accruals and other current liabilities	**(13,795)**	(7,739)
Other	**2,027**	659
Net cash used by operating activities	**(1,185)**	(12,631)
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	**(5,234)**	(9,257)
Proceeds from disposals of plant, equipment and timberlands, net	**728**	15,035
Net cash (used) provided by investing activities	**(4,506)**	5,778
Financing activities		
Net borrowings (repayments) of revolving credit facility and other	**5,434**	(15,000)
Net borrowings (repayments) of short term debt	**782**	(824)
Proceeds from borrowing from SunTrust Financial		36,695
Principal repayments 2011 Term Loan	**(4,000)**	(3,000)
Payment of dividends	**(4,129)**	(4,104)
Proceeds from stock options exercised and other	**20**	
Net cash (used) provided by financing activities	**(1,893)**	13,767
Effect of exchange rate changes on cash	**(978)**	891
Net (decrease) increase in cash and cash equivalents	**(8,562)**	7,805
Cash and cash equivalents at the beginning of period	**32,234**	29,833
Cash and cash equivalents at the end of period	**$ 23,672**	$ 37,638

Supplemental cash flow information		
Cash paid for		
Interest	**$ 820**	$ 1,700
Income taxes	**2,926**	7,979

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

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

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter) is a manufacturer of specialty papers and 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

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

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). In our opinion, the unaudited interim consolidated financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2008 Annual Report on Form 10-K (2008 Form 10-K).

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes the estimates and assumptions used in the preparation of these 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.

3. RECENT PRONOUNCEMENTS

In December 2007, Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (SFAS No. 141(R)), 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 goodwill acquired in a 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 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. The adoption of SFAS No. 141(R) did not have a material impact on our consolidated financial position or results of operations.

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. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

During the first three months of 2009 and 2008, we completed sales of timberlands as summarized by the following table:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2009			
Timberlands	**189**	**$ 728**	**$ 699**
	189	**$ 728**	**$ 699**
2008			
Timberlands	3,595	$15,035	$14,641
Other			(123)
	3,595	$15,035	$14,518

5. EARNINGS PER SHARE

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

	Three months ended March 31	
In thousands, except per share	**2009**	2008
Net income	**$11,538**	$19,675
Weighted average common shares outstanding used in basic EPS	**45,595**	45,157
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	**15**	311
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**45,610**	45,468
Earnings per share		
Basic	**$ 0.25**	$ 0.44
Diluted	**0.25**	0.43

Approximately 1,245,910 and 708,600 of potential common shares have been excluded from the computation of diluted earnings per share for the three month period ended March 31, 2009 and 2008, respectively, due to their anti-dilutive nature.

6. INCOME TAXES

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

As of March 31, 2009 and December 31, 2008, we had $29.9 million and $29.2 million, respectively, of gross unrecognized tax benefits. As of March 31, 2009, if such benefits were to be recognized, approximately $26.3 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

Jurisdiction	Open Tax Year	
	Examination in progress	Not under examination
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 the first quarter of 2009 totaled $0.3 million and $0.2 million in the first quarter of 2008. Accrued interest was $2.9 million and $2.6 million as of March 31, 2009 and December 31, 2008, respectively. We did not record any penalties associated with uncertain tax positions during the first quarters of 2009 or 2008.

7. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

	Three months ended March 31	
In thousands	**2009**	2008
Pension Benefits		
Service cost	**$ 2,250**	$ 2,537
Interest cost	**5,748**	5,591
Expected return on plan assets	**(9,844)**	(12,595)
Amortization of prior service cost	**537**	600
Amortization of unrecognized loss	**2,991**	98
Net periodic benefit cost (income)	**$ 1,682**	$ (3,769)
Other Benefits		
Service cost	**$ 656**	$ 558
Interest cost	**874**	751
Expected return on plan assets	**(122)**	(201)
Amortization of prior service cost	**(308)**	(259)
Amortization of unrecognized loss	**528**	263
Net periodic benefit cost	**$ 1,628**	$ 1,112

	March 31, 2009	Dec. 31, 2008
In millions		
Pension Plan Assets		
Fair value of plan assets at end of period	**$368.1**	$400.6

The decline in the fair value of our pension plan assets reflects the deteriorating global equity and debt markets. As of December 31, 2008, approximately 63% of the pension plan assets were invested in publicly-traded equity securities and the balance was comprised of cash and fixed rate debt instruments.

