

GLATFELTER P H CO  
Form 10-K  
March 09, 2012  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2011

or

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)*  
**96 South George Street, Suite 520**

**23-0628360**  
*(IRS Employer  
Identification No.)*  
**(717) 225-4711**

**York, Pennsylvania 17401**  
*(Address of principal executive offices)*

*(Registrant's telephone number, including area code)*

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

| <b>Title of Each Class</b>              | <b>Name of Each Exchange on which registered</b> |
|---|--|
| 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

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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 the past 90 days. Yes  No .

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

Indicate by check mark 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 or 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  Small 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, 2011, the aggregate market value of the Common Stock of the Registrant held by non-affiliates was \$699.6 million.

**Common Stock outstanding on February 29, 2012 totaled 42,622,256 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 29, 2012 (Part III).

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**P. H. GLATFELTER COMPANY**  
**ANNUAL REPORT ON FORM 10-K**

**For the Year Ended**

**December 31, 2011**

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We make regular filings with the Securities and Exchange Commission (SEC), including this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. These filings are available free of charge on our website, [www.glatfelter.com](http://www.glatfelter.com), and the SEC website at [www.sec.gov](http://www.sec.gov). We also provide copies of our SEC filings at no charge upon request to Investor Relations at (717) 225-2724, [ir@glatfelter.com](mailto:ir@glatfelter.com), or by mail to Investor Relations, 96 South George Street, Suite 520, York, PA, 17401. In this filing, unless the context indicates otherwise, the terms we, us, our, the Company, or Glatfelter refer to P. H. Glatfelter Company and subsidiaries.

**ITEM 1 BUSINESS**

**Overview** Glatfelter began operations in 1864, and we believe we are one of the world's leading manufacturers of specialty papers and fiber-based engineered materials. Headquartered in York, Pennsylvania, we own and operate manufacturing facilities located in Pennsylvania, Ohio, Canada, Germany, the United Kingdom, France, and the Philippines.

**Products** Our three business units manufacture a wide array of specialty papers and fiber-based engineered materials including:

*Specialty Papers* with revenues from the sale of papers for carbonless and other forms, book publishing, envelopes, and engineered products such as papers for digital imaging, transfer, casting, release, postal, playing card, FDA-compliant food and beverage applications, and other niche specialty applications;

*Composite Fibers* primarily consists of single-serve coffee and tea filtration papers, metallized and self adhesive labeling papers, composite laminates used for decorative furniture and flooring applications, and technical specialties such as battery pasting papers, among others; and

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

The markets served by the Composite Fibers and Advance Airlaid business units are characterized by attractive growth rates as the result of new and emerging

products, changing end-user customer preferences and evolving demographics. Specialty Papers serves more mature market segments, some of which are in decline.

As a result of our strategy to diversify sources of revenue and invest in growth businesses, revenue generated from Composite Fibers and Advanced Airlaid Materials represents an increasingly greater proportion of total revenue. For 2011, these business units comprised 45% of consolidated revenue compared with 30% in 2006.

Consolidated net sales and the relative net sales contribution of each of our business units for the past three years are summarized below:

| Dollars in thousands              | 2011         | 2010         | 2009         |
|-----------------------------------|--------------|--------------|--------------|
| Net sales                         | \$ 1,603,154 | \$ 1,455,331 | \$ 1,184,010 |
| <i>Business unit contribution</i> |              |              |              |
| Specialty Papers                  | 54.6%        | 57.9%        | 66.9%        |
| Composite Fibers                  | 29.7         | 28.8         | 33.1         |
| Advanced Airlaid Materials        | 15.7         | 13.3         |              |
| Total                             | 100.0%       | 100.0%       | 100.0%       |

Our strategies are focused on growing revenues, in part, by leveraging leading positions in key global growth markets including the single-serve coffee and tea markets and the feminine hygiene and adult incontinence markets. To ensure we are best positioned to serve these markets, we have made investments to increase production capacity and service offerings and intend to make additional future investments.

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Product innovation is a critical component of our business strategy. During 2011, 2010 and 2009, we invested \$11.7 million, \$10.4 million and \$8.0 million, respectively, in new product development activities. In each of the past three years, in excess of 50% of net sales were generated from products developed, enhanced or improved within the past five years.

Other key elements to our success include margin expansion, driven by cost reduction and continuous improvement initiatives, and the generation of strong and reliable cash flows. The strength of our balance sheet and generation of cash flows has allowed us to pursue strategic actions such as the \$50 million investment to expand capacity in Composite Fibers and the \$50 million share repurchase program approved and executed in 2011. We have a demonstrated ability to establish leading market positions through the successful acquisition and integration of complementary businesses. Since 2006, we have successfully completed and integrated four acquisitions. Our acquisition strategy complements our long-term strategy of driving growth in our markets.

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**Our Business Units** We manage our company as three distinct business units: (i) Specialty Papers (ii) Composite Fibers; and (iii) Advanced Airlaid Materials. Net tons sold by each business unit for the past three years were as follows:

|                            | 2011    | 2010    | 2009    |
|----------------------------|---------|---------|---------|
| Specialty Papers           | 779,647 | 764,670 | 738,841 |
| Composite Fibers           | 93,317  | 90,350  | 80,064  |
| Advanced Airlaid Materials | 87,951  | 72,833  |         |
| Total                      | 960,915 | 927,853 | 818,905 |

A discussion of each unit follows:

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

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

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

**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, FDA-compliant food and beverage applications, and other niche specialty applications.

The market segments in which Specialty Papers competes have undergone significant and rapid consolidation over the past several years resulting in fewer producers. This business unit produces both commodity products (comprised of envelopes and certain forms) and higher-value-added specialty products.

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

| In thousands          | 2011       | 2010       | 2009       |
|-----------------------|------------|------------|------------|
| Carbonless & forms    | \$ 368,582 | \$ 359,033 | \$ 320,088 |
| Book publishing       | 166,506    | 168,155    | 176,646    |
| Envelope & converting | 170,380    | 157,202    | 146,812    |
| Engineered products   | 166,660    | 155,257    | 143,490    |
| Other                 | 2,950      | 2,967      | 4,879      |
| Total                 | \$ 875,078 | \$ 842,614 | \$ 791,915 |

Although many of the markets served by Specialty Papers are mature and, in many instances, declining, we have been successful at maintaining this unit's shipments through new product and new business development initiatives while leveraging the flexibility of our operating

assets to efficiently respond to changing customer demands. In each of the past seven years, our flexible asset base, new product development capabilities and superior customer service offerings allowed us to outperform the broader uncoated free sheet market in terms of volumes shipped.

We believe we are one of the leading suppliers of carbonless and book publishing papers in the United States. Although the markets for these products are declining, we have been successful in executing our strategy to replace this lost volume with products such as envelope and converting papers, and other value-added specialty products. Specialty Papers also produces paper that is converted into specialized envelopes in a wide array of colors, finishes and capabilities. While this market is also declining, we have leveraged our customer service capabilities to grow our market share in each of the last three years.

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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 for demanding, specialized customer and end-user applications. Some of our products are new and higher 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.

The Specialty Papers business unit operates two integrated pulp and paper making facilities with the following combined attributes:

| Uncoated Production Capacity (short tons) | Principal Raw Material ( PRM ) | Estimated Annual Quantity of PRM (short tons) |
|---|--------------------------------|---|
| 784,600                                   | Pulpwood                       | 2,347,000                                     |
|   | Wood- and other pulps          | 703,300                                       |

The pulp mills within this business unit have a combined pulp making capacity of 586,000 tons of bleached pulp per year. The principal raw material used to produce each facility's pulp is pulpwood, including both hardwoods and softwoods. Pulpwood is obtained from a variety of locations including the states of Pennsylvania, Maryland, Delaware, New Jersey, New York, West Virginia, Virginia, Kentucky, Ohio and Tennessee. To protect our sources of pulpwood, we actively promote conservation

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and forest management among suppliers and woodland owners. In addition to critical raw materials, the cost to produce Specialty Papers products is influenced by energy costs. Although the business unit generates all of its steam needed for production at both facilities and generates more power than it consumes at the Spring Grove, PA facility, it purchases approximately 18% of its electricity needed for the Chillicothe, OH mill. The facilities' source of fuel is primarily coal and, to a lesser extent, natural gas.

Since becoming a member of PJM Interconnection, a federally regulated regional transmission organization that coordinates the movement and ensures reliability of wholesale electricity in its region, excess electricity generated by Spring Grove is sold to the high-voltage electricity grid. As a member, we are committed to providing capacity to the grid and agree to sell excess power at market prices. Accordingly, our margin earned from energy sales will be subject to market volatility associated with the price at which energy is sold together with volatility in input costs, primarily related to coal.

The Spring Grove facility includes five uncoated paper machines as well as an off-line combi-blade coater and a Specialty Coater ( S-Coater ), which together provide 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. The Chillicothe facility operates four paper machines producing uncoated and carbonless paper. Two of the machines have built-in coating capability which along with three additional coaters at the facility provide annual coated capacity of 130,000 tons.

In the carbonless paper market, we compete with Appleton Papers and, to a lesser extent, foreign importers including Fibria Celulose (formerly Votorantim Celulose e Papel) and Asia Pulp and Paper Co. We believe we are one of the leading producers of book publishing papers and compete in these markets with Domtar Corp. and North Pacific Paper (NORPAC), among others. In the envelope sector we compete with International Paper, Domtar Corp., Boise Inc. and Evergreen Packaging, among others. In our Specialty Papers' engineered products 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 International Paper, Domtar Corp., Boise Inc., NewPage Corp. and Sappi Limited, among others. 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.

To be successful in the market environment in which Specialty Papers operates, our strategy is focused on:

employing our new product and new business development capabilities to meet changing customer demands and ensure optimal utilization of capacity;

aggressively employing methodologies to manage pressures on margins presented by more mature markets;

leveraging our flexible operating platform to optimize product mix by shifting production among facilities to more closely match output with changing demand trends;

utilizing ongoing continuous improvement methodologies to ensure operational efficiencies; and

maintaining superior customer service.

**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 primarily used for single-serve coffee and tea products and other applications;



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

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

**Technical Specialties** 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 single-serve coffee and tea markets, as well as the composite laminates market, and we have the second largest market share globally for metallized products. Composite Fibers' revenue composition by market consisted of the following for the years indicated:

| In thousands                    | 2011       | 2010       | 2009       |
|---------------------------------|------------|------------|------------|
| Food & beverage                 | \$ 284,748 | \$ 242,882 | \$ 233,899 |
| Metallized                      | 95,276     | 88,753     | 81,388     |
| Composite laminates             | 53,334     | 50,801     | 46,442     |
| Technical specialties and other | 42,671     | 36,781     | 30,366     |
| Total                           | \$ 476,029 | \$ 419,217 | \$ 392,095 |

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We believe many of the market segments served by Composite Fibers, particularly single-serve coffee and tea, present attractive growth opportunities by capitalizing on evolving consumer preferences, expanding into new emerging geographic markets and by gaining market share through quality product and service offerings. Many of this unit's papers are technically sophisticated and most, except for metallized papers, are extremely lightweight and require specialized fibers. Our engineering capabilities, specifically designed papermaking equipment, use of specialized fibers and customer orientation position us well to compete in these global markets.

The Composite Fibers business unit is comprised of three paper making facilities (Germany, France and England), metallizing operations (Wales and Germany) and a pulp mill (the Philippines) with the following combined attributes:

| Production Capacity<br>(short tons) | Principal Raw Material ( PRM ) | Estimated Annual Quantity of PRM<br>(short tons) |
|-------------------------------------|--------------------------------|--|
| 68,400 lightweight                  | Abaca pulp                     | 18,100   |
|                                     | Wood pulp                      | 46,000   |
|                                     | Synthetic fiber                | 12,800   |
| 27,550 metallized                   | Base stock                     | 30,100   |
| 15,300 abaca pulp                   | Abaca fiber                    | 20,900   |

Composite Fibers uses highly specialized inclined wire paper machine technology and we believe we currently maintain approximately 25% of the global inclined wire capacity.

The primary raw materials used in the production of our lightweight papers are abaca pulp and wood pulp. Abaca pulp is a specialized pulp with limited sources of availability. This abaca pulp production process provides a unique advantage by supplying a key raw material used by our Composite Fibers business unit. Sufficient quantities of abaca pulp and the source fiber are required to support growth in this business unit. In the event the supply of abaca fiber becomes constrained or when production demands exceed the capacity of the Philippines mill, alternative sources and/or substitute fibers are used to meet customer demands.

In addition to critical raw materials, the cost to produce Composite Fibers' products is influenced by energy costs. Although the business unit generates all of its steam needed for production, it purchases approximately 89% of its electricity.

In Composite Fibers' 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 believe we

have leading market positions for paper used in single-serve coffee and tea products and compete with companies such as Ahlstrom and Purico. In composite laminates we compete with PdM, a division of Schweitzer-Mauduit, Purico and MB Papeles and for metallized products, competitors include Vacumet, AR Metallizing, Amsterdam Metallized Products, and Wenzhou Protec Vacuum Metallizing Co. Ltd.

Our strategy in Composite Fibers is focused on:

- capturing global growth in food & beverage, technical specialties and composite laminates;

- expanding value-added production capacity by investing in state-of-the-art inclined wire technology to better ensure our capacity supports consistent growth of markets;

- capitalizing on rapidly growing markets;

- enhancing product mix across all of the business unit's markets by utilizing new product and new business development capabilities;

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implementing continuous improvement methodologies to increase productivity, reduce costs and expand capacity; and

ensuring readily available access to specialized raw material requirements to support projected growth.

The recently announced \$50 million investment to expand our inclined wire capacity by nearly 20%, or approximately 10,500 short tons, by converting a flat wire machine to a state-of-the-art inclined wire machine demonstrates our commitment to realizing the growth presented in this business unit's markets. The project is expected to be completed in the first quarter of 2013 and the new machine is expected to begin production in the second quarter of 2013. We expect to achieve a 15% to 20% after-tax return on this investment within three years.

**Advanced Airlaid Materials** was formed in connection with our February 2010 acquisition of Concert Industries Corp. (Concert). Advanced Airlaid Materials is a leading global supplier of highly absorbent cellulose-based airlaid non-woven materials used to manufacture consumer and industrial products for growing global end-user markets. These products include, but are not limited to:

feminine hygiene;

adult incontinence;

home care such as specialty wipes;

table top and towels; and

food pads and other.

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Advanced Airlaid Materials affords us the opportunity to grow with customers who are industry leading consumer product companies for feminine hygiene and adult incontinence products. Advanced Airlaid Materials holds leading market share positions in many of the markets it serves, excels in building long-term customer relationships through superior quality and customer service programs, and has a well-earned reputation for innovation and its ability to quickly bring new products to market.

Advanced Airlaid Materials' revenue composition by market consisted of the following for the years indicated:

| <i>In thousands</i> | 2011       | 2010       |
|---------------------|------------|------------|
| Feminine hygiene    | \$ 206,724 | \$ 157,691 |
| Adult incontinence  | 6,083      | 6,146      |
| Home care           | 24,492     | 17,902     |
| Food pads           | 9,526      | 8,200      |
| Other               | 5,222      | 3,560      |
| Total               | \$ 252,047 | \$ 193,499 |

Sales for the feminine hygiene category accounted for 82% of Advanced Airlaid Material's revenue in 2011. Sales in this market segment are to a small group of large, leading global consumer products companies. This market is considered to be more growth oriented driven by population growth in certain geographic regions, consumer preferences and suppliers' ability to provide innovative products. In developing regions, demand is also influenced by increases in disposable income and cultural preferences.

The Advanced Airlaid Materials business unit operates state-of-the-art facilities in Gatineau, Quebec, Canada and Falkenhagen, Brandenburg, Germany. The Gatineau location consists of two airlaid production lines employing multi-bonded and thermal-bonded airlaid technologies and, with the recently completed investment, two proprietary single-lane festooners. The Falkenhagen location operates three multi-bonded production lines and three proprietary single-lane festooners.