As of December 31, 2008, our pension plans were overfunded by $14.3 million. We do not expect to be required to make contributions to our qualified pension plans during 2009.

8. COMPREHENSIVE INCOME

The following table sets forth comprehensive income and its components:

	Three months ended March 31	
In thousands	**2009**	2008
Net income	**$ 11,538**	$19,675
Foreign currency translation adjustments	**(11,469)**	16,042

Additional pension liability amortization, net of tax	**2,292**	456
Comprehensive income	**$ 2,361**	$36,173

9. INVENTORIES

Inventories, net of reserves, were as follows:

In thousands	**March 31, 2009**	Dec. 31, 2008
Raw materials	**$ 58,741**	$ 49,083
In-process and finished	**94,138**	97,390
Supplies	**46,768**	46,881
Total	**$199,647**	$193,354

10. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	**March 31, 2009**	Dec. 31, 2008
Revolving credit facility, due April 2011	**$ 12,347**	$ 6,724
Term Loan, due April 2011	**26,000**	30,000
Term Loan, due January 2013	**36,695**	36,695
Note payable, due March 2013	**34,000**	34,000
7 % Notes, due May 2016	**200,000**	200,000
Total long-term debt	**309,042**	307,419
Less current portion	**(13,759)**	(13,759)
Long-term debt, net of current portion	**$295,283**	$293,660

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 the incurrence of additional indebtedness in excess of $30.0 million in the aggregate, or the issuance

of additional equity, we must repay a specified portion of the term loan within five days of the prepayment event.

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.

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.

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 March 31, 2009, 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 7 % 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 $6^{7}/_{8}$% notes due July 2007, plus the payment of applicable redemption premium and accrued interest.

Interest on these Senior Notes accrues at the rate of 7 % 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.

The 7 % 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 7 % 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 January 2013, 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 a letter of credit issued in our favor by Royal Bank of Scotland, Plc. 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 Sustainable Conservation, Inc. (the Sustainable Note). We pledged this note as collateral under a $34.0 million promissory note payable to a financial institution (the Note Payable). The Note Payable, as amended, bears a fixed rate of interest of 3.10% and matures in March 2013. This note payable is secured by a letter of credit issued in our favor by SunTrust Bank backing the collectability of the Sustainable Note.

The notes receivable discussed in the preceding paragraphs, aggregating $81.1 million, are recorded in the accompanying consolidated balance sheets under the caption Other long-term assets.

Under terms of each of the above transactions, minimum credit ratings must be maintained by the respective financial institution issuing the letters of credit. If, after 60 days from the date such credit rating falls below the specified minimum, an event of default is deemed to have occurred under the respective debt instrument owed by us to the financial institution unless actions are taken to cure such default. Potential Remedial actions include: (i) amending the terms of the applicable debt instrument; (ii) a replacement of the letter of credit with an appropriately rated institution; or (iii) repaying the Note Payable.

On April 23, 2009, the credit rating of the financial institution that issued the letter of credit behind the Sustainable Note fell below the required minimum level. We are in the process of evaluating actions available to us in response to this development. We intend to pursue one of the three courses of action identified above. In the event the Note

Payable is repaid prior to maturity, under terms of the debt agreement, we would incur a prepayment penalty.

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

As of March 31, 2009 and December 31, 2008, we had $5.8 million and $12.1 million, respectively, of letters of credit issued to us by certain financial institutions. The letters of credit outstanding as of March 31, 2009, provide financial assurances primarily for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

11. 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 our Spring Grove, PA facility. Historically, the 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 as a charge to operations on the straight-line basis in relation to the expected closure period. The amount accrued represented the discounted present value of the expected cash flows to be incurred during the closure period. The present value of the discounted cash flows is being accreted as a charge to earnings on the effective interest method. Following is a summary of activity recorded during the first quarter of 2009:

In thousands	**Liability**
Balance at December 31, 2008	**$ 11,606**
Accretion	**161**
Payments	**(20)**
Balance at March 31, 2009	**$ 11,747**

Of the total liability at March 31, 2009, $1.6 million is recorded in the accompanying consolidated balance sheet, under the caption Other current liabilities and $10.1 million is recorded under the caption Other long-term liabilities.

12. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River Neenah, Wisconsin

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

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 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 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 March 31, 2009, our 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 asserted and unasserted claims against us relating to PCB contamination at the Site totaled $19.8 million. No additional amounts were accrued during the first quarters of 2009 and 2008. Of our total reserve for the Fox River, $5.7 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remaining $14.1 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 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.

GLATFELTER

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 this environmental matter without a long-term, material adverse impact on the Company. This matter could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our loan covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or damages will not exceed our available resources, or that such obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations. 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.

13. SEGMENT INFORMATION

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

Business Unit Performance	For the three months ended March 31							
In thousands	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Net sales	**$199,607**	$200,946	**$91,945**	$104,552	**$**	$ 1	**$291,552**	$305,499
Energy sales, net	**1,931**	1,984					**1,931**	1,984
Total revenue	**201,538**	202,930	**91,945**	104,552		1	**293,483**	307,483
Cost of products sold	**171,330**	177,276	**77,646**	88,396	**1,193**	(2,447)	**250,169**	263,225
Gross profit (loss)	**30,208**	25,654	**14,299**	16,156	**(1,193)**	2,448	**43,314**	44,258
SG&A	**11,840**	14,207	**8,823**	10,020	**3,850**	(92)	**24,513**	24,135
Gains on dispositions of plant, equipment and timberlands					**(699)**	(14,518)	**(699)**	(14,518)
Total operating income (loss)	**18,368**	11,447	**5,476**	6,136	**(4,344)**	17,058	**19,500**	34,641
Nonoperating income (expense)					**(4,401)**	(4,473)	**(4,401)**	(4,473)
Income (loss) before income taxes	**$ 18,368**	$ 11,447	**$ 5,476**	$ 6,136	**$(8,745)**	$ 12,585	**$ 15,099**	$ 30,168
Supplementary Data								
Net tons sold	**185,061**	182,211	**19,191**	21,339			**204,252**	203,550
Depreciation, depletion and amortization	**$ 8,867**	$ 8,632	**$ 5,561**	$ 6,086	**$**	$	**$ 14,428**	$ 14,718
Capital expenditures	**3,582**	2,695	**1,652**	6,562			**5,234**	9,257

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 primarily allocated based on an estimated utilization of support area services or are included in Other and Unallocated in the table above.

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

14. SUBSEQUENT EVENT

On April 29, 2009, our shareholders approved an increase in the number of shares of common stock, to 5,500,000, that are available to be awarded under our Amended and Restated Long-Term Incentive Plan.

15. GUARANTOR FINANCIAL STATEMENTS

Our 7 % 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 condensed consolidating statements of income and cash flow, and our condensed consolidating balance sheets. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis.

Condensed Consolidating Statement of Income for the three months ended March 31, 2009

In thousand	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$199,607	$11,724	$91,945	$(11,724)	$291,552
Energy sales net	1,931				1,931
Total revenues	201,538	11,724	91,945	(11,724)	293,483
Costs of products sold	173,634	10,716	77,704	(11,885)	250,169
Gross profit	27,904	1,008	14,241	161	43,314
Selling, general and administrative expenses	14,829	544	9,140		24,513
Gains on dispositions of plant, equipment and timberlands, net	1	(700)			(699)
Operating income	13,074	1,164	5,101	161	19,500
Non-operating income (expense)					
Interest expense	(4,336)	(5)	(785)		(5,126)
Other income (expense) net	8,755	1,436	(25)	(9,441)	725
Total other income (expense)	4,419	1,431	(810)	(9,441)	(4,401)
Income (loss) before income taxes	17,493	2,595	4,291	(9,280)	15,099
Income tax provision (benefit)	5,955	1,024	(3,255)	(163)	3,561
Net income (loss)	$ 11,538	$ 1,571	$ 7,546	$ (9,117)	$ 11,538