The business unit's two facilities operate with the following combined attributes:

| Airlaid Production Capacity (short tons) | Principal Raw Material ( PRM ) | Estimated Annual Quantity of PRM (short tons) |
|--|--------------------------------|---|
| 102,300                                  | Fluff pulp                     | 72,000  |

In addition to the cost of critical raw materials, the cost to produce multi-bonded and thermal-bonded airlaid materials is impacted by energy costs. Advanced Airlaid Materials purchases all of its electricity and natural gas.

Advanced Airlaid Materials continues to be a technology and product innovation leader in technically demanding segments of the airlaid market, most notably

feminine hygiene. We believe that its facilities are among the most modern and flexible airlaid facilities in the world, which allows it to produce at industry leading operating rates. Its proprietary single-lane rotary festooning technology, developed in 2002, provides customers with product packaged for efficient use. This business unit's in-house technical expertise, combined with significant capital investment requirements and rigorous customer expectations creates large barriers to entry for new competitors.

The airlaid industry is made up of several producers, including Buckeye Technologies Inc., Georgia-Pacific LLC, Duni AB, Petropar SA, McAirlaid's Vliestoffe GmbH & Co. KG, and us.

The markets served by this business unit are characterized by attractive growth opportunities. To take advantage of this, our strategy is focused on:

maintaining and expanding relationships with customers that are market-leading consumer product companies;

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expanding geographic reach of markets served;

optimizing the use of existing production capacity;

employing continuous improvement methodologies and initiatives to reduce costs and improve efficiencies; and

capitalizing on our product and process innovation capabilities.

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 23 including geographic revenue and long-lived asset financial information.

**Balance Sheet** We are focused on prudent financial management and the maintenance of a conservative capital structure and strong balance sheet. This includes:

aggressively managing working capital to enhance cash flow from operations;

making disciplined capital expenditure decisions; and

monetizing the value of our timberland assets as opportunities warrant.

The success of these actions positions us with the flexibility to pursue strategic opportunities that will benefit our shareholders.

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**Concentration of Customers** For each of the past three years, no single customer represented more than 10% of our consolidated net sales. However, as discussed in Item 1A Risk Factors, one customer accounted for the majority of Advanced Airlaid Materials net sales in 2011 and 2010.

**Capital Expenditures** Our business is capital intensive and requires extensive expenditures for new and enhanced equipment. These capital investments are necessary to support growth strategies, research and development initiatives, environmental compliance, and for normal upgrades or replacements. For 2012, capital expenditures are estimated to be \$95 million to \$105 million. This includes \$30 million to \$35 million of the \$50 million investment to expand capacity to serve Composite Fibers growth markets.

**Environmental Matters** We are subject to laws and regulations designed to protect the environment as well as human health and safety. We have, at various times, incurred significant costs to comply with these regulations, as new regulations are developed or regulatory priorities change. Currently, we anticipate that we could incur material capital and operating costs to comply with several air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT). For example, on March 21, 2011, the U. S. Environmental Protection Agency issued new rules which could require process modifications and/or installation of air pollution controls on power boilers at two of our U.S.- based facilities. We are currently reviewing these rules, and challenges to them filed by others in the court system, to understand the effect they may have on our operations if we are required to comply with the rules in their current form. We are also evaluating options that may be available to us, such as reducing or curtailing boiler usage or modifying the types of boilers operated or fuel consumed. The cost of compliance is likely to be significant. Our initial estimates to implement viable options could result in additional capital spending in excess of \$30 million, however, the amount ultimately incurred may be less depending on the outcome of challenges to current rules or on our successful implementation of appropriate available options. In addition, the timing of any additional capital spending is uncertain. Enactment of new environmental laws or regulations or changes in existing laws or regulations could significantly change our estimates. For a discussion of other environmental matters, see Item 8 Financial Statements and Supplementary Data Note 22.

**Employees** As of December 31, 2011, we employed 4,274 people worldwide, of which approximately 70% are unionized. The United Steelworkers International Union and the Office and Professional Employees International Union represents the 1,600 hourly employees at our Chillicothe, OH and Spring Grove, PA facilities under labor contracts expiring in August 2012 and January 2014, respectively. Hourly employees at each of our international locations are represented by various unions or works councils. We consider the overall relationship with our employees to be satisfactory.

**Other Available Information** Our website includes a Corporate Governance page consisting of, among others, our Governance Principles and Code of Business Conduct, and biographies of our Board of Directors and Executive Officers. In addition, the website includes the charters for the Audit, Compensation, Finance and Nominating and Corporate Governance Committees of the Board of Directors. The Corporate Governance page also includes the Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter, our whistle-blower policy and other related material. We 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 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 contacting Investor Relations at (717) 225-2724, [ir@glatfelter.com](mailto:ir@glatfelter.com) or by mail to 96 South George Street, Suite 520, York, PA, 17401.

### ***ITEM 1A RISK FACTORS***

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

Adverse global economic conditions could impact our target markets resulting in decreased demand for our products. Our results could be adversely affected if economic conditions 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.

The markets for our products are also significantly affected by changes in industry capacity and output levels.



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There have been periods of supply/demand imbalance in our industry which have caused pulp prices and our products' selling prices to be volatile. The timing and magnitude of price increases or decreases in these markets have generally varied by region and by product type. A sustained period of weak demand or excess supply would likely adversely affect pulp prices and our products' selling prices. This could have a material adverse effect on our operating and financial results.

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

We require access to sufficient and reasonably priced quantities of pulpwood, purchased pulps, pulp substitutes, abaca fiber, synthetic fibers and certain other raw materials. Our Spring Grove and Chillicothe locations are vertically integrated manufacturing facilities that generate approximately 85% of their annual pulp requirements.

Our Philippine mill purchases abaca fiber to produce abaca pulp, which we use to manufacture our paper for single-serve coffee, tea and technical specialty products at our Gernsbach, Scaër and Lydney facilities. At certain times in the past, the supply of abaca fiber has been constrained due to factors such as 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.

Our Advanced Airlaid Materials business unit requires access to sufficient quantities of fluff pulp, the supply of which is subject to availability of certain softwoods. Softwood availability can be limited by many factors, including weather in regions where softwoods are abundant.

The cost of many of our production materials, including petroleum based chemicals, and freight charges, are influenced by the cost of oil. In addition, coal is a principal source of fuel for both the Spring Grove and Chillicothe facilities and natural gas is used as a source of fuel for our Chillicothe facility, and the Composite Fibers and Advanced Airlaid Materials business units' facilities. In addition, our vendors' liquidity may be impacted by the economy creating supply shortages.

Although we have contractual cost pass-through arrangements with certain customers, we may not be able to fully pass increased raw materials or energy costs on to all 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 the past, global industries in which we compete have been adversely affected by capacity exceeding the demand for products and by declining uncoated free sheet demand. As a result, steps have been taken 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 producers to enter our 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;



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our failure to anticipate and respond to changing customer preferences;

the impact of electronic-based substitutes for certain of our products such as carbonless and forms, book publishing, and envelope;

the impact of replacement or disruptive technologies;

changes in end-user 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.

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*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 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 efficiently in research and development activities.

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. The Clean Air Act, and similar regulations, could impose significant compliance costs or require significant capital expenditures. 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.

Despite favorable rulings in the pending Fox River litigation, we continue to have exposure to liability for remediation and other costs related to the presence of polychlorinated biphenyls in the lower Fox River on which our former Neenah, Wisconsin mill was located. There can be no assurance that we will not be required to ultimately pay material amounts to resolve our liability in the Fox River matter. We have financial reserves for environmental matters, including the Fox River site, 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 complex and should be reviewed in context; please see a more detailed discussion of these matters in Item 8 Financial Statements and Supplementary Data Note 22.

*The Advanced Airlaid Materials business unit generates a substantial portion of its revenue from one customer serving the feminine hygiene and home care product markets, the loss of which could have a material adverse effect on our results of operations.*

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Advanced Airlaid Materials generates the majority of its net sales of feminine hygiene and home care products from one customer. The loss of this significant customer could have a material adverse effect on their operating results. In addition, sales in the feminine hygiene market accounted for 82% of Advanced Airlaid Materials' net sales in 2011 and sales are concentrated within a small group of large customers. A decline in sales of feminine hygiene products could have a material adverse effect on this unit's operating results. Customers in the airlaid non-woven fabric material market, including the feminine hygiene market, may also switch to less expensive products, change preferences or otherwise reduce demand for Advanced Airlaid Material's products, thus reducing the size of the markets in which it currently sells its products. Any of the foregoing could have a material adverse effect on our financial performance and business prospects.

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***Our operations may be impaired and we may be exposed to potential losses and liability as a result of natural disasters, acts of terrorism or sabotage or similar events.***

Natural disasters, such as earthquakes, flooding or fire, and acts of terrorism or sabotage affecting our operating activities and major facilities could materially and adversely affect our operations, our operating results and financial condition. In particular, we own and operate four dams in York County, Pennsylvania, that were built to ensure a steady supply of water for the operation of our paper mill in Spring Grove which is a primary manufacturing location for our envelope papers and engineered products. Each of these dams is classified as high hazard by the Commonwealth of Pennsylvania because they are located in close proximity to inhabited areas and sudden failure would endanger occupants or residential, commercial or industrial structures. Failure or breach of any of the dams, including as a result of natural disaster or act of terrorism or sabotage, could cause significant personal injuries and damage to residential and commercial property downstream for which we may be liable. The failure of a dam could also be extremely disruptive and result in damage to or the shutdown of our Spring Grove mill. Any losses or liabilities incurred due to the failure of one of our dams may not be fully covered by our insurance policies or may substantially exceed the limits of our policies, and could materially and adversely affect our operating results and financial condition.

In addition, many of our papermaking operations require a reliable and abundant supply of water. Such mills rely on a local water body or water source for their water needs and, therefore, are particularly impacted by drought conditions or other natural or manmade interruptions to its water supplies. At various times and for differing periods, each of our mills has had to modify operations due to water shortages or low flow conditions in its principal water supplies. Any interruption or curtailment of operations at any of our paper mills due to drought or low flow conditions at the principal water source or another cause could materially and adversely affect our operating results and financial condition.

Our pulp mill in Lanao del Norte on the Island of Mindanao in the Republic of the Philippines is located along the Pacific Rim in the world's hazard belt. By virtue of its geographic location, this mill is subject to, among other types of natural disasters, floods, droughts, cyclones, typhoons, earthquakes, windstorms and volcanic activity. Moreover, the area of Lanao del Norte has been a target of terrorist activities, including bombings, by suspected

members of the al-Qaeda-linked Islamist groups in the Philippines, such as the Abu Sayyaf and the Rajah Solaiman Group and other Islamic militant groups, most notably the Moro Islamic Liberation Front. The most common bomb targets in Lanao del Norte to date have been power transmission towers. Our pulp mill in Mindanao is located in a rural portion of the island and is susceptible to attacks or power interruptions. The Mindanao mill supplies approximately 80% of the abaca pulp that is used by our Composite Fibers business unit to manufacture our paper for single serve coffee and tea products and certain technical specialties. Any interruption, loss or extended curtailment of operations at our Mindanao mill could materially affect our operating results and financial condition.

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

Our pulp mill in the Philippines is located in a region that is unstable and subject to political unrest. As discussed above, our Philippine pulp mill produces abaca pulp, a significant raw material used by our Composite Fibers business unit, and 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 Canada, 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

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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.***

As we diversify our business and expand our global footprint, an increasing proportion of our revenue is generated outside of the United States. We also own and operate manufacturing facilities in Canada, Germany, France, the United Kingdom and the Philippines. Currently, the majority of our business is transacted in U.S. dollars; however, an increasing portion of business is transacted in Euros, British Pound Sterling, Canadian dollars or Philippine Peso. With respect to the Euro, we generate substantially greater cash inflow in this currency than we do outflow. However, with respect to the British Pound Sterling, Canadian dollar, and Philippine Peso, we have greater outflows than inflows of these currencies. As a result of these positions, we are exposed to changes in currency exchange rates. Uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations and actions proposed to restructure such obligations may cause the value of the euro to fluctuate further. In the event that one or more European countries were to replace the euro with another currency, business may be adversely affected until stable exchange rates are established.

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.

### ***An IRS audit of our 2009 tax return could result in a change in the tax treatment of the alternative fuel mixture credits we claimed in 2009, which could have a material adverse effect on our results of operations and financial position.***

The U.S. Internal Revenue Code, or the Code, provided a tax credit for companies that used alternative

fuel mixtures to produce energy to operate their businesses on or prior to December 31, 2009. During 2009, we registered two of our facilities with the IRS as alternative fuel mixers based on their use of black liquor as an alternative fuel source. For the year ended December 31, 2009, we had substantial alternative fuel mixture credits relating to these facilities. Our results of operations in 2009 included, on a pre-tax basis, \$107.8 million of alternative fuel mixture credits all of which has been used or realized in cash. In the event that the IRS audits our tax return for the year ended December 31, 2009, the IRS may conclude that some or all of the credits claimed are subject to federal income taxes, which would subject us to additional tax liabilities and could have a material adverse effect on our results of operations and financial position.

### ***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 to support growth strategies, research and development initiatives, environmental compliance, and for normal upgrades or replacements. 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 1B UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2 PROPERTIES**

We own substantially all of the land and buildings comprising our manufacturing facilities located in Pennsylvania; Ohio; Canada; the United Kingdom; Germany; France; and the Philippines. Substantially all of the equipment used in our manufacturing and related operations is also owned. Our metallized paper production facility located in Caerphilly, Wales leases the building and land associated with its operations. We also lease office and warehouse space in Moscow, Russia, as well as our corporate offices located in York, Pennsylvania. All of our



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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.

**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 22.

**EXECUTIVE OFFICERS**

The following table sets forth certain information with respect to our executive officers and senior management as of March 9, 2012.

| Name                    | Age | Office with the Company  |
|-------------------------|-----|--|
| Dante C. Parrini        | 47  | Chairman and Chief Executive Officer                                       |
| John P. Jacunski        | 46  | Senior Vice President and Chief Financial Officer                          |
| Christopher W. Astley   | 39  | Vice President, Corporate Strategy   |
| Jonathan A. Bourget     | 47  | Vice President & General Manager, Advanced Airlaid Materials Business Unit |
| David C. Elder          | 43  | Vice President, Finance  |
| Michael L. Korniczky    | 46  | Vice President, General Counsel and Corporate Secretary                    |
| Debabrata Mukherjee     | 42  | Vice President & General Manager, Specialty Papers Business Unit           |
| Martin Rapp             | 52  | Vice President & General Manager, Composite Fibers Business Unit           |
| Mark A. Sullivan        | 57  | Vice President Global Supply Chain   |
| William T. Yanavitch II | 51  | Vice President Human Resources and Administration                          |

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.

**Dante C. Parrini** became Chief Executive Officer effective January 1, 2011 and Chairman of the Board in May 2011. Prior to this appointment, he was Executive Vice President and Chief Operating Officer, a position he

held since February 2005. Mr. Parrini joined us in 1997 and has previously served as Senior Vice President and General Manager, a position he held beginning in January 2003 and prior to that as Vice President responsible for Sales and Marketing.

**John P. Jacunski** became Senior Vice President and 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.

**Christopher W. Astley** joined us in August 2010 as Vice President Corporate Strategy. He has over fifteen years experience as an advisor and practitioner leading critical strategic and tactical corporate initiatives for natural resource companies, with a focus since 1999 on the pulp, paper, and packaging industries. Mr. Astley previously held positions with Accenture, a global management consulting firm, and The Coca-Cola Company, as well as successfully leading a privately held business for several years.

**Jonathan A. Bourget** joined us in July 2010 as Vice President & General Manager, Advanced Airlaid Materials Business Unit. From 2008 until joining our Company, Mr. Bourget was Vice President & General Manager of European operations at Polymer Group Inc. Prior to this, he held various positions of increasing responsibility, including General Manager Specialties Division in Europe, with Alcoa Inc.

**David C. Elder** was promoted to Vice President, Finance in December 2011 and continues as our Chief Accounting Officer. Prior to his promotion, he was our Vice President, Corporate Controller, a position held since joining Glatfelter in January 2006. Mr. Elder was previously

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Corporate Controller for YORK International Corporation and prior to that he was the Director, Financial Planning and Analysis for that company.