Condensed Consolidating Statement of Income for the three months ended March 31, 2008

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$200,946	$ 11,427	$104,553	$(11,427)	$305,499
Energy sales net	1,984				1,984

Total revenues	202,930	11,427	104,553	(11,427)	307,483
Costs of products sold	175,586	10,577	89,105	(12,043)	263,225
Gross profit	27,344	850	15,448	616	44,258
Selling, general and administrative expenses	13,040	462	10,633		24,135
Gains on dispositions of plant, equipment and timberlands, net	125	(14,643)			(14,518)
Operating income	14,179	15,031	4,815	616	34,641
Non-operating income (expense)					
Interest expense	(5,306)	(11)	(828)		(6,145)
Other income (expense) net	20,957	3,502	(691)	(22,096)	1,672
Total other income (expense)	15,651	3,491	(1,519)	(22,096)	(4,473)
Income (loss) before income taxes	29,830	18,522	3,296	(21,480)	30,168
Income tax provision (benefit)	10,155	7,355	1,104	(8,121)	10,493
Net income (loss)	$ 19,675	$ 11,167	$ 2,192	$(13,359)	$ 19,675

Condensed Consolidating Balance Sheet as of March 31, 2009

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 10,222	$ 426	$ 13,024	$	$ 23,672
Other current assets	282,347	263,817	231,859	(412,211)	365,812
Plant, equipment and timberlands net	271,954	7,164	197,214		476,332
Other assets	498,696	170,421	108,169	(608,793)	168,493
Total assets	$1,063,219	$441,828	$550,266	$(1,021,004)	$1,034,309
Liabilities and Shareholders Equity					
Current liabilities	$ 343,610	$ 25,456	$208,285	$ (406,444)	$ 170,907
Long-term debt	218,856		76,427		295,283
Deferred income taxes	54,975	23,315	25,193	(14,084)	89,399
Other long-term liabilities	103,818	13,867	8,550	10,525	136,760
Total liabilities	721,259	62,638	318,455	(410,003)	692,349
Shareholders equity	341,960	379,190	231,811	(611,001)	341,960
Total liabilities and shareholders equity	$1,063,219	$441,828	$550,266	$(1,021,004)	$1,034,309

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

Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2009

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	$ 16,303	$ 354	$(17,242)	$ (600)	$ (1,185)
Investing activities					
Purchase of plant, equipment and timberlands	(3,570)	(12)	(1,652)		(5,234)
Proceeds from disposal plant, equipment and timberlands		728			728
Repayments from (advances of) intercompany loans, net	(3,152)			3,152	
Total investing activities	(6,722)	716	(1,652)	3,152	(4,506)
Financing activities					
Net (repayments of) proceeds from indebtedness	(4,000)		6,216		2,216
Payment of dividends to shareholders	(4,129)				(4,219)
(Repayments) borrowings of intercompany loans, net		(800)	3,952	(3,152)	
Payment of intercompany dividends		(600)		600	
Proceeds from stock options exercised and other	20				20
Total financing activities	(8,109)	(1,400)	10,168	(2,552)	(1,893)
Effect of exchange rate on cash	(110)		(868)		(978)
Net increase (decrease) in cash	1,362	(330)	(9,594)		(8,562)
Cash at the beginning of period	8,860	756	22,618		32,234
Cash at the end of period	$ 10,222	$ 426	$ 13,024	$	$ 23,672

Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2008

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	$ 38,500	$(14,613)	$(36,518)	$	$(12,631)
Investing activities					
Purchase of plant, equipment and timberlands	(2,605)	(86)	(6,566)		(9,257)

Proceeds from disposal plant, equipment and timberlands		15,035			15,035
Total investing activities	(2,605)	14,949	(6,566)		5,778
Financing activities					
Net (repayments of) proceeds from indebtedness	(20,000)		37,871		17,871
Payment of Dividends	(4,104)				(4,104)
Total financing activities	(24,104)		37,871		13,767
Effect of exchange rate on cash	(128)		1,019		891
Net increase (decrease) in cash	11,663	336	(4,194)		7,805
Cash at the beginning of period	6,693	162	22,978		29,833
Cash at the end of period	$ 18,356	$ 498	$ 18,784	$	$ 37,638

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter s Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our 2008 Annual Report on Form 10-K.

Forward-Looking Statements This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects and future consolidated financial position or results of operations, made in this Report on Form 10-Q are forward looking. We use words such as anticipates , believes , expects , future , intends and similar expressions to identify forward-looking statements. Forward-looking statements reflect management s current expectations and are inherently uncertain. Our actual results may differ significantly from such expectations. The following discussion includes forward-looking statements regarding expectations of, among others, net sales, costs of products sold, 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, for, or 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 & converting, carbonless papers and forms, food & beverage filter papers, decorative laminates for furniture and flooring, metallized papers and other highly technical niche markets.

Overview Our results of operations for the first three months of 2009 when compared with the same period of 2008 reflect improved operating profits from our business units driven by productivity gains, cost control and higher

average selling prices. Our overall results were adversely impacted by lower gains from sales of timberlands in the first quarter of 2009 compared with the same period of 2008. In addition, we realized a pre-tax $5.5 million adverse impact from recording pension expense in the first three months of 2009 compared with pension income in the year-earlier quarter.

Specialty Papers operating income in the first quarter of 2009 increased approximately 60.5% compared to the same quarter of 2008 largely due to improved operational effectiveness and cost controls throughout the unit. Higher average selling prices offset

the impact of unfavorable product mix and the costs of market related downtime.

Our Composite Fibers business unit s first quarter 2009 operating profit declined slightly in the comparison primarily due to lower volumes in certain geographic and product markets that are more sensitive to the weak economic environment together with the related unplanned downtime. This unit s shipments of food & beverage products, a key growth market, increased 4.4% in the comparison. Average selling prices were partially offset by increased input costs.

RESULTS OF OPERATIONS

Three months ended March 31, 2009 versus the Three months ended March 31, 2008

The following table sets forth summarized results of operations:

	Three months ended March 31	
In thousands, except per share	**2009**	2008
Net sales	**$291,552**	$305,499
Gross profit	**43,314**	44,258
Operating income	**19,500**	34,641
Net income	**11,538**	19,675
Earnings per share	**0.25**	0.43

The consolidated results of operations for the three months ended March 31, 2009 and 2008, include the following significant items:

In thousands, except per share	**After-tax** *Gain (loss)*	**Diluted EPS**
2009		
Gains on sale of timberlands	**$ 378**	**$ 0.01**
2008		
Gains on sale of timberlands	$8,662	$ 0.19
Acquisition integration costs	(411)	(0.01)

The above items increased earnings by $0.4 million, or $0.1 per diluted share, and $8.3 million, or $0.18 per diluted share, in the first quarters of 2009 and 2008, respectively.

Business Units

Business Unit Performance	For the three months ended March 31							
In thousands	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Net sales	**$199,607**	$200,946	**$91,945**	$104,552	**$**	$ 1	**$291,552**	$305,499
Energy sales, net	**1,931**	1,984					**1,931**	1,984
Total revenue	**201,538**	202,930	**91,945**	104,552		1	**293,483**	307,483