**Michael L. Korniczky** joined us in January 2012 as Vice President, General Counsel and Corporate Secretary. Prior to joining us, Mr. Korniczky was Chief Administrative Officer, General Counsel and Secretary for Graham Packaging Company Inc. since March 2007 and was previously Assistant General Counsel at Crown Holdings, Inc. from 1998 to 2007.

**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

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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 through 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.

**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 twenty years with the DuPont Company.

**William T. Yanavitch II** was appointed Vice President, Human Resources and Administration in May 2005. Mr. Yanavitch briefly worked with Constellation Energy in Human Resources from February 2005 – May 2005. He served as our Vice President Human Resources from July 2000 until January 2005. Prior to joining us he worked for Dentsply International and Gould Pumps Inc. in various leadership capacities.

**ITEM 4 MINE SAFETY DISCLOSURES**

*Not Applicable*

**PART II****ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Common Stock Prices and Dividends Declared Information**

The following table shows the high and low prices of our common stock traded on the New York Stock Exchange

under the symbol GLT and the dividend declared per share for each quarter during the past two years.

| Quarter       | High           | Low            | Dividend      |
|---------------|----------------|----------------|---------------|
| <b>2011</b>   |                |                |               |
| <b>Fourth</b> | <b>\$15.79</b> | <b>\$12.46</b> | <b>\$0.09</b> |
| <b>Third</b>  | <b>16.03</b>   | <b>11.73</b>   | <b>0.09</b>   |
| <b>Second</b> | <b>15.51</b>   | <b>12.65</b>   | <b>0.09</b>   |
| <b>First</b>  | <b>13.40</b>   | <b>11.00</b>   | <b>0.09</b>   |
| 2010          |                |                |               |
| Fourth        | \$13.37        | \$11.62        | \$0.09        |
| Third         | 12.65          | 10.08          | 0.09          |
| Second        | 15.49          | 10.62          | 0.09          |
| First         | 15.05          | 12.32          | 0.09          |

As of March 7, 2012, we had 1,367 shareholders of record.

**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. For the year ended December 31, 2011, we compare our stock performance to the S&P Small Cap 600 Paper Products index comprised of Buckeye Technologies Inc., Clearwater Paper Corp., Kapstone Paper & Packaging Corp., 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 benchmark index for stocks such as ours.

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The graph assumes that the value of the investment in our common stock, in each index, and the peer group (including reinvestment of dividends) was \$100 on December 31, 2006 and charts it through December 31, 2011.

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As of or for the year ended December 31

| <i>Dollars in thousands, except per share</i>                  | 2011                     | 2010 <sup>(2)</sup>      | 2009 <sup>(4)</sup> | 2008         | 2007                     |
|--|--------------------------|--------------------------|---------------------|--------------|--------------------------|
| Net sales  | \$ 1,603,154             | \$ 1,455,331             | \$ 1,184,010        | \$ 1,263,850 | \$ 1,148,323             |
| Energy and related sales, net                                  | 9,344                    | 10,653                   | 13,332              | 9,364        | 9,445                    |
| Total revenue  | 1,612,498                | 1,465,984                | 1,197,342           | 1,273,214    | 1,157,768                |
| Reversal of (charges for) shutdown and restructuring           |                          |                          |                     | 856          | (35)                     |
| Gains on dispositions of plant, equipment and timberlands, net | 3,950                    | 453                      | 898                 | 18,468       | 78,685                   |
| Net income   | \$ 42,694 <sup>(1)</sup> | \$ 54,434 <sup>(3)</sup> | \$ 123,442          | \$ 57,888    | \$ 63,472 <sup>(5)</sup> |
| Earnings per share   |                          |                          |                     |              |                          |
| Basic  | \$ 0.94                  | \$ 1.19                  | \$ 2.70             | \$ 1.28      | \$ 1.41                  |
| Diluted  | 0.93                     | 1.17                     | 2.70                | 1.27         | 1.40                     |
| Total assets   | 1,136,925                | \$ 1,341,747             | \$ 1,190,294        | \$ 1,057,309 | \$ 1,287,067             |
| Total debt   | 227,000                  | 333,022                  | 254,583             | 313,285      | 313,185                  |
| Shareholders' equity   | 490,404                  | 552,442                  | 510,704             | 342,707      | 476,068                  |
| Cash dividends declared per common share                       | 0.36                     | 0.36                     | 0.36                | 0.36         | 0.36                     |
| Depreciation, depletion and amortization                       | 69,313                   | 65,839                   | 61,256              | 60,611       | 56,001                   |
| Capital expenditures   | 64,491                   | 36,491                   | 26,257              | 52,469       | 28,960                   |
| Shares outstanding   | 42,650                   | 45,976                   | 45,706              | 45,434       | 45,141                   |
| Net tons sold  | 960,915                  | 927,853                  | 818,905             | 829,354      | 799,512                  |
| Number of employees  | 4,274                    | 4,337                    | 3,546               | 3,633        | 3,854                    |

(1) During 2011, we recorded after-tax charges totaling \$6.1 million related to the write-off of unamortized deferred issuance costs and original issue discount and the redemption premium in connection with the early redemption of \$100.0 million of bonds.

(2) The information set forth above for 2010 includes the financial information for Concert Industries Corp. prospectively from the February 12, 2010 acquisition date.

(3) During 2010, net income included a \$23.2 million tax benefit from cellulosic biofuel production credits.

(4) During 2009, we recognized \$107.8 million of alternative fuel mixture credits, all of which were recorded as a reduction to cost of products sold.

(5) During 2007, we recorded a \$16.0 million after-tax charge to increase our reserve for the Fox River environmental matter.

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

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

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

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

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

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

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

*Specialty Papers* with revenue from the sale of carbonless papers and forms, book publishing, envelope & converting papers, and fiber-based engineered products;

*Composite Fibers* with revenue from the sale of single-serve coffee and tea filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and other technical specialty papers; and

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

**Overview** For the year ended December 31, 2011, net income was \$42.7 million, or \$0.93 per diluted share, compared with net income of \$54.4 million, or \$1.17 per diluted share, in 2010. The amounts reported for 2011 include after-tax charges totaling \$7.5 million for costs

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incurred to redeem \$100.0 million of fixed-rate bonds, acquisition and integration expenses and work force efficiency actions. In addition, 2011 net income includes \$4.2 million in gains from timberland sales and the release of tax reserves on prior timberland sales.

On February 12, 2010, we completed the acquisition of Concert Industries Corp. ( Concert ), a manufacturer of highly absorbent cellulose-based airlaid non-woven materials. Our results of operations for 2010 include the results of Concert (now operated as the Advanced Airlaid Materials business unit) prospectively since the acquisition was completed. Our 2010 results also include \$9.1 million, after-tax, of acquisition and integration costs, together with a \$1.7 million loss on forward foreign currency contracts that hedged the Canadian dollar purchase price, of the Concert acquisition. In addition, our results in 2010 benefited from \$23.2 million of tax credits from cellulosic biofuel production tax credits and \$1.1 million of after-tax gains from sales of timberlands.

Operationally, our results were favorably affected by higher volumes shipped associated with improving demand in many of the markets served by our businesses, the inclusion of Advanced Airlaid Materials for a full year and the benefits of profit improvement initiatives in this business unit. Higher average selling prices nearly offset the adverse affect of rising input costs, particularly purchased pulp.

Specialty Papers' operating income totaled \$57.3 million and \$58.4 million for 2011 and 2010, respectively. This unit's profitability was adversely impacted by rising input costs that more than offset benefits from higher volumes shipped, higher average selling prices and cost reduction initiatives.

Our Composite Fibers business unit's operating income increased to \$40.8 million from \$32.9 million in 2010. Volumes shipped during 2011 increased 3.2% compared to 2010 and the mix of products sold was favorable primarily due to growth in single-serve coffee products. In addition, production and waste efficiency improved.

Advanced Airlaid Materials' operating income totaled \$13.4 million in 2011 compared with \$4.4 million of 2010 reflecting higher selling prices and volumes shipped, as well as profit improvement initiatives implemented to improve production and reduce waste.

**RESULTS OF OPERATIONS****2011 versus 2010**

The following table sets forth summarized consolidated results of operations:

| <i>In thousands, except per share</i> | Year Ended December 31 |              |
|---------------------------------------|------------------------|--------------|
|                                       | 2011                   | 2010         |
| Net sales                             | \$ 1,603,154           | \$ 1,455,331 |
| Gross profit                          | 206,193                | 186,247      |
| Operating income                      | 85,272                 | 64,589       |
| Net income                            | 42,694                 | 54,434       |
| Earnings per diluted share            | 0.93                   | 1.17         |

The consolidated results of operations for 2011 and 2010 include the following items not considered to be part of our core business operations:

| <i>In thousands, except per share</i>               | After-tax     |             |
|---|---------------|-------------|
|   | Income (loss) | Diluted EPS |
| <b>2011</b>   |               |             |
| Early redemption of \$100 million bonds             | \$ (6,065)    | \$ (0.13)   |
| Charge for workforce efficiencies                   | (652)         | (0.01)      |
| Acquisition and integration costs                   | (792)         | (0.02)      |
| Timberland sales and related transaction costs      | 4,160         | 0.09        |
| <b>2010</b>   |               |             |
| Cellulosic biofuel/alternative fuel mixture credits | \$ 23,184     | \$ 0.50     |
| Acquisition and integration costs                   | (9,073)       | (0.20)      |
| Foreign currency hedge on acquisition price         | (1,673)       | (0.04)      |
| Timberland sales and related transaction costs      | 1,063         | 0.02        |

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During 2011, the aggregate effect of the unusual items set forth above decreased earnings by \$3.3 million, or \$0.07 per diluted share. In 2010, the items set forth above increased earnings by \$13.5 million, or \$0.28 per diluted share in 2010.

**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

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

Management evaluates results of operations of the business units before pension income or expense, alternative fuel mixture credits, debt redemption costs, restructuring related charges, certain corporate level costs, and the effects of asset dispositions. Management believes

that this is a more meaningful representation of the operating performance of its core businesses, the profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is aligned with the management and operating structure of our company. It is also on this basis that the Company's performance is evaluated internally and by the Company's Board of Directors.

| <i>Dollars in millions</i>                                | Year ended December 31 |          |                  |          |                            |          |                       |           |            |            |
|---|------------------------|----------|------------------|----------|----------------------------|----------|-----------------------|-----------|------------|------------|
|   | Specialty Papers       |          | Composite Fibers |          | Advanced Airlaid Materials |          | Other and Unallocated |           | Total      |            |
|   | 2011                   | 2010     | 2011             | 2010     | 2011                       | 2010     | 2011                  | 2010      | 2011       | 2010       |
| Net sales   | \$ 875.1               | \$ 842.6 | \$ 476.0         | \$ 419.2 | \$ 252.0                   | \$ 193.5 | \$                    | \$        | \$ 1,603.2 | \$ 1,455.3 |
| Energy and related sales, net                             | 9.3                    | 10.7     |                  |          |                            |          |                       |           | 9.3        | 10.7       |
| Total revenue   | 884.4                  | 853.3    | 476.0            | 419.2    | 252.0                      | 193.5    |                       |           | 1,612.5    | 1,466.0    |
| Cost of products sold                                     | 775.7                  | 740.2    | 395.7            | 350.5    | 227.7                      | 181.7    | 7.2                   | 7.4       | 1,406.3    | 1,279.7    |
| Gross profit  | 108.7                  | 113.1    | 80.3             | 68.7     | 24.3                       | 11.8     | (7.2)                 | (7.4)     | 206.2      | 186.2      |
| SG&A  | 51.4                   | 54.7     | 39.5             | 35.8     | 10.9                       | 7.4      | 23.0                  | 24.3      | 124.9      | 122.1      |
| Gains on dispositions of plant, equipment and timberlands |                        |          |                  |          |                            |          | (4.0)                 | (0.5)     | (4.0)      | (0.5)      |
| Total operating income (loss)                             | 57.3                   | 58.4     | 40.8             | 32.9     | 13.4                       | 4.4      | (26.2)                | (31.2)    | 85.3       | 64.6       |
| Other non-operating income (expense)                      |                        |          |                  |          |                            |          | (34.4)                | (31.1)    | (34.4)     | (31.1)     |
| Income (loss) before income taxes                         | \$ 57.3                | \$ 58.4  | \$ 40.8          | \$ 32.9  | \$ 13.4                    | \$ 4.4   | \$ (60.7)             | \$ (62.3) | \$ 50.8    | \$ 33.5    |
| <b>Supplementary Data</b>                                 |                        |          |                  |          |                            |          |                       |           |            |            |
| Net tons sold   | 779.6                  | 764.7    | 93.3             | 90.4     | 88.0                       | 72.8     |                       |           | 960.9      | 927.9      |
| Depreciation, depletion and amortization                  | \$ 36.0                | \$ 34.9  | \$ 24.8          | \$ 23.7  | \$ 8.5                     | \$ 7.2   | \$                    | \$        | \$ 69.3    | \$ 65.8    |
| Capital expenditures                                      | 31.4                   | 24.1     | 22.5             | 8.2      | 10.6                       | 4.2      |                       |           | 64.5       | 36.5       |

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

**Sales and Costs of Products Sold**

| <i>In thousands</i>                    | Year Ended December 31 |              |            |
|--|------------------------|--------------|------------|
|  | 2011                   | 2010         | Change     |
| Net sales                              | \$ 1,603,154           | \$ 1,455,331 | \$ 147,823 |
| Energy and related sales net           | 9,344                  | 10,653       | (1,309)    |
| Total revenues                         | 1,612,498              | 1,465,984    | 146,514    |
| Costs of products sold                 | 1,406,305              | 1,279,737    | 126,568    |
| Gross profit                           | \$ 206,193             | \$ 186,247   | \$ 19,946  |
| Gross profit as a percent of Net sales | 12.9%                  | 12.8%        |            |

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

Percent of total



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|                            | 2011   | 2010   |
|----------------------------|--------|--------|
| <b>Business Unit</b>       |        |        |
| Specialty Papers           | 54.6%  | 57.9%  |
| Composite Fibers           | 29.7   | 28.8   |
| Advanced Airlaid Materials | 15.7   | 13.3   |
| Total                      | 100.0% | 100.0% |

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Net sales for 2011 were \$1,603.2 million, a 10.2% increase compared with \$1,455.3 million for 2010, reflecting stronger business activity in the our Composite Fibers and Advanced Airlaid Materials business units together with more favorable selling prices in all businesses. Advanced Airlaid Materials business unit is included for a full year in 2011 compared with only prospectively from the February 12, 2010 acquisition date in the prior year amounts.

In the Specialty Papers business unit, net sales for 2011 increased \$32.5 million, or 3.9%, to \$875.1 million. The increase was primarily due to a \$27.3 million benefit from higher selling prices and a 2.0% increase in volumes shipped.

Specialty Papers' operating profit for 2011 declined by \$1.1 million compared with 2010 primarily due to pressure on margins as higher input costs of \$28.4 million offset benefits of higher selling prices. Net energy revenue declined in the comparison of 2011 to 2010 by \$1.3 million.

We sell excess power generated by the Spring Grove, PA facility. In addition, two of our facilities are registered generators of renewable energy credits ( RECs ). The following table summarizes this activity for 2011 and 2010:

| <i>In thousands</i>      | 2011      | 2010      | Change     |
|--------------------------|-----------|-----------|------------|
| Energy sales             | \$ 10,992 | \$ 14,296 | \$ (3,304) |
| Costs to produce         | (9,319)   | (10,403)  | 1,084      |
| Net                      | 1,673     | 3,893     | (2,220)    |
| Renewable energy credits | 7,671     | 6,760     | 911        |
| Total                    | \$ 9,344  | \$ 10,653 | \$ (1,309) |

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

In Composite Fibers, net sales for 2011 were \$476.0 million, an increase of \$56.8 million, or 13.5%, from 2010. The improvement primarily reflects growth in food & beverage market segment, particularly single-serve coffee products. Volumes shipped increased 3.3%, and on a constant currency basis, average selling prices benefitted the comparison by \$13.0 million, and the translation of foreign currencies favorably affected net sales by approximately \$17.0 million.

Composite Fibers' operating profit increased \$7.9 million, or 24.0%, in the year over year comparison. The improved performance was driven by higher selling prices as well as improved operating rates, efficiency gains related to continuous improvement initiatives and the impact of an improved mix of products sold. The combination of these factors more than offset the \$10.0 million negative impact of higher input costs, primarily related to woodpulp, synthetic fibers and energy. Foreign currency translation unfavorably impacted operating income by \$0.5 million.

In Advanced Airlaid Materials, net sales were \$252.0 million, an increase of \$58.5 million, due to including a full period's results in 2011, higher selling prices and improved demand. The results for 2010 were included prospectively from the February 12, 2010 acquisition date. Higher selling prices benefitted the comparison by \$12.3 million but were offset by \$12.1 million of higher input costs. Operating income increased \$9.0 million primarily due to higher volumes shipped, increased selling prices, improved operating efficiencies and a benefit in the comparison of a non-recurring \$1.4 million charge in 2010 to cost of products sold for the write up of acquired inventory to fair value. Foreign currency translation unfavorably impacted operating income by \$0.4 million.

**Pension Expense** The following table summarizes the amounts of pension expense recognized for 2011 compared to 2010:

| <i>In thousands</i>    | Year Ended December 31 |          |          |
|------------------------|------------------------|----------|----------|
| <i>Recorded as:</i>    | 2011                   | 2010     | Change   |
| Costs of products sold | \$ 6,735               | \$ 7,056 | \$ (321) |
| SG&A expense           | 3,645                  | 2,185    | 1,460    |
| Total                  | \$ 10,380              | \$ 9,241 | \$ 1,139 |

The amount set forth above for pension expense recorded as selling, general and administrative ( SG&A ) expense in 2011 includes a \$2.0 million one-time pension settlement charge recorded in connection with the retirement of our former Chief Executive Officer.

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The amount of pension expense recognized each year is determined using various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets as of the beginning of the year. Pension expense in 2012 is expected to be higher than 2011 due to lower discount rates and the amortization of actuarial losses primarily related to lower returns on pension assets.

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**Selling, General & Administrative** SG&A expenses increased \$2.8 million in the year-to-year comparison and totaled \$124.9 million for 2011. The increase was primarily due to legal and professional fees and the inclusion of Advanced Airlaid Materials for a full year in 2011 compared with only prospectively from the February acquisition date in 2010.

**Gain on Sales of Plant, Equipment and Timberlands, net** During the years ended December 31, 2011 and 2010, we completed the following sales of assets:

| <i>Dollars in thousands</i> | Acres | Proceeds | Gain     |
|-----------------------------|-------|----------|----------|
| <b>2011</b>                 |       |          |          |
| Timberlands                 | 942   | \$ 3,821 | \$ 3,590 |
| Other                       | n/a   | 670      | 360      |
| Total                       |       | \$ 4,491 | \$ 3,950 |
| <b>2010</b>                 |       |          |          |
| Timberlands                 | 164   | \$ 387   | \$ 373   |
| Other                       | n/a   | 177      | 80       |
| Total                       |       | \$ 564   | \$ 453   |

In connection with each of the asset sales set forth above, we received cash proceeds.

**Interest expense** Interest expense totaled \$31.8 million for 2011, a \$6.2 million increase compared with 2010. The increase was primarily due to the write-off of unamortized deferred debt issuance costs and the remaining balance of the original issue discount aggregating \$5.9 million in connection with the early redemption of \$100 million of bonds. As a result of the debt redemption and amendments to our revolving credit agreement, interest expense is expected to be lower in 2012 than 2011.

**Other nonoperating income (expense)** For the year ended December 31, 2011, consolidated other non operating expense, net totaled \$3.3 million and primarily includes the \$3.6 million redemption premium incurred in connection with the bond retirement discussed above. In 2010, other non operating expense, net totaled \$6.3 million and represented a \$3.4 million loss on a series of forward foreign currency contracts to hedge the Concert acquisition's Canadian dollar purchase price. In addition, in connection with purchase accounting for the Concert transaction, we recorded a \$2.5 million reserve for tax risks, inclusive of accrued interest, existing at the time of the acquisition and at the same time recorded a \$2.5 million receivable from the seller due to an indemnification agreement. During the fourth quarter, a tax ruling was issued that eliminated this tax risk and as a result we recognized an expense of \$2.5 million which is presented

under the caption Other net in the accompanying consolidated statements of income to eliminate the receivable from the seller. We also recognized a \$2.5 million tax benefit for this same item to eliminate the tax reserve previously established resulting in no net impact to earnings during 2010.

**Income taxes** In 2011, income tax expense totaled \$8.2 million on pre-tax income of \$50.8 million. Tax expense in 2011 includes a net \$5.2 million income tax benefit realized in connection with the resolution of certain foreign tax audits, and expiration of statutes of limitation, partially offset by an increase in the valuation allowance on certain net operating loss carryforwards. For 2010, we recorded income tax benefits of \$20.9 million on \$33.5 million of pretax income. The benefit in 2010 was due to \$23.2 million of cellulosic biofuel credits, net, recorded as an income tax benefit in 2010 as discussed further below. We also recorded the \$2.5 million tax benefit discussed in the previous paragraph, as well as a \$6.4 million adjustment to reduce tax liabilities resulting from the expiration of statutes of limitations on uncertain tax positions and other factors.

**Foreign Currency** In 2011, we owned and operated manufacturing facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency in Canada is the U.S. dollar, in Germany and France the Euro, in the UK it is the British Pound Sterling, and in the Philippines it is the Peso. During 2011, Euro functional currency operations generated approximately 28.7% of our sales and 27.2% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.4% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates. The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operation's results:

In thousands

Year Ended  
December 31, 2011

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|                        | <b>Favorable<br/>(unfavorable)</b> |
|------------------------|------------------------------------|
| Net sales              | \$ 23,625                          |
| Costs of products sold | (22,380)                           |
| SG&A expenses          | (2,117)                            |
| Income taxes and other | (352)                              |
| Net income             | \$ (1,224)                         |

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The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2011 were the same as 2010. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in multi-currency markets.

**2010 versus 2009**

The following table sets forth summarized consolidated results of operations:

| In thousands, except per share | Year Ended December 31 |              |
|--------------------------------|------------------------|--------------|
|                                | 2010                   | 2009         |
| Net sales                      | \$ 1,455,331           | \$ 1,184,010 |
| Gross profit                   | 186,247                | 269,764      |
| Operating income               | 64,589                 | 160,405      |
| Net income                     | 54,434                 | 123,442      |
| Earnings per diluted share     | 1.17                   | 2.70         |

The consolidated results of operations for 2010 and 2009 include the following items not considered to be part of our core business operations:

| In thousands, except per share                      | After-tax     |             |
|---|---------------|-------------|
|   | Income (loss) | Diluted EPS |
| 2010  |               |             |
| Cellulosic biofuel/alternative fuel mixture credits | \$ 23,184     | \$ 0.50     |
| Acquisition and integration costs                   | (9,073)       | (0.20)      |
| Foreign currency hedge on acquisition price         | (1,673)       | (0.04)      |
| Timberland sales and related transaction costs      | 1,063         | 0.02        |
| 2009  |               |             |
| Alternative fuel mixture credits                    | \$ 95,764     | \$ 2.09     |
| Acquisition related costs                           | (1,768)       | (0.04)      |

These items increased earnings by \$13.5 million, or \$0.28 per diluted share in 2010. Comparatively, the items identified above increased earnings in 2009 by \$94.0 million, or \$2.05 per diluted share.

| In millions   | Year ended December 31 |          |                  |          |                            |      |                       |         |            |            |
|---|------------------------|----------|------------------|----------|----------------------------|------|-----------------------|---------|------------|------------|
|   | Specialty Papers       |          | Composite Fibers |          | Advanced Airlaid Materials |      | Other and Unallocated |         | Total      |            |
|   | 2010                   | 2009     | 2010             | 2009     | 2010                       | 2009 | 2010                  | 2009    | 2010       | 2009       |
| Net sales   | \$ 842.6               | \$ 791.9 | \$ 419.2         | \$ 392.1 | \$ 193.5                   | \$   | \$                    | \$      | \$ 1,455.3 | \$ 1,184.0 |
| Energy and related sales, net                             | 10.7                   | 13.3     |                  |          |                            |      |                       |         | 10.7       | 13.3       |
| Total revenue   | 853.3                  | 805.2    | 419.2            | 392.1    | 193.5                      |      |                       |         | 1,466.0    | 1,197.3    |
| Cost of products sold                                     | 740.2                  | 693.9    | 350.5            | 334.4    | 181.7                      |      | 7.4                   | (100.7) | 1,279.7    | 927.6      |
| Gross profit  | 113.1                  | 111.3    | 68.7             | 57.7     | 11.8                       |      | (7.4)                 | 100.7   | 186.2      | 269.8      |
| SG&A  | 54.7                   | 55.4     | 35.8             | 35.8     | 7.4                        |      | 24.3                  | 19.1    | 122.1      | 110.3      |
| Gains on dispositions of plant, equipment and timberlands |                        |          |                  |          |                            |      | (0.5)                 | (0.9)   | (0.5)      | (0.9)      |
| Total operating income (loss)                             | 58.4                   | 55.9     | 32.9             | 21.9     | 4.4                        |      | (31.2)                | 82.6    | 64.6       | 160.4      |
| Other non-operating income (expense)                      |                        |          |                  |          |                            |      | (31.1)                | (17.3)  | (31.1)     | (17.3)     |
| Income (loss) before income taxes                         | \$ 58.4                | \$ 55.9  | \$ 32.9          | \$ 21.9  | \$ 4.4                     | \$   | \$ (62.3)             | \$ 65.3 | \$ 33.5    | \$ 143.1   |
| <b>Supplementary Data</b>                                 |                        |          |                  |          |                            |      |                       |         |            |            |
| Net tons sold   | 764.7                  | 738.8    | 90.4             | 80.1     | 72.8                       |      |                       |         | 927.9      | 818.9      |
| Depreciation, depletion and amortization                  | \$ 34.9                | \$ 37.5  | \$ 23.7          | \$ 23.7  | \$ 7.2                     | \$   | \$                    | \$      | \$ 65.8    | \$ 61.3    |
| Capital expenditures                                      | 24.1                   | 14.2     | 8.2              | 12.1     | 4.2                        |      |                       |         | 36.5       | 26.3       |

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

### Sales and Costs of Products Sold

| <i>In thousands</i>                    | Year Ended December 31 |              |             |
|--|------------------------|--------------|-------------|
|  | 2010                   | 2009         | Change      |
| Net sales                              | \$ 1,455,331           | \$ 1,184,010 | \$ 271,321  |
| Energy and related sales net           | 10,653                 | 13,332       | (2,679)     |
| Total revenues                         | 1,465,984              | 1,197,342    | 268,642     |
| Costs of products sold <sup>(1)</sup>  | 1,279,737              | 927,578      | 352,159     |
| Gross profit                           | \$ 186,247             | \$ 269,764   | \$ (83,517) |
| Gross profit as a percent of Net sales | 12.8%                  | 22.8%        |             |

(1) 2009 includes \$107.8 million of alternative fuel mixture credits, net of related expenses.

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

| <b>Business Unit</b>       | Percent of total |        |
|----------------------------|------------------|--------|
|                            | 2010             | 2009   |
| Specialty Papers           | 57.9%            | 66.9%  |
| Composite Fibers           | 28.8             | 33.1   |
| Advanced Airlaid Materials | 13.3             |        |
| Total                      | 100.0%           | 100.0% |

Net sales for 2010 were \$1,445.3 million, a 22.9% increase compared with \$1,184.0 million for 2009, reflecting stronger business activity in the our Specialty Papers and Composite Fibers business units and the inclusion of Concert, operated and reported as Advanced

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Airlaid Materials business unit, prospectively since the February 12, 2010 acquisition date.

In the Specialty Papers business unit, net sales for 2010 increased \$50.7 million, or 6.4%, to \$842.6 million. The increase was primarily due to higher volumes shipped and a \$24.0 million benefit from higher selling prices.

Specialty Papers' operating profit for 2010 improved by \$2.5 million compared with 2009 primarily due to higher selling prices, a 3.5% increase in volumes shipped and the lack of market related downtime. These favorable factors were partially offset by higher input costs, primarily pulp. In addition, higher maintenance costs largely associated with the annual mill outages and with unplanned production interruptions adversely impacted the year over year comparison.

We sell excess power generated by the Spring Grove, PA facility. In addition, two of our facilities are registered generators of renewable energy credits ( RECs ). The following table summarizes this activity for 2010 and 2009:

| <i>In thousands</i>      | 2010      | 2009      | Change     |
|--------------------------|-----------|-----------|------------|
| Energy sales             | \$ 14,296 | \$ 20,128 | \$ (5,832) |
| Costs to produce         | (10,403)  | (11,883)  | 1,480      |
| Net                      | 3,893     | 8,245     | (4,352)    |
| Renewable energy credits | 6,760     | 5,087     | 1,673      |
| Total                    | \$ 10,653 | \$ 13,332 | \$ (2,679) |

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

In Composite Fibers, net sales for 2010 were \$419.2 million, an increase of \$27.1 million, or 6.9%, from 2009. The improvement reflects strengthening demand in each of its product lines as volumes shipped increased 12.9%. On a constant currency basis, average selling prices were lower by \$1.0 million, and the translation of foreign currencies unfavorably affected net sales by approximately \$15.0 million.

Composite Fibers' operating profit increased \$11.0 million, or 50.2%, in the year-over-year comparison. The improved performance was driven by the \$10.8 million combined benefit from improved demand in markets served resulting in higher shipments and the elimination of market driven downtime. In addition, the production efficiencies from

continuous improvement initiatives more than offset the adverse effect of foreign currency translation adjustments.

Results for Advanced Airlaid Materials are included from February 12, 2010, the date of the Concert acquisition. This business unit's results were unfavorably affected by rising input costs that outpaced the timing of increases in selling prices. In addition, results were adversely impacted by operating inefficiencies and by \$1.4 million as a result of charging cost of products sold for the write-up of acquired inventory to fair value.

**Alternative Fuel Mixture Credits** The U.S. Internal Revenue Code provided a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to \$0.50 per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. On May 11, 2009, we were notified by the Internal Revenue Service that our application to be registered as an alternative fuel mixer was approved. During 2009, we mixed and burned eligible alternative fuels, and earned \$107.8 million of alternative fuel mixture credits. We record all alternative fuel mixture credits as a reduction to cost of goods sold.

According to the Internal Revenue Code, the tax credit expired on December 31, 2009.

**Pension Expense** The following table summarizes the amounts of pension expense recognized for 2010 compared to 2009:

| <i>In thousands</i> | Year Ended December 31 |      | Change |
|---------------------|------------------------|------|--------|
|                     | 2010                   | 2009 |        |
| <i>Recorded as:</i> |                        |      |        |



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|                        |         |         |         |
|------------------------|---------|---------|---------|
| Costs of products sold | \$7,056 | \$4,936 | \$2,120 |
| SG&A expense           | 2,185   | 2,097   | 88      |
| Total                  | \$9,241 | \$7,033 | \$2,208 |

The amount of pension expense recognized each year is determined using various actuarial assumptions and certain other factors, including discount rates and the fair value of our pension assets as of the beginning of the year. The primary reason for the increase in pension expense in the comparison is due to decreases in discount rates used.

**Selling, General & Administrative** SG&A expenses increased \$11.9 million in the year-to-year comparison and totaled \$122.1 million for 2010. The increase was substantially all related to legal and professional fees related to the Concert acquisition, costs to integrate the acquired entities and the inclusion of its operations prospectively from the date of acquisition.

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**Gain on Sales of Plant, Equipment and Timberlands, net** During the years ended December 31, 2010 and 2009, we completed the following sales of assets:

| <i>Dollars in thousands</i> | Acres | Proceeds | Gain   |
|-----------------------------|-------|----------|--------|
| 2010                        |       |          |        |
| Timberlands                 | 164   | \$ 387   | \$ 373 |
| Other                       | n/a   | 177      | 80     |
| Total                       |       | \$ 564   | \$ 453 |
| 2009                        |       |          |        |
| Timberlands                 | 319   | \$ 951   | \$ 906 |
| Other                       | n/a   |          | (8)    |
| Total                       |       | \$ 951   | \$ 898 |

In connection with each of the asset sales set forth above, we received cash proceeds.