Cost of products sold	**171,330**	177,276	**77,646**	88,396	**1,193**	(2,447)	**250,169**	263,225
Gross profit (loss)	**30,208**	25,654	**14,299**	16,156	**(1,193)**	2,448	**43,314**	44,258
SG&A	**11,840**	14,207	**8,823**	10,020	**3,850**	(92)	**24,513**	24,135
Gains on dispositions of plant, equipment and timberlands					**(699)**	(14,518)	**(699)**	(14,518)
Total operating income	**18,368**	11,447	**5,476**	6,136	**(4,344)**	17,058	**19,500**	34,641
Nonoperating income (expense)					**(4,401)**	(4,473)	**(4,401)**	(4,473)
Income (loss) before income taxes	**$ 18,368**	$ 11,447	**$ 5,476**	$ 6,136	**$(8,745)**	$ 12,585	**$ 15,099**	$ 30,168
Supplementary Data								
Net tons sold	**185,061**	182,211	**19,191**	21,339			**204,252**	203,550
Depreciation, depletion and amortization	**$ 8,867**	$ 8,632	**$ 5,561**	$ 6,086	**$**	$	**$ 14,428**	$ 14,718
Capital expenditures	**3,582**	2,695	**1,652**	6,562			**5,234**	9,257

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 above.

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

Sales and Costs of Products Sold

	Three months ended March 31		
In thousands	**2009**	2008	Change
Net sales	**$291,552**	$305,499	$(13,947)
Energy sales net	**1,931**	1,984	(53)
Total revenues	**293,483**	307,483	(14,000)
Costs of products sold	**250,169**	263,225	(13,056)
Gross profit	**$ 43,314**	$ 44,258	$ (944)
Gross profit as a percent of Net sales	**14.9%**	14.5%	

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

	Three months ended March 31	
Percent of Total	**2009**	2008
Business Unit		
Specialty Papers	**68.5%**	65.8%
Composite Fibers	**31.5**	34.2
Total	**100.0%**	100.0%

Net sales totaled $291.6 million for the first three months of 2009, a decrease of $13.9 million, or 4.6%, compared to the same period a year ago.

In the Specialty Papers business unit, net sales for the first three months of 2009 decreased $1.3 million to $199.6 million. Operating income totaled $18.4 million, an increase of $6.9 million, or 60.5%, over the same quarter a year ago. The improved operating income is primarily due to increases in average selling prices outpacing increases in input costs and improved operating efficiencies at Chillicothe. Higher average selling prices contributed $7.5 million

of the increase in operating profit and volumes shipped increased 1.6%. These price and volume increases were partially offset by expected mix changes between carbonless papers and uncoated papers. In addition, this business unit s results were adversely impacted by $3.3 million of higher input costs, largely driven by caustic soda and coal. Unplanned operating downtime at the Spring Grove and Chillicothe facilities further reduced operating results by approximately $1.6 million in the first quarter of 2009 compared to the first quarter of 2008.

In Composite Fibers, net sales were $91.9 million for the first quarter of 2009, a decline of $12.6 million from the year-earlier quarter. Operating income declined by $0.7 million in the comparison to $5.5 million. The translation of foreign currencies adversely impacted net sales by $14.3 million; however, higher average selling prices contributed $4.2 million. Total volumes shipped by this business unit declined 10.1% as lower shipments of composite laminates and metallized products, which declined 31.0% and 15.6%, respectively, more than offset a 4.4% increase in Food & Beverage paper product shipments.

Energy and raw material costs in the Composite Fibers business unit were $4.6 million higher than a year ago. Unplanned downtime, primarily in the Metallized market, adversely impacted operating results by $1.4 million in the first quarter of 2009 compared to the first quarter of 2008.

Pension Expense/Income Pension expense or income results from the over-funded status of our pension plans. The following summarizes the amounts of pension expense or income recognized for the first three months of 2009 compared to the same period of 2008:

	Three months ended March 31		
In thousands	**2009**	2008	Change
Recorded as:			
Costs of products sold	**$(1,188)**	$2,582	$(3,770)
SG&A expense	**(494)**	1,187	(1,681)
Total	**$(1,682)**	$3,769	$(5,451)

The amount of pension expense or 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 1 Financial Statements Note 7, the fair value of the plans assets declined approximately 29% during 2008. As a result, during 2009 we expect to recognize net pension expense totaling approximately $6.7 million, on a pre-tax basis. However, we do not expect to be required to make cash contributions to our qualified defined benefit pension plans in 2009.