**Other nonoperating income (expense)** For the year ended December 31, 2010, other non operating expense, net totaled \$6.3 million. In connection with the Concert acquisition, we entered into a series of forward foreign currency contracts to hedge the acquisition's Canadian dollar purchase price. All contracts were settled for cash during the first quarter of 2010 and resulted in a \$3.4 million loss, net of realized currency translation gains, which is presented under the caption *Other net* in the accompanying consolidated statements of income. In addition, in connection with purchase accounting for the Concert transaction, we recorded a \$2.5 million reserve for tax risks, inclusive of accrued interest, existing at the time of the acquisition and at the same time recorded a \$2.5 million receivable from the seller due to an indemnification agreement. During the fourth quarter, a tax ruling was issued that eliminated this tax risk and as a result we recognized an expense of \$2.5 million which is presented under the caption *Other net* in the accompanying consolidated statements of income to eliminate the receivable from the seller. We also recognized a \$2.5 million tax benefit for this same item to eliminate the tax reserve previously established resulting in no net impact to earnings during 2010.

**Income taxes** For 2010, we recorded income tax benefits of \$20.9 million on \$33.5 million of pretax income. The comparable amounts in the same period of 2009 were income tax expense of \$19.7 million on \$143.1 million of pretax income. The benefit in 2010 was due to \$23.2 million of cellulosic biofuel credits, net, recorded as an income tax benefit in 2010 as discussed further below. We also recorded the \$2.5 million tax benefit discussed in the previous paragraph, as well as a \$6.4 million adjustment to reduce tax liabilities resulting from the expiration of statutes of limitations on uncertain tax

positions and other factors. The tax provision in 2009 included a \$27.1 million benefit from nontaxable alternative fuel mixture credit.

**Cellulosic Biofuel Production Credit** In March 2010, our application to be registered as a cellulosic biofuel producer was approved by the Internal Revenue Service. The U.S. Internal Revenue Code provides for a non refundable tax credit equal to \$1.01 per gallon for taxpayers that produce cellulosic biofuel. On July 9, 2010, the IRS Office of Chief Counsel issued a memorandum which concluded that black liquor sold or used in a taxpayer's trade or business during calendar year 2009, qualifies for the cellulosic biofuel producer credit ( CBPC ). Accordingly, each gallon of black liquor we produced during calendar year 2009 qualifies for a non-refundable CBPC of \$1.01 per gallon.

In connection with the filing of our 2009 income tax return, we claimed \$23.2 million, net of taxes, of CBPC, and as a result we received \$17.8 million of a cash tax refund subsequent to the end of 2010. The CBPC claimed is attributable to black liquor produced and burned from January 1, 2009 through February 19, 2009, after which we began mixing black liquor and diesel fuel to qualify for alternative fuel mixture credits.

In October 2010, the IRS issued further guidance concluding that both the alternative fuel mixture credit and the cellulosic biofuel production credit can be claimed in the same year, but only for different volumes of black liquor.

With respect to CBPC, although we do not intend to claim any additional credits, we could amend our 2009 federal tax return and claim additional credits. If we were to elect to do so, we would be required to return cash already received from alternative fuel mixture credits, since we can only claim either the alternative fuel mixture credit or CBPC. The ability to realize the value of any additional CBPC depends on future taxable income. We continue to evaluate opportunities, if any, to claim additional CBPC from qualifying activities based on the results of our ongoing operations.

**Foreign Currency** In 2010, we owned and operated manufacturing facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency in Canada is the U.S. dollar, in Germany and France the Euro, in the UK it is the British Pound Sterling,

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and in the Philippines it is the Peso. During 2010, Euro functional currency operations generated approximately 25.5% of our sales and 24.6% of operating expenses and British Pound Sterling operations represented

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8.8% of net sales and 8.7% 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 operations results:

| In thousands           | Year Ended<br>December 31, 2010 |          |
|------------------------|---------------------------------|----------|
|                        | Favorable<br>(unfavorable)      |          |
| Net sales              | \$                              | (15,000) |
| Costs of products sold |                                 | 10,891   |
| SG&A expenses          |                                 | 791      |
| Income taxes and other |                                 | 468      |
| Net income             | \$                              | (2,850)  |

The above table only presents the financial reporting impact of foreign currency translations assuming currency exchange rates in 2010 were the same as 2009. 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 including, but not limited to, the Clean Air Act, to support our research and development efforts and to support 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:

| In thousands                                     | Year Ended December 31 |            |
|--|------------------------|------------|
|  | 2011                   | 2010       |
| Cash and cash equivalents at beginning of period | \$ 95,788              | \$ 135,420 |
| Cash provided by (used for)                      |                        |            |
| Operating activities                             | 140,307                | 168,005    |
| Investing activities                             | (16,830)               | (264,217)  |
| Financing activities                             | (180,140)              | 59,681     |
| Effect of exchange rate changes on cash          | (848)                  | (3,101)    |
| Net cash used                                    | (57,511)               | (39,632)   |
| Cash and cash equivalents at end of period       | \$ 38,277              | \$ 95,788  |

At the end of the 2011, we had \$38.3 million in cash and cash equivalents and \$318.4 million available under our revolving credit agreement, which matures in November 2016.

Operating cash flow declined in 2011 by \$27.7 million primarily due to \$37.0 million less cash received from alternative fuel mixture and cellulosic biofuel credits. These unfavorable factors were offset by improved working capital usage and increased operating profit.

Cash used by investing activities declined in comparison to prior year due to the use, net of cash acquired, of \$228.3 million to acquire Concert Industries. Capital expenditures increased \$28.0 million in the comparison and totaled \$64.5 million 2011. Capital expenditures are expected to approximate \$95 million to \$105 million in 2012 including the rebuild of a papermaking machine in Germany. In 2011, investing activities also includes the cash received from the collection of a \$43.2 million installment note receivable.

Net cash used by financing activities in 2011 totaled \$180.1 million due to the early redemption of \$100.0 million of bonds and an early redemption premium of \$3.6 million, \$48.0 million for the repurchase of common stock, the repayment of a \$36.7 million term loan in connection with the collection of the installment note discussed above, and dividends paid on our common stock. These actions were completed using available cash on hand as well as \$27.0 million borrowing under our revolving credit agreement. In 2010, financing activities provided net cash of \$59.7 million, reflecting increased borrowings to fund the Concert acquisition including the proceeds, net of debt issue costs and original

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issue discount, from the issuance of \$100.0 million of senior notes, at 95% of par. In addition, during 2010, we refinanced our revolving credit facility, repaid a \$14.0 million remaining balance on a term loan and paid dividends on common stock.

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

| <i>In thousands</i>                                       | December 31       |            |
|---|-------------------|------------|
|   | 2011              | 2010       |
| Revolving credit facility, due May 2014                   | n/a               | \$         |
| Revolving credit facility, due Nov. 2016                  | <b>\$ 27,000</b>  |            |
| 7 1/8% Notes, due May 2016                                | <b>200,000</b>    | 200,000    |
| 7 1/8% Notes, due May 2016 net of original issue discount |                   | 95,529     |
| Term Loan, due January 2013                               |                   | 36,695     |
| Total long-term debt                                      | <b>227,000</b>    | 332,224    |
| Less current portion                                      |                   |            |
| Long-term debt, excluding current portion                 | <b>\$ 227,000</b> | \$ 332,224 |

During the fourth quarter of 2011, we completed a number of transactions that affected our outstanding debt: i) We amended our revolving credit agreement increasing the amount available from \$225 million to \$350 million,

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extended the facility's maturity from May 2014 to November 2016 and agreed to a more favorable pricing grid; ii) we redeemed early \$100 million of our 7 1/8% Notes at a 3.6% premium to par using, in part, borrowings under the revolving credit agreement; and iii) completed a series of actions related to the November 2007 sale of timberlands the effect of which was the receipt in full of a \$43.2 million note receivable and satisfaction in full of the \$36.7 million Term Loan owed by us.

Our revolving credit facility contains a number of customary compliance covenants. In addition, the 7 1/8% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity, or a default under the credit agreement, that accelerates the debt outstanding thereunder. As of December 31, 2011, we met all of the requirements of our debt covenants. The significant terms of the debt instruments are more fully discussed in Item 8 Financial Statements and Supplementary Data Note 16.

During 2011 and 2010, cash dividends paid on common stock totaled \$16.6 million and \$16.7 million, respectively. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of future payments.

In April 2011, our Board of Directors authorized a share repurchase program for up to \$50.0 million of our outstanding common stock. The following table summarizes share repurchases made under this program through December 31, 2011:

|                            | shares    | (thousands) |
|----------------------------|-----------|-------------|
| Authorized amount          | n/a       | \$ 50,000   |
| Repurchases <sup>(1)</sup> | 3,505,485 | (48,799)    |
| Remaining authorization    |           | \$ 1,201    |

(1) Amounts reflect trades entered into through December 31, 2011. Cash spent on settled transactions, excluding commissions, totaled \$47.9 million. In January 2012, we completed additional share repurchases fully utilizing the authorized amount.

We are subject to various federal, state and local laws and regulations which operate to protect the environment as well as human health and safety. We have, at various times, incurred significant cost to comply with these regulations, as new regulations are developed or regulatory priorities

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

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 8 Financial Statements and Supplementary Data Note 22 for a summary of significant environmental matters.

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

**Off-Balance-Sheet Arrangements** As of December 31, 2011 and 2010, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments to which we are a party and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 8 Financial Statements and Supplementary Data.



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**Contractual Obligations** The following table sets forth contractual obligations as of December 31, 2011:

| <i>In millions</i>                              | Total         | Payments due during the year ended<br>December 31, |                 |                 |                    |
|---|---------------|--|-----------------|-----------------|--------------------|
|   |               | 2012   | 2013 to<br>2014 | 2015 to<br>2016 | 2017 and<br>beyond |
| Long-term debt <sup>(1)</sup>                   | \$ 300        | \$ 15  | \$ 30           | \$ 255          | \$                 |
| Operating leases <sup>(2)</sup>                 | 20            | 4  | 6               | 4               | 6                  |
| Purchase obligations <sup>(3)</sup>             | 122           | 77   | 44              | 1               |                    |
| Other long term obligations <sup>(4), (5)</sup> | 76            | 7  | 16              | 18              | 35                 |
| <b>Total</b>                                    | <b>\$ 518</b> | <b>\$ 103</b>                                      | <b>\$ 96</b>    | <b>\$ 278</b>   | <b>\$ 41</b>       |

- (1) Represents principal and interest payments due on long-term debt, the significant terms of which are discussed in Item 8 Financial Statements, Note 16, Long-term Debt.
- (2) Represents rental agreements for various land, buildings, vehicles, and computer and office equipment.
- (3) Represents open purchase order commitments and other obligations, primarily for raw material forward purchases and pulpwood contracts with minimum annual purchase obligations. In certain situations, prices are subject to variations based on market prices. In such situations, the information above is based on prices in effect at December 31, 2011 or expectations based on historical experience and/or current market conditions.
- (4) Primarily represents expected benefits to be paid pursuant to retirement medical plans and nonqualified pension plans over the next ten years and expected costs of asset retirement obligations.
- (5) Since we are unable to reasonably estimate the timing of ultimate payment, the amounts set forth above do not include any payments that may be made related to uncertain tax positions, including potential interest, accounted for in accordance with ASC 740-10-20. As discussed in more detail in Item 8 Financial Statements, Note 8, Income Taxes, such amounts totaled \$29.7 million at December 31, 2011.

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

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

**Inventory Reserves** We maintain reserves for excess and obsolete inventories to reflect our inventory at the lower of its stated cost or market value. Our estimate for excess and obsolete inventory is based upon our assumptions about future demand and market conditions. If actual conditions are less favorable than those we have projected, we may need to increase our reserves for excess

and obsolete inventories. Any increases in our reserves will adversely impact our results of operations. The establishment of a reserve for excess and obsolete inventory establishes a new cost basis in the inventory. Such reserves are not reduced until the product is sold. If we are able to sell such inventory, any related reserves would be reversed in the period of sale.



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

**Pension and Other Post-Retirement Obligations** Accounting for defined-benefit pension plans, and any curtailments thereof, requires various assumptions, including, but not limited to, discount rates, expected long-term rates of return on plan assets and future compensation growth rates. Accounting for our retiree medical plans, and

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any curtailments thereof, also requires various assumptions, which include, but are not limited to, discount rates and annual rates of increase in the per capita costs of health care benefits. We evaluate these assumptions at least once each year or as facts and circumstances dictate and we make changes as conditions warrant. Changes to these assumptions will increase or decrease our reported net periodic benefit expense, which will result in changes to the recorded benefit plan assets and liabilities.

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

**Income Taxes** We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our balance sheets, as well as operating loss and tax credit carry forwards. These deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when such amounts are expected to reverse or be utilized. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected

future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against our deferred tax assets, which may result in a substantial increase in our effective tax rate and a material adverse impact on our reported results.

Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is less than certain. We and our subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current liability and deferred taxes in the period in which the facts that give rise to a revision become known.

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

**Table of Contents****ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

| <i>Dollars in thousands</i>    | Year Ended December 31 |            |            |            |           | At December 31, 2011 |            |
|--------------------------------|------------------------|------------|------------|------------|-----------|----------------------|------------|
|                                | 2012                   | 2013       | 2014       | 2015       | 2016      | Carrying Value       | Fair Value |
| <b>Long-term debt</b>          |                        |            |            |            |           |                      |            |
| Average principal outstanding  |                        |            |            |            |           |                      |            |
| At fixed interest rates        | \$ 200,000             | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 76,923 | \$ 200,000           | \$ 204,000 |
| At variable interest rates     | 27,000                 | 27,000     | 27,000     | 27,000     | 22,846    | 27,000               | 27,000     |
|                                |                        |            |            |            |           | \$ 227,000           | \$ 231,000 |
| Weighted-average interest rate |                        |            |            |            |           |                      |            |
| Fixed interest rate debt       | 7.13%                  | 7.13%      | 7.13%      | 7.13%      | 7.13%     |                      |            |
| Variable interest rate debt    | 2.04                   | 2.04       | 2.04       | 2.04       | 2.04      |                      |            |

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of December 31, 2011. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities.

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At December 31, 2011, we had long-term debt outstanding of \$227.0 million, of which \$27.0 million or 11.9% was at variable interest rates. Variable-rate debt outstanding represents borrowings under our revolving credit agreement that accrues interest based on one month LIBOR plus a margin. At December 31, 2011, the weighted-average interest rate paid was approximately 2.04%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$0.3 million.

As part of our overall risk management practices, we enter into financial derivatives primarily designed to either i) hedge foreign currency risks associated with forecasted transactions cash flow hedges ; or ii) mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and foreign currency denominated receivables and payables foreign currency hedges. For a more complete discussion of this activity, refer to Item 8 Financial Statements and Supplementary Data Note 19.

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 2011, Euro functional currency operations generated approximately 28.7% of our sales and 27.2% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.4% of operating expenses.

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**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

As of December 31, 2011, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has determined that the Company's internal control over financial reporting as of December 31, 2011, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorizations of management; and provide reasonable

assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

The Company's internal control over financial reporting as of December 31, 2011, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2011.

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the internal control over financial reporting of P.H. Glatfelter Company and subsidiaries (the Company) as December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are

recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2011 of the Company and our report dated March 9, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania

March 9, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of P.H. Glatfelter Company and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of P. H. Glatfelter Company and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania

March 9, 2012

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

| <i>In thousands, except per share</i>                         | Year Ended December 31 |              |              |
|---|------------------------|--------------|--------------|
|   | 2011                   | 2010         | 2009         |
| Net sales   | \$ 1,603,154           | \$ 1,455,331 | \$ 1,184,010 |
| Energy and related sales net                                  | 9,344                  | 10,653       | 13,332       |
| Total revenues  | 1,612,498              | 1,465,984    | 1,197,342    |
| Costs of products sold  | 1,406,305              | 1,279,737    | 927,578      |
| Gross profit  | 206,193                | 186,247      | 269,764      |
| Selling, general and administrative expenses                  | 124,871                | 122,111      | 110,257      |
| Gains on disposition of plant, equipment and timberlands, net | (3,950)                | (453)        | (898)        |
| Operating income  | 85,272                 | 64,589       | 160,405      |
| Other nonoperating income (expense)                           |                        |              |              |
| Interest expense  | (31,794)               | (25,547)     | (19,220)     |
| Interest income   | 666                    | 808          | 1,886        |
| Other net   | (3,299)                | (6,321)      | 75           |
| Total other nonoperating expense                              | (34,427)               | (31,060)     | (17,259)     |
| Income before income taxes                                    | 50,845                 | 33,529       | 143,146      |
| Income tax (benefit) provision                                | 8,151                  | (20,905)     | 19,704       |
| Net income  | \$ 42,694              | \$ 54,434    | \$ 123,442   |
| <b>Weighted average shares outstanding</b>                    |                        |              |              |
| Basic   | 45,228                 | 45,922       | 45,678       |
| Diluted   | 45,794                 | 46,374       | 45,774       |
| <b>Earnings per share</b>                                     |                        |              |              |
| Basic   | \$ 0.94                | \$ 1.19      | \$ 2.70      |
| Diluted   | 0.93                   | 1.17         | 2.70         |

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

**Table of Contents****P. H. GLATFELTER COMPANY and SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

| <i>Dollars in thousands, except par values</i>                       |  | December 31         |                     |
|--|--|---------------------|---------------------|
|  |  | 2011                | 2010                |
| <b>Assets</b>  |  |                     |                     |
| <b>Current assets</b>  |  |                     |                     |
| Cash and cash equivalents  |  | \$ 38,277           | \$ 95,788           |
| Accounts receivable (less allowance for doubtful accounts:           |  |                     |                     |
| 2011 \$2,861; 2010 \$3,118)  |  | 135,412             | 141,208             |
| Inventories  |  | 206,707             | 201,077             |
| Prepaid expenses and other current assets                            |  | 42,017              | 64,617              |
| Total current assets   |  | 422,413             | 502,690             |
| <b>Plant, equipment and timberlands net</b>                          |  | <b>601,950</b>      | <b>608,170</b>      |
| <b>Other long-term assets</b>  |  | <b>112,562</b>      | <b>230,887</b>      |
| Total assets   |  | <b>\$ 1,136,925</b> | <b>\$ 1,341,747</b> |
| <b>Liabilities and Shareholders Equity</b>                           |  |                     |                     |
| <b>Current liabilities</b>   |  |                     |                     |
| Short-term debt  |  | \$                  | \$ 798              |
| Accounts payable   |  | 109,490             | 98,594              |
| Dividends payable  |  | 3,902               | 4,190               |
| Environmental liabilities  |  | 250                 | 248                 |
| Other current liabilities  |  | 97,598              | 109,316             |
| Total current liabilities  |  | 211,240             | 213,146             |
| <b>Long-term debt</b>  |  | <b>227,000</b>      | <b>332,224</b>      |
| <b>Deferred income taxes</b>   |  | <b>69,791</b>       | <b>94,918</b>       |
| <b>Other long-term liabilities</b>                                   |  | <b>138,490</b>      | <b>149,017</b>      |
| Total liabilities  |  | <b>646,521</b>      | <b>789,305</b>      |
| <b>Commitments and contingencies</b>                                 |  |                     |                     |
| <b>Shareholders equity</b>   |  |                     |                     |
| Common stock, \$.01 par value; authorized 120,000,000 shares; issued |  |                     |                     |
| 54,361,980 shares (including shares in treasury: 2011 11,711,536;    |  |                     |                     |
| 2010 8,385,772)  |  | 544                 | 544                 |
| Capital in excess of par value                                       |  | 51,477              | 48,145              |
| Retained earnings  |  | 775,825             | 749,453             |
| Accumulated other comprehensive loss                                 |  | (166,741)           | (121,247)           |
|  |  | <b>661,105</b>      | <b>676,895</b>      |
| Less cost of common stock in treasury                                |  | (170,701)           | (124,453)           |
| Total shareholders equity  |  | <b>490,404</b>      | <b>552,442</b>      |
| Total liabilities and shareholders equity                            |  | <b>\$ 1,136,925</b> | <b>\$ 1,341,747</b> |



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

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

|   | Year Ended December 31 |           |           |            |
|---|------------------------|-----------|-----------|------------|
|   | <i>In thousands</i>    | 2011      | 2010      | 2009       |
| <b>Operating activities</b>   |                        |           |           |            |
| Net income  |                        | \$ 42,694 | \$ 54,434 | \$ 123,442 |
| Adjustments to reconcile to net cash provided by operations:                                      |                        |           |           |            |
| Depreciation, depletion and amortization  |                        | 69,313    | 65,839    | 61,256     |
| Amortization of debt issuance costs and original issue discount                                   |                        | 8,838     | 2,758     | 1,690      |
| Pension expense, net of unfunded benefits paid  |                        | 2,127     | 8,637     | 6,343      |
| Deferred income taxes   |                        | 333       | (16,815)  | (22,981)   |
| Gains on dispositions of plant, equipment and timberlands, net                                    |                        | (3,950)   | (453)     | (898)      |
| Share-based compensation  |                        | 5,762     | 5,767     | 4,599      |
| Cellulosic biofuel and alternative fuel mixture credits   |                        | 17,833    | 54,880    | (57,946)   |
| Change in operating assets and liabilities  |                        |           |           |            |
| Accounts receivable   |                        | 3,771     | (598)     | 16,542     |
| Inventories   |                        | (7,280)   | (7,592)   | 28,207     |
| Prepaid expenses and other current assets   |                        | 2,115     | (13,318)  | 1,451      |
| Accounts payable  |                        | 13,606    | 21,064    | 2,390      |
| Environmental matters   |                        | (57)      | (29)      | (7,728)    |
| Accruals and other current liabilities  |                        | (2,516)   | (1,490)   | 6,676      |
| Other   |                        | (12,282)  | (5,079)   | 825        |
| Net cash provided by operations   |                        | 140,307   | 168,005   | 163,868    |
| <b>Investing activities</b>   |                        |           |           |            |
| Expenditures for purchases of plant, equipment and timberlands                                    |                        | (64,491)  | (36,491)  | (26,257)   |
| Proceeds from disposal of plant, equipment and timberlands  |                        | 4,491     | 564       | 951        |
| Proceeds from timberland installment sale note receivable   |                        | 43,170    |           | 37,850     |
| Acquisitions, net of cash acquired  |                        |           | (228,290) |            |
| Net cash (used) provided by investing activities  |                        | (16,830)  | (264,217) | 12,544     |
| <b>Financing activities</b>   |                        |           |           |            |
| (Repayment of) proceeds from \$100 million 7 1/8% note offering                                   |                        | (103,563) | 95,000    |            |
| Payments of credit facility and note offering costs   |                        | (1,672)   | (5,340)   |            |
| Net borrowings under (repayments of) revolving credit facility                                    |                        | 27,000    |           | (6,725)    |
| Repayments of \$100 million term loan facility  |                        |           | (14,000)  | (16,000)   |
| Net repayments of other short-term debt   |                        | (798)     | (3,208)   | (2,008)    |
| Repayment of Term Loan due January 2013   |                        | (36,695)  |           |            |
| Repayment of Term Loan due March 2013   |                        |           |           | (34,000)   |
| Repurchases of common stock   |                        | (48,033)  |           |            |
| Payment of dividends  |                        | (16,611)  | (16,746)  | (16,596)   |
| Proceeds and excess tax benefits from stock options exercised and proceeds from government grants |                        | 232       | 3,975     |            |
| Net cash (used) provided by financing activities  |                        | (180,140) | 59,681    | (75,329)   |
| Effect of exchange rate changes on cash   |                        | (848)     | (3,101)   | 2,103      |
| Net (decrease) increase in cash and cash equivalents  |                        | (57,511)  | (39,632)  | 103,186    |
| Cash and cash equivalents at the beginning of period  |                        | 95,788    | 135,420   | 32,234     |
| Cash and cash equivalents at the end of period  |                        | \$ 38,277 | \$ 95,788 | \$ 135,420 |

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**Supplemental cash flow information**

|                          |           |           |           |
|--------------------------|-----------|-----------|-----------|
| Cash paid (received) for |           |           |           |
| Interest                 | \$ 24,191 | \$ 23,193 | \$ 17,338 |
| Income taxes             | (8,344)   | (40,265)  | 16,634    |

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

Table of Contents**P. H. GLATFELTER COMPANY and SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****For the Years Ended December 31, 2011, 2010 and 2009**

| <i>In thousands</i>   | Common<br>Stock | Capital in<br>Excess of<br>Par<br>Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income Loss | Treasury<br>Stock | Total<br>Shareholders<br>Equity |
|---|-----------------|---|----------------------|--|-------------------|---------------------------------|
| Balance at January 1, 2009  | \$ 544          | \$ 45,806                               | \$ 605,001           | \$ (176,133)   | \$ (132,511)      | \$ 342,707                      |
| Comprehensive income  |                 |   |                      |  |                   |                                 |
| Net income  |                 |   | 123,442              |  |                   | 123,442                         |
| Foreign currency translation adjustments                            |                 |   |                      | 11,941   |                   |                                 |
| Change in benefit plans net funded status, net of taxes of \$27,164 |                 |   |                      | 44,307   |                   |                                 |
| Other comprehensive income  |                 |   |                      | 56,248   |                   | 56,248                          |
| Comprehensive income  |                 |   |                      |  |                   | 179,690                         |
| Cash dividends declared (\$0.36 per share)                          |                 |   | (16,678)             |  |                   | (16,678)                        |
| Share-based compensation expense                                    |                 | 3,502                                   |                      |  |                   | 3,502                           |
| Delivery of treasury shares   |                 |   |                      |  |                   |                                 |
| RSUs  |                 | (1,483)                                 |                      |  | 1,280             | (203)                           |
| 401 (k) plans   |                 | (995)                                   |                      |  | 2,517             | 1,522                           |
| Director compensation   |                 | (84)                                    |                      |  | 248               | 164                             |
| Balance at December 31, 2009  | 544             | 46,746                                  | 711,765              | (119,885)  | (128,466)         | 510,704                         |
| Comprehensive income  |                 |   |                      |  |                   |                                 |
| Net income  |                 |   | 54,434               |  |                   | 54,434                          |
| Foreign currency translation adjustments                            |                 |   |                      | (17,227)   |                   |                                 |
| Change in benefit plans net funded status, net of taxes of \$9,905  |                 |   |                      | 15,865   |                   |                                 |
| Other comprehensive income  |                 |   |                      | (1,362)  |                   | (1,362)                         |
| Comprehensive income  |                 |   |                      |  |                   | 53,072                          |
| Tax effect on employee stock options exercised                      |                 | (50)                                    |                      |  |                   | (50)                            |
| Cash dividends declared (\$0.36 per share)                          |                 |   | (16,746)             |  |                   | (16,746)                        |
| Share-based compensation expense                                    |                 | 3,962                                   |                      |  |                   | 3,962                           |
| Delivery of treasury shares   |                 |   |                      |  |                   |                                 |
| RSUs  |                 | (2,152)                                 |                      |  | 1,662             | (490)                           |
| 401 (k) plans   |                 | (318)                                   |                      |  | 1,960             | 1,642                           |
| Director compensation   |                 | (16)                                    |                      |  | 179               | 163                             |
| Employee stock options exercised net                                |                 | (27)                                    |                      |  | 212               | 185                             |
| Balance at December 31, 2010  | 544             | 48,145                                  | 749,453              | (121,247)  | (124,453)         | 552,442                         |
| Comprehensive income  |                 |   |                      |  |                   |                                 |
| Net income  |                 |   | <b>42,694</b>        |  |                   | <b>42,694</b>                   |
| Foreign currency translation adjustments                            |                 |   |                      | <b>(10,160)</b>                                      |                   |                                 |
| Deferred gains on cash flow hedges, net of tax                      |                 |   |                      | <b>1,185</b>   |                   |                                 |
| Change in benefit plans net funded status, net of taxes of \$22,672 |                 |   |                      | <b>(36,519)</b>                                      |                   |                                 |
| Other comprehensive income (loss)                                   |                 |   |                      | <b>(45,494)</b>                                      |                   | <b>(45,494)</b>                 |
| Comprehensive income (loss)   |                 |   |                      |  |                   | <b>(2,800)</b>                  |
| Tax effect on employee stock options exercised                      |                 | <b>90</b>                               |                      |  |                   | <b>90</b>                       |

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|  |        |           |            |              |              |            |
|--|--------|-----------|------------|--------------|--------------|------------|
| Cash dividends declared (\$0.36 per share) |        |           |            | (16,322)     |              | (16,322)   |
| Share-based compensation expense           | 3,633  |           |            |              |              | 3,633      |
| Repurchase of common shares                |        |           |            | (48,904)     |              | (48,904)   |
| Delivery of treasury shares                |        |           |            |              |              |            |
| RSUs                                       | (215)  |           |            |              | 215          |            |
| 401 (k) plans                              | (141)  |           |            |              | 2,108        | 1,967      |
| Director compensation                      | (13)   |           |            |              | 177          | 164        |
| Employee stock options exercised net       | (22)   |           |            |              | 156          | 134        |
| Balance at December 31, 2011               | \$ 544 | \$ 51,477 | \$ 775,825 | \$ (166,741) | \$ (170,701) | \$ 490,404 |

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

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**Table of Contents****P. H. GLATFELTER COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. ORGANIZATION**

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

**2. ACCOUNTING POLICIES**

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

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

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

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

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

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

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

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

**Valuation of Long-lived Assets, Intangible Assets and Goodwill** We evaluate long-lived assets for impairment when a specific event indicates that the carrying value of an asset may not be recoverable. Recoverability is assessed based on estimates of future cash flows expected to result from the use and eventual disposition of the asset. If the sum of expected undiscounted cash flows is less than the carrying value of the asset, the asset's fair value is estimated and an impairment loss is recognized for any deficiencies. Goodwill is reviewed, on a discounted cash flow basis, during the third quarter of each year for impairment. Impairment losses, if any, are recognized for the amount by which the carrying value of the reporting unit exceeds its fair value. The carrying value of a reporting unit is defined using an enterprise premise which is generally determined by the difference between the unit's assets and operating liabilities.

**Asset Retirement Obligations** In accordance with the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) No. 410, *Asset Retirement and Environmental Obligations*, we accrue asset retirement obligations in the period in which obligations relating to future asset retirements are incurred and when a reasonable estimate of fair value can be determined. Under these standards, costs are to be accrued at estimated fair value, and a related long-lived asset is capitalized. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset for which the obligation exists. Upon settlement of the liability, we

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recognize a gain or loss for any difference between the settlement amount and the liability recorded.

**Income Taxes** Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with FASB ASC 740 *Income Taxes* ( ASC 740 ). Under ASC 740, tax expense includes U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested. Tax credits and other incentives reduce tax expense in the year the credits are claimed. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported in deferred income taxes. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. We establish a valuation allowance for deferred tax assets for which realization is not more likely than not.

Income tax contingencies are accounted for in accordance with FASB ASC 740-10-20 *Income Taxes*. Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is less than certain. We and our subsidiaries are examined by various Federal, State, and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and record any necessary adjustments in the period in which the facts that give rise to a revision become known.

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

**Foreign Currency Translation** Foreign currency translation gains and losses and the effect of exchange rate changes on transactions designated as hedges of net foreign investments are included as a component of other comprehensive income (loss). Transaction gains and losses are included in income in the period in which they occur.

**Revenue Recognition** We recognize revenue on product sales when the customer takes title and assumes the risks and rewards of ownership. Estimated costs for sales incentives, discounts and sales returns and

allowances are recorded as sales deductions in the period in which the related revenue is recognized.

Revenue from energy sales is recognized when electricity is delivered to the customer. Certain costs associated with the production of electricity, such as fuel, labor, depreciation and maintenance are netted against energy sales for presentation on the Consolidated Statements of Income. Our fixed-price contract to sell electricity generated in excess of our own use expired March 31, 2010. Subsequent to the expiration, we now sell excess power at market-rates.