Selling, general and administrative (SG&A) expenses increased $0.4 million in the quarter-to-quarter comparison and totaled $24.5 million for the first three months of 2009. Benefits from our cost control initiatives were offset by $0.5 million of pension expense recorded in the first quarter of 2009 compared with $1.2 million of pension income in the same quarter of 2008. In addition, SG&A expenses for the first quarter of 2008 included a $1.5 million non-recurring benefit from a recovery in a litigation matter, net of legal fees.

Gain on Sales of Plant, Equipment and Timberlands During the first three months of 2009 and 2008, we completed sales of timberlands as summarized by the following table:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2009			
Timberlands	**189**	**$ 728**	**$ 699**
	189	**$ 728**	**$ 699**
2008			
Timberlands	3,595	$15,035	$14,641
Other			(123)
	3,595	$15,035	$14,518

Income taxes For the first three months of 2009 we recorded a provision for income taxes totaling $3.6 million resulting in an effective tax rate of 23.6%. The comparable amounts in the first quarter of 2008 were $10.5 million and 34.8%, respectively. The decline in the effective tax rate was primarily due to significantly lower timberland sales in the first quarter of 2009 compared with the first quarter of 2008.

Foreign Currency We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The local currency in Germany and France is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the first three months of 2009, Euro functional currency operations

generated approximately 19.6% of our sales and 19.3% of operating expenses and British Pound Sterling operations represented 9.1% of net sales and 9.5% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on the first three months of 2009 reported results compared to the first three months 2008:

In thousands	Three months ended March 31 **Favorable (unfavorable)**
Net sales	**$ (14,277)**
Costs of products sold	**13,633**
SG&A expenses	**1,853**
Income taxes and other	**(123)**
Net income	**$ 1,086**

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

LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires significant expenditures for new or enhanced equipment, for environmental compliance matters, to support our research and development efforts and for our business strategy. In addition we have mandatory debt service requirements of both principal and interest. The following table summarizes cash flow information for each of the years presented:

	Three months ended March 31	
In thousands	**2009**	2008
Cash and cash equivalents at beginning of period	**$32,234**	$ 29,833
Cash provided by (used for)		
Operating activities	**(1,185)**	(12,631)
Investing activities	**(4,506)**	5,778
Financing activities	**(1,893)**	13,767
Effect of exchange rate changes on cash	**(978)**	891
Net cash (used) provided	**(8,562)**	7,805
Cash and cash equivalents at end of period	**$23,672**	$ 37,638

Operating cash flow improved by $11.4 million primarily due to improved earnings of our core papermaking operations. In addition, cash paid for income taxes declined by $5.1 million and we used $2.3 million less to fund obligations related to environmental matters.

Net cash used for investing activities increased in the comparison primarily due to $14.3 million less cash received from timberland sales partially mitigated by a $4.0 million reduction in capital expenditures. 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 each the first quarters of 2009 and 2008, cash dividends paid on common stock totaled approximately $4.1 million. 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 the first three months of 2009, net debt, defined as total debt less cash balances and term notes secured by letters of credit increased by $10.8 million to $221.2 million. Our Term loan, due in April 2011 has mandatory quarterly repayment requirements approximating $3.4 million per quarter in 2009.

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

	March 31, 2009	Dec. 31, 2008
In thousands		
Revolving credit facility, due April 2011	**$ 12,347**	$ 6,724
Term Loan, due April 2011	**26,000**	30,000
Term Loan, due January 2013	**36,695**	36,695
Note payable, due March 2013	**34,000**	34,000
7 % Notes, due May 2016	**200,000**	200,000
Total long-term debt	**309,042**	307,419
Less current portion	**(13,759)**	(13,759)

Long-term debt, net of current portion	**$295,283**	$293,660

The significant terms of the debt obligations are set forth in Item 1 Financial Statements Note 10. As of March 31, 2009, we had $182 million of borrowing capacity available under our revolving credit agreement. Although we do not have immediate intentions to make additional use of the facility, we believe this agreement, and the banks that are party to it, provides us with ready access to liquidity should we need it.