Revenue from renewable energy credits is recorded under the caption Energy and related sales in the Consolidated Statements of Income and is recognized when all risks, rights and rewards to the certificate are transferred to the counterparty.

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

**Accumulated Other Comprehensive Income** The amounts reported on the consolidated Statement of Shareholders' Equity for Accumulated Other Comprehensive Loss at December 31, 2011 consisted of a loss of \$157.9 million from additional defined benefit liabilities, net of tax, \$10.0 million of losses from foreign currency translation adjustments and \$1.2 million of unrealized gains on cash flow hedges, net of tax.

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





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**Financial Derivatives and Hedging Activities** We use financial derivatives to manage exposure to changes in foreign currencies. In accordance with FASB ASC 815 *Derivatives and Hedging* ( ASC 815 ), we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

**Cash Flow Hedges** The effective portion of the gain or loss on derivative instruments designated and qualifying as a hedge of the exposure to variability in expected future cash flows related to forecasted transactions is deferred and reported as a component of accumulated other comprehensive income (loss). Deferred gains or losses are reclassified to our results of operations at the time the hedged forecasted transaction is recorded in our results of operations. The effectiveness of cash flow hedges is assessed at inception and quarterly thereafter. If the instrument becomes ineffective or it becomes probable that the originally forecasted transaction will not occur, the related change in fair value of the derivative instrument is also reclassified from accumulated other comprehensive income (loss) and recognized in earnings.

**Fair Value of Financial Instruments** Under the accounting for fair value measurements and disclosures, a fair value hierarchy was established that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

|         |  |
|---------|--|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.  |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including<br><br>quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 | Inputs that are both significant to the fair value measurement and unobservable.   |

### **Recently Issued Accounting Pronouncements**

In June 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-05, *Presentation of Comprehensive Income*. This ASU is designed to improve the comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareholders' equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011. Early application is permitted. We are currently evaluating the requirements of this update and have not yet determined which presentation option we will elect.

In September 2011, the FASB updated FASB ASC 350, *Intangibles - Goodwill and Other* to provide an entity the option, when evaluating goodwill and other assets for possible impairment, to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after completing this assessment, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment test performed for fiscal years beginning after December 15, 2011. We are currently evaluating the requirements of this update but do not anticipate it will have a material impact on our consolidated financial position or results of operations.

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In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, which

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provides common requirements for measuring fair value and disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. We are required to adopt this guidance beginning with our quarterly financial statements for the quarter ending March 31, 2012 and we do not expect it to have a material impact on our consolidated financial statements.

**3. ACQUISITIONS**

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

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

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

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

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

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

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

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

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

During 2010, we incurred legal, professional and advisory costs directly related to the Concert acquisition totaling \$6.9 million. All such costs are presented under the caption Selling, general and administrative expenses

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in the accompanying consolidated statements of income. Deferred financing fees incurred in connection with issuing debt related to the acquisition totaled \$3.0 million. The unamortized fees are recorded in the accompanying consolidated balance sheet under the caption Other assets .

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

Our results of operations for 2010 include the results of Concert prospectively from the February 12, 2010 date of acquisition. All such results are reported herein as the Advanced Airlaid Materials business unit, a new reportable segment. Revenue and operating income of this operation included in our consolidated statements of income totaled \$252.0 million and \$13.4 million, respectively in 2011 and \$193.5 million and \$4.4 million, respectively, for 2010.

The unaudited pro-forma results presented below include the effects of the acquisition as if it had been consummated as of January 1, 2009. The pro forma results include the amortization associated with the acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for plant, equipment and timberlands. To better reflect the combined operating results, material non-recurring charges directly attributable to the acquisition have been excluded. The unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved.

| <i>In thousands, except per share</i> | Year ended December 31 |              |
|---------------------------------------|------------------------|--------------|
|                                       | 2010                   | 2009         |
| <b>Pro forma</b>                      |                        |              |
| Net sales                             | \$ 1,480,980           | \$ 1,388,120 |
| Net income                            | 69,116                 | 135,713      |
| Diluted earnings per share            | 1.49                   | 2.96         |

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

**4. ALTERNATIVE FUEL MIXTURE CREDITS**

The U.S. Internal Revenue Code provided a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to \$0.50 per gallon of alternative fuel contained in the mixture, was refundable to the taxpayer. On May 11, 2009, we were notified by the Internal Revenue Service that our application to be registered as an alternative fuel mixer was approved. We earned \$107.8 million of alternative fuel mixture credits for the alternative fuel mixture consumed during the period February 20, 2009 through December 31, 2009. We recorded all alternative fuel mixture credits as a reduction to cost of goods sold in 2009.

The alternative fuel mixture credit expired on December 31, 2009. For information related to the Cellulosic Biofuel Credit, see Note 8 Income Taxes.

**5. ENERGY AND RELATED SALES, NET**

We sell excess power generated by the Spring Grove, PA facility. Prior to the March 31, 2010 expiration of a long-term contract, all sales were at a fixed price. Subsequently, we sell excess power at prevailing market rates. We also sell renewable energy credits generated by the Spring Grove, PA and Chillicothe, OH facilities representing sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste.

The following table summarizes this activity for each of the past three years:

| <i>In thousands</i> | 2011      | 2010      | 2009      |
|---------------------|-----------|-----------|-----------|
| Energy sales        | \$ 10,992 | \$ 14,296 | \$ 20,128 |

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|                                     |          |           |           |
|-------------------------------------|----------|-----------|-----------|
| Costs to produce                    | (9,319)  | (10,403)  | (11,883)  |
| Net energy sales                    | 1,673    | 3,893     | 8,245     |
| Renewable energy credits            | 7,671    | 6,760     | 5,087     |
| Total energy and related sales, net | \$ 9,344 | \$ 10,653 | \$ 13,332 |

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**Table of Contents****6. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS**

During 2011, 2010 and 2009, we completed the following sales of assets:

| <i>Dollars in thousands</i> | Acres | Proceeds | Gain     |
|-----------------------------|-------|----------|----------|
| <b>2011</b>                 |       |          |          |
| Timberlands                 | 942   | \$ 3,821 | \$ 3,590 |
| Other                       | n/a   | 670      | 360      |
| Total                       |       | \$ 4,491 | \$ 3,950 |
| <b>2010</b>                 |       |          |          |
| Timberlands                 | 164   | \$ 387   | \$ 373   |
| Other                       | n/a   | 177      | 80       |
| Total                       |       | \$ 564   | \$ 453   |
| <b>2009</b>                 |       |          |          |
| Timberlands                 | 319   | \$ 951   | \$ 906   |
| Other                       | n/a   |          | (8)      |
| Total                       |       | \$ 951   | \$ 898   |

**7. EARNINGS PER SHARE**

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

| <i>In thousands, except per share</i>  | 2011      | 2010      | 2009       |
|--|-----------|-----------|------------|
| Net income   | \$ 42,694 | \$ 54,434 | \$ 123,442 |
| Weighted average common shares outstanding used in basic EPS   | 45,228    | 45,922    | 45,678     |
| Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards | 566       | 452       | 96         |
| Weighted average common shares outstanding and common share equivalents used in diluted EPS                    | 45,794    | 46,374    | 45,774     |
| Basic EPS  | \$ 0.94   | \$ 1.19   | \$ 2.70    |
| Diluted EPS  | 0.93      | 1.17      | 2.70       |

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

| <i>In thousands</i>     | 2011 | 2010  | 2009  |
|-------------------------|------|-------|-------|
| Potential common shares | 891  | 1,405 | 2,215 |

**8. INCOME TAXES**

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

The provision/(benefit) for income taxes from operations consisted of the following:

| <i>In thousands</i>             | Year Ended December 31 |            |           |
|---------------------------------|------------------------|------------|-----------|
|                                 | 2011                   | 2010       | 2009      |
| <b>Current taxes</b>            |                        |            |           |
| Federal                         | \$ 6,943               | \$ (8,238) | \$ 29,848 |
| State                           | (1,762)                | (392)      | 4,050     |
| Foreign                         | 2,637                  | 4,540      | 8,787     |
|                                 | 7,818                  | (4,090)    | 42,685    |
| <b>Deferred taxes and other</b> |                        |            |           |
| Federal                         | (3,908)                | (17,530)   | (23,943)  |
| State                           | (286)                  | (131)      | 3,760     |



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|                                |          |             |           |
|--------------------------------|----------|-------------|-----------|
| Foreign                        | 4,527    | 846         | (2,798)   |
|                                | 333      | (16,815)    | (22,981)  |
| Income tax provision/(benefit) | \$ 8,151 | \$ (20,905) | \$ 19,704 |

The amounts set forth above for total deferred taxes and other included a deferred tax benefit of \$1.5 million in 2011, a deferred tax benefit of \$17.6 million in 2010 and \$23.0 million in 2009. Other taxes totaled an expense of \$1.8 million, \$0.8 million, and \$0.0 million in 2011, 2010 and 2009, respectively, associated with the deferred tax impact of uncertain tax positions.

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

| <i>In thousands</i> | Year Ended December 31 |           |            |
|---------------------|------------------------|-----------|------------|
|                     | 2011                   | 2010      | 2009       |
| United States       | \$ (991)               | \$ 2,384  | \$ 122,657 |
| Foreign             | 51,836                 | 31,145    | 20,489     |
| Total pretax income | \$ 50,845              | \$ 33,529 | \$ 143,146 |

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

|   | Year Ended December 31 |         |        |
|---|------------------------|---------|--------|
|   | 2011                   | 2010    | 2009   |
| Federal income tax provision at statutory rate  | 35.0%                  | 35.0%   | 35.0%  |
| State income taxes, net of federal income tax benefit                                       | 0.7                    | 1.4     | 0.7    |
| Foreign income tax rate differential  | (6.8)                  | (4.9)   | (0.5)  |
| Change in statutory tax rates   | 0.9                    | 1.5     | (0.3)  |
| Tax credits   | (2.0)                  | (7.8)   | (1.8)  |
| Change in unrecognized tax benefits, net  | (11.6)                 | (12.4)  | 8.0    |
| Cellulosic biofuel credit, net of incremental state tax and manufacturing deduction benefit |                        | (69.3)  |        |
| Adjustment for prior year estimates   |                        | (6.8)   |        |
| Alternative fuel mixture credits  |                        |         | (26.4) |
| Valuation allowance   | 3.2                    |         |        |
| Other   | (3.4)                  | 1.0     | (0.9)  |
| Provision/(benefit) for income taxes  | 16.0%                  | (62.3)% | 13.8%  |

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

|                          | 2011                            |  | 2010                            |                                     |
|--------------------------|---------------------------------|--|---------------------------------|-------------------------------------|
|                          | Current<br>Asset<br>(Liability) | Non<br>current<br>Asset<br>(Liability) | Current<br>Asset<br>(Liability) | Non-current<br>Asset<br>(Liability) |
| <i>In thousands</i>      |                                 |  |                                 |                                     |
| Reserves                 | \$ 5,908                        | \$ 10,595                              | \$ 5,628                        | \$ 10,422                           |
| Compensation             | 3,481                           | 5,064                                  | 3,850                           | 4,070                               |
| Post-retirement benefits | 1,325                           | 18,467                                 | 1,807                           | 18,225                              |
| Property                 |                                 | (96,798)                               | 692                             | (98,012)                            |
| Pension                  | 342                             | (18,190)                               | 449                             | (43,428)                            |
| Installment sales        |                                 |  |                                 | (14,030)                            |
| Inventories              | 125                             |  | 348                             |                                     |
| Other                    | (246)                           | 1,985                                  | 78                              | 5,617                               |
| Tax carryfwd             | 3,313                           | 47,294                                 | 8,002                           | 57,547                              |
| Subtotal                 | 14,248                          | (31,583)                               | 20,854                          | (59,589)                            |
| Valuation allowance      | (1,586)                         | (25,946)                               | (2,925)                         | (22,895)                            |
| Total                    | \$ 12,662                       | \$ (57,529)                            | \$ 17,929                       | \$ (82,484)                         |

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

| <i>In thousands</i>                       | December 31 |           |
|---|-------------|-----------|
|   | 2011        | 2010      |
| Prepaid expenses and other current assets | \$ 12,662   | \$ 17,929 |
| Other long term assets                    | 12,262      | 12,434    |
| Deferred income taxes                     | 69,791      | 94,918    |

At December 31, 2011, we had state and foreign tax net operating loss ( NOL ) carryforwards of \$76.2 million

and \$258.1 million, respectively. These NOL carryforwards are available to offset future taxable income, if any. The state NOL carryforwards expire between 2014 and 2031; certain foreign NOL carryforwards expire between 2013 and 2031.

In addition, we had federal foreign tax credit carryforwards of \$0.3 million, which expire in 2013, various state tax credit carryforwards totaling \$0.4 million, which expire between 2014 and 2027, and foreign investment tax credits of \$4.0 million which expire between 2019 and 2031.

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We have established a valuation allowance of \$27.5 million against the net deferred tax assets, primarily due to the uncertainty regarding the ability to utilize state and foreign tax NOL carryforwards and certain deferred foreign tax credits.

Tax credits and other incentives reduce tax expense in the year the credits are claimed. In 2011, we recorded tax credits of \$1.0 million related to research and development credits and the fuels tax credits. Similar tax credits of \$2.6 million were recorded in both 2010 and 2009.

At December 31, 2011 and 2010, unremitted earnings of subsidiaries outside the United States deemed to be permanently reinvested totaled \$197.4 million and \$160.8 million, respectively. Because the unremitted earnings of subsidiaries are deemed to be permanently reinvested as of December 31, 2011, and because we have no need for or plans to repatriate such earnings, no deferred tax liability has been recognized in our consolidated financial statements. The determination of additional taxes that have not been provided is not practicable.

In March 2010, our application to be registered as a cellulosic biofuel producer was approved by the Internal Revenue Service. The U.S. Internal Revenue Code provides a non refundable tax credit equal to \$1.01 per gallon for taxpayers that produce cellulosic biofuel. In a memorandum issued in July 2010, the Internal Revenue Service issued guidance concluding that black liquor sold or used before January 1, 2010, qualifies for the cellulosic biofuel producer credit ( CBPC ) and no further certification of eligibility was needed.

In connection with the filing of our 2009 income tax return, we claimed \$23.2 million, net of taxes, of CBPC. The CBPC claimed is attributable to black liquor produced and burned from January 1, 2009 through February 19, 2009, after which we began mixing black liquor and diesel fuel to qualify for alternative fuel mixture credits.

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With respect to CBPC, although we do not intend to claim any additional credits, we could amend our 2009 federal tax return and claim additional credits. If we were to elect to do so, we would be required to return cash already received from alternative fuel mixture credits, since we can only claim either the alternative fuel mixture credit or CBPC. The ability to realize the value of any additional CBPC depends on future taxable income. We continue to evaluate opportunities, if any, to claim additional CBPC from qualifying activities based on the results of our ongoing operations.

As of December 31, 2011, 2010 and 2009, we had \$29.7 million, \$38.7 million and \$40.1 million of gross unrecognized tax benefits, respectively. As of December 31, 2011, if such benefits were to be recognized, approximately \$29.7 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

| <i>In millions</i>                          | 2011    | 2010    | 2009    |
|---|---------|---------|---------|
| Balance at January 1                        | \$ 38.7 | \$ 40.1 | \$ 29.2 |
| Increases in tax positions for prior years  | 0.8     | 1.6     | 0.7     |
| Decreases in tax positions for prior years  | (7.5)   | (1.8)   |         |
| Acquisition related:                        |         |         |         |
| Purchase Accounting                         |         | 3.2     |         |
| Decrease for prior years <sup>(1)</sup>     |         | (2.2)   |         |
| Increases in tax positions for current year | 1.1     | 1.9     | 11.2    |
| Settlements                                 | (0.1)   |         | (0.8)   |
| Lapse in statutes of limitations            | (3.3)   | (4.1)   | (0.2)   |
| Balance at December 31                      | \$ 29.7 | \$ 38.7 | \$ 40.1 |

(1) in connection with purchase accounting for the Concert transaction, we recorded a \$2.2 million reserve for an uncertain tax position and at the same time recorded a receivable from the seller due to an indemnification agreement. Prior to the end of 2010, a tax ruling was issued that eliminated this tax risk resulting in the elimination of both items.