We are subject to 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 become more burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 1 Financial Statements Note 12 for a summary of significant environmental matters.

We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, sales of timberland, our existing credit facility or other bank lines of credit and other long-term debt. However, as discussed in Item 1 Financial Statements Note 12, 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. A breach of these requirements, of which we were not aware of any at March 31, 2009, would give rise to certain remedies under the credit agreement as amended, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility. In addition, the 7 % Notes contain a cross default provision that in the event of a default under the credit agreement, the 7 % Notes would become payable immediately.

Off-Balance-Sheet Arrangements As of March 31, 2009 and December 31, 2008, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 Financial Statements.

Alternative Fuel Credits We believe we are eligible for an excise tax refund under the Internal Revenue Code for alternative fuel mixtures used as a fuel in our business. The credit is equal to $0.50 per gallon of alternative fuel contained in the mixture and is refundable in cash. We began mixing black liquor and diesel fuel in late February 2009 and we filed an application with the Internal Revenue Service to be registered as an alternative fuel mixer. We are accumulating the necessary information to file for refunds; however, before any cash is received, the registration application requires approval by the Internal Revenue Service. There can be no assurances that our application will be approved, that the regulations that allow the credit will remain unchanged, or that we will be successful in receiving any payments under the program.

Outlook For Specialty Papers, we expect shipments in the second quarter to be approximately 5% lower than first quarter 2009 levels and that selling prices for most products in the second quarter will be relatively in line with the first quarter of 2009. Further, we expect to incur additional downtime in this business unit as a result of managing capacity in response to demand changes. We also will complete in the second quarter of 2009 the annually scheduled maintenance outages at both the Chillicothe and Spring Grove facilities. The outages are expected to impact second quarter results by approximately $0.22 to $0.25 per share. In the second quarter of 2008, the outages impacted results by $0.22 per share.

In Composite Fibers, shipping volumes for the second quarter are expected to be higher than the first quarter as demand for metallized products increases. Selling prices and input costs will be relatively in-line with the first quarter of 2009. Our Composite Fibers facilities are expected to take increased market-related downtime on select paper machines during the second quarter to reduce inventory levels, resulting in overall higher costs when compared to second quarter of 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

	Year Ended December 31					At March 31, 2009	
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	$168,379
At fixed interest rate							
SunTrust Note	34,000	34,000	34,000	34,000	7,825	34,000	35,877
At variable interest rates	69,883	57,844	41,455	36,695	9,148	75,042	80,610
						$309,042	$284,866
Weighted-average interest rate							
On fixed rate debt							
Bond	7.13%	7.13%	7.13%	7.13%	7.13%		
On fixed rate debt							
Note payable	3.10	3.10	3.10	3.10	3.10		
On variable rate debt	2.85	3.00	3.36	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 March 31, 2009, we had long-term debt outstanding of $309.0 million, of which $75.0 million or 24.3% was at variable interest rates.

Variable-rate debt outstanding represents borrowings under (i) credit facility that incur interest based on the domestic prime rate or a Eurocurrency rate, at our option, plus a margin; (ii) the term loan that matures in April 2011, under which we are required to make quarterly repayments and (iii) the 2008 Term Loan that bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.2% per annum. At March 31, 2009, the weighted average interest rate paid on variable rate debt was 2.85%. 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 the first three months of 2009, Euro functional currency operations generated approximately 19.6% of our sales and 19.3% of operating expenses and British Pound Sterling operations represented 9.1% of net sales and 9.5% of operating expenses.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Our chief executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2009, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Changes in Internal Controls There were no changes in our internal control over financial reporting during the three months ended March 31, 2009, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II

ITEM 6. EXHIBITS

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

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.

31.2 Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

32.1 Certification of 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.

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

SIGNATURES

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

P. H. GLATFELTER COMPANY
(Registrant)

May 11, 2009

By /s/ David C. Elder
David C. Elder
Corporate Controller

EXHIBIT INDEX

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