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

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to \$5.2 million. Substantially all of this range relates to tax positions taken in the U.S., the U.K. and in Germany.

We recognize interest and penalties related to uncertain tax positions as income tax expense. We recorded a benefit of \$2.1 million during 2011, and in total, as of December 31, 2011, had recognized a liability for interest of \$1.7 million. During 2010, we accrued minimal interest, and in total, as of December 31, 2010 had recognized a liability for interest of \$3.8 million. During 2009, we accrued interest of \$1.1 million and had recognized a liability for interest of \$3.8 million at December 31, 2009. We did not record any penalties associated with uncertain tax positions during 2011, 2010 or 2009.

#### **9. STOCK-BASED COMPENSATION**

On April 29, 2009, our shareholders approved the P. H. Glatfelter Amended and Restated Long Term Incentive Plan (the "LTIP") authorizing, among other things, the issuance of up to 5,500,000 shares of Glatfelter common stock to eligible participants. The LTIP provides for the issuance of restricted stock units, restricted stock awards, non-qualified stock options, performance shares, incentive stock options and performance units. As of December 31, 2011, there were 2,202,444 shares of common stock available for future issuance under the LTIP.

Since the approval of the LTIP, we have issued to eligible participants restricted stock units, performance share awards and stock only stock appreciation rights ("SOSARs").

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**Restricted Stock Units ( RSUs ) and Performance Share Awards ( PSAs )** Awards of RSUs and PSAs are made under our LTIP. The vesting of RSUs is based solely on the passage of time, generally on a graded scale over a three, four, and five-year period. PSAs were first issued in March 2011 to members of senior management and cliff vest December 31, 2013, assuming the achievement of predetermined, three-year cumulative performance targets. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than targeted depending on actual financial performance. For both RSUs and PSAs, the grant date fair value of the awards is used to determine the amount of expense to be recognized over the applicable service period. Settlement of RSUs and PSAs will be made in shares of our common stock.

The following table summarizes RSU and PSA activity during the past three years:

|                                     |                 |           |           |
|-------------------------------------|-----------------|-----------|-----------|
| <i>Units</i>                        | <b>2011</b>     | 2010      | 2009      |
| Outstanding at Jan. 1,              | <b>579,801</b>  | 564,037   | 486,988   |
| Granted                             | <b>251,031</b>  | 203,889   | 205,360   |
| Forfeited                           | <b>(28,254)</b> | (37,368)  | (8,700)   |
| Restriction lapsed/shares delivered | <b>(14,490)</b> | (150,757) | (119,611) |
| Outstanding at Dec. 31,             | <b>788,088</b>  | 579,801   | 564,037   |
| <i>Dollars in thousands</i>         |                 |           |           |
| Compensation expense                | <b>\$ 2,069</b> | \$ 1,708  | \$ 1,622  |

The amount granted in 2011 includes 98,187 PSAs. The weighted average grant fair value per unit for awards in 2011, 2010 and 2009 was \$12.47, \$13.24 and \$10.11, respectively. As of December 31, 2011, unrecognized compensation expense for outstanding RSUs and PSAs totaled \$3.9 million. The weighted average remaining period over which the expense will be recognized is 3.1 years.

**Stock Only Stock Appreciation Rights** The following table sets forth information related to outstanding SOSARS.

| <b>SOSARS</b>   | <b>2011</b>      |                               | <b>2010</b>   |                               | <b>2009</b>   |                               |
|---|------------------|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|
|   | <b>Shares</b>    | <b>Wtd Avg Exercise Price</b> | <b>Shares</b> | <b>Wtd Avg Exercise Price</b> | <b>Shares</b> | <b>Wtd Avg Exercise Price</b> |
| Outstanding at Jan. 1,                                  | <b>2,061,877</b> | <b>\$ 12.28</b>               | 1,762,020     | \$ 11.84                      | 718,810       | \$ 14.63                      |
| Granted   | <b>345,290</b>   | <b>12.56</b>                  | 470,520       | 13.77                         | 1,043,210     | 9.91                          |
| Exercised   |                  |                               |               |                               |               |                               |
| Canceled  | <b>(169,703)</b> | <b>12.41</b>                  | (170,663)     | 11.81                         |               |                               |
| Outstanding at Dec. 31,                                 | <b>2,237,464</b> | <b>12.31</b>                  | 2,061,877     | 12.28                         | 1,762,020     | \$ 11.84                      |
| Exercisable at Dec. 31,                                 | <b>1,494,028</b> | <b>12.41</b>                  | 1,135,281     | 12.78                         | 390,575       | 14.89                         |
| Vested and expected to vest                             | <b>2,015,517</b> |                               | 2,059,524     |                               | 1,676,227     |                               |
| Weighted average grant date fair value per share        |                  | <b>\$ 4.09</b>                |               | \$ 4.65                       |               | \$ 2.83                       |
| Aggregate grant date fair value ( <i>in thousands</i> ) |                  | <b>1,412</b>                  |               | 2,179                         |               | 2,957                         |
| <b>Black-Scholes Assumptions</b>                        |                  |                               |               |                               |               |                               |
| Dividend yield  |                  | <b>2.87%</b>                  |               | 2.61%                         |               | 3.63%                         |
| Risk free rate of return                                |                  | <b>2.55</b>                   |               | 2.48                          |               | 2.26                          |
| Volatility  |                  | <b>41.91</b>                  |               | 42.34                         |               | 40.59                         |
| Expected life   |                  | <b>6 yrs</b>                  |               | 6yrs                          |               | 6yrs                          |
| Compensation expense ( <i>in thousands</i> )            | <b>\$ 1,564</b>  |                               | \$ 2,254      |                               | \$ 1,880      |                               |

Under terms of the SOSAR, the recipients received the right to receive a payment in the form of shares of common stock equal to the difference, if any, in the fair market value of one share of common stock at the time of exercising the SOSAR and the exercise price. The SOSARS vest ratably over a three year period. As of December 31, 2011, the intrinsic value of SOSARS vested and expected to vest totaled \$3.5 million. The

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remaining weighted average contractual life of outstanding SOSARs was 7.1 years as of December 31, 2011.

Our LTIP also permits the issuance of nonqualified stock options; however, we have not issued any options since 2004. As of December 31, 2011, 171,920 stock

options were outstanding with a weighted average exercise price of \$13.57 per share. All options expire on the earlier of termination or, in some instances, a defined period subsequent to termination of employment, or ten years from the date of grant. The exercise price represents the quoted market price of Glatfelter common stock on the date of grant, or the average quoted market prices of Glatfelter common stock on the first day before and after the date of grant for which quoted market price information was available if such information was not available on the date of grant. As of December 31, 2011, the intrinsic value of outstanding stock options totaled \$0.1 million.

**Table of Contents****10. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS**

We provide non-contributory retirement benefits under both funded and unfunded plans to all U.S. employees and to certain non-U.S. employees. U.S. benefits are based on either a final average pay formula or a cash balance formula for salaried employees, and on a unit-benefit formula for bargained hourly employees. Non-U.S. benefits are based, in the case of certain plans, on average salary and years of service and, in the case of other plans, on a fixed amount for each year of service. U.S. plan provisions and funding meet the requirements of the Employee Retirement Income Security Act of 1974. We use a December 31-measurement date for all of our defined benefit plans.

We also provide certain health care benefits to eligible U.S.-based retired employees and exclude all salaried employees hired after January 1, 2008. These benefits include a comprehensive medical plan for retirees prior to age 65 and fixed supplemental premium payments to certain retirees over age 65 to help defray the costs of Medicare. The plan is partially funded and claims are paid as reported.

| <i>In millions</i>                             | Pension Benefits |          | Other Benefits |           |
|--|------------------|----------|----------------|-----------|
|  | 2011             | 2010     | 2011           | 2010      |
| <b>Change in Benefit Obligation</b>            |                  |          |                |           |
| Balance at beginning of year                   | \$ 434.3         | \$ 406.1 | \$ 58.5        | \$ 62.6   |
| Service cost                                   | 10.3             | 9.5      | 2.9            | 2.9       |
| Interest cost                                  | 24.2             | 23.9     | 2.8            | 3.4       |
| Plan amendments                                | 2.0              | 1.2      |                |           |
| Participant contributions                      |                  |          | 1.7            | 1.0       |
| Actuarial (gain)/loss                          | 33.8             | 17.9     | (4.4)          | (5.7)     |
| Benefits paid                                  | (34.4)           | (24.3)   | (4.7)          | (5.7)     |
| Balance at end of year                         | \$ 470.2         | \$ 434.3 | \$ 56.8        | \$ 58.5   |
| <b>Change in Plan Assets</b>                   |                  |          |                |           |
| Fair value of plan assets at beginning of year | \$ 526.4         | \$ 485.7 | \$ 6.2         | \$ 6.3    |
| Actual (loss) return on plan assets            | (2.6)            | 63.2     |                | 0.9       |
| Total contributions                            | 8.8              | 1.8      | 3.8            | 3.7       |
| Benefits paid                                  | (34.4)           | (24.3)   | (4.7)          | (4.7)     |
| Fair value of plan assets at end of year       | 498.2            | 526.4    | 5.3            | 6.2       |
| Funded status at end of year                   | \$ 28.0          | \$ 92.1  | \$ (51.5)      | \$ (52.3) |

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

| <i>In millions</i>          | Pension Benefits |          | Other Benefits |           |
|-----------------------------|------------------|----------|----------------|-----------|
|                             | 2011             | 2010     | 2011           | 2010      |
| Other long-term assets      | \$ 59.8          | \$ 129.2 | \$             | \$        |
| Current liabilities         | (1.8)            | (8.6)    | (3.4)          | (3.9)     |
| Other long-term liabilities | (30.0)           | (28.5)   | (48.1)         | (48.4)    |
| Net amount recognized       | \$ 28.0          | \$ 92.1  | \$ (51.5)      | \$ (52.3) |

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

| <i>In millions</i>          | Pension Benefits |         | Other Benefits |          |
|-----------------------------|------------------|---------|----------------|----------|
|                             | 2011             | 2010    | 2011           | 2010     |
| Prior service cost/(credit) | \$ 14.9          | \$ 15.5 | \$ (2.8)       | \$ (4.2) |
| Net actuarial loss          | 234.0            | 170.8   | 9.2            | 14.1     |



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The accumulated benefit obligation for all defined benefit pension plans was \$451.7 million and \$417.1 million at December 31, 2011 and 2010, respectively.

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

|                                  | Pension Benefits |       | Other Benefits |       |
|----------------------------------|------------------|-------|----------------|-------|
|                                  | 2011             | 2010  | 2011           | 2010  |
| Discount rate benefit obligation | <b>5.09%</b>     | 5.80% | <b>4.45%</b>   | 5.10% |
| Future compensation growth rate  | <b>4.0</b>       | 4.0   |                |       |

The discount rates set forth above were estimated based on the modeling of expected cash flows for each of our benefit plans and selecting a portfolio of high-quality debt instruments with maturities matching the respective cash flows of each plan. The resulting discount rates ranged from 4.97% to 6.07% for the pension plans and for other benefit plans ranged from 4.65% to 5.22%.

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

| <i>In millions</i>             | 2011           | 2010    |
|--------------------------------|----------------|---------|
| Projected benefit obligation   | <b>\$ 31.8</b> | \$ 37.1 |
| Accumulated benefit obligation | <b>27.9</b>    | 32.0    |

Fair value of plan assets

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

| <i>In millions</i>                          | Year Ended December 31 |            |            |
|---|------------------------|------------|------------|
|   | 2011                   | 2010       | 2009       |
| <b>Pension Benefits</b>                     |                        |            |            |
| Service cost                                | <b>\$ 10.3</b>         | \$ 9.5     | \$ 8.6     |
| Interest cost                               | <b>24.2</b>            | 23.9       | 23.4       |
| Expected return on plan assets              | <b>(42.0)</b>          | (40.3)     | (39.8)     |
| Amortization of prior service cost          | <b>2.6</b>             | 2.5        | 2.2        |
| Amortization of actuarial loss              | <b>13.3</b>            | 13.6       | 12.6       |
| One-time settlement charge                  | <b>2.0</b>             |            |            |
| <br>Total net periodic benefit cost         | <br><b>\$ 10.4</b>     | <br>\$ 9.2 | <br>\$ 7.0 |
| <b>Other Benefits</b>                       |                        |            |            |
| Service cost                                | <b>\$ 2.9</b>          | \$ 2.9     | \$ 2.6     |
| Interest cost                               | <b>2.8</b>             | 3.4        | 3.5        |
| Expected return on plan assets              | <b>(0.5)</b>           | (0.5)      | (0.5)      |
| Amortization of prior service cost/(credit) | <b>(1.2)</b>           | (1.2)      | (1.2)      |
| Amortization of actuarial loss              | <b>0.9</b>             | 1.5        | 2.1        |
| <br>Total net periodic benefit cost         | <br><b>\$ 4.9</b>      | <br>\$ 6.1 | <br>\$ 6.5 |

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In connection with the December 31, 2010 retirement of our former chief executive officer and the lump-sum distribution in July 2011 of accrued pension benefits due to him, we recorded a \$2.0 million one-time pension settlement charge in 2011.

The prior service cost and actuarial net (gain) loss for our defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into our results of operations as a component of net periodic benefit cost over the next fiscal year are \$2.5 million and \$17.6 million, respectively. The comparable amounts of expected amortization for other benefit plans are a credit of \$0.9 million and expense of \$0.7 million, respectively.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) were as follows:

| <i>In millions</i>  | Year Ended  |           |
|---|-------------|-----------|
|   | December 31 |           |
|   | 2011        | 2010      |
| <b>Pension Benefits</b>   |             |           |
| Actuarial (gain) loss   | \$ 76.5     | \$ (4.5)  |
| Prior service cost  | 2.1         | 1.2       |
| Amortization of prior service cost  | (2.6)       | (2.5)     |
| Amortization of actuarial losses  | (13.3)      | (13.6)    |
| Total recognized in other comprehensive (income) loss                               | 62.7        | (19.4)    |
| Total recognized in net periodic benefit cost and other comprehensive income (loss) | \$ 73.1     | \$ (10.2) |
| <b>Other Benefits</b>   |             |           |
| Actuarial (gain) loss   | \$ (3.8)    | \$ (6.0)  |
| Amortization of prior service cost  | 1.2         | 1.2       |
| Amortization of actuarial losses  | (0.9)       | (1.5)     |
| Total recognized in other comprehensive (income) loss                               | (3.5)       | (6.3)     |
| Total recognized in net periodic benefit cost and other comprehensive loss          | \$ 1.4      | \$ (0.2)  |

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

| <i>In millions</i>                               | Year Ended December 31 |       |       |
|--|------------------------|-------|-------|
|  | 2011                   | 2010  | 2009  |
| <b>Pension Benefits</b>                          |                        |       |       |
| Discount rate benefit expense                    | 5.81%                  | 6.10% | 6.25% |
| Future compensation growth rate                  | 4.0                    | 4.0   | 4.0   |
| Expected long-term rate of return on plan assets | 8.5                    | 8.5   | 8.5   |
| <b>Other Benefits</b>                            |                        |       |       |
| Discount rate benefit expense                    | 5.12                   | 5.90  | 6.25% |
| Expected long-term rate of return on plan assets | 8.5                    | 8.5   | 8.5   |

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

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

|   | 2011  | 2010  |
|---|-------|-------|
| Health care cost trend rate assumed for next year                                 | 7.90% | 8.10% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 4.5   | 4.5   |
| Year that the rate reaches the ultimate rate                                      | 2028  | 2021  |

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

**One Percentage Point**

| <i>In millions</i>                            | increase | decrease |
|---|----------|----------|
| Effect on:                                    |          |          |
| Post-retirement benefit obligation            | \$ 3.6   | \$ (3.2) |
| Total of service and interest cost components | 0.5      | (0.4)    |

**Plan Assets** All pension plan assets in the U.S. are invested through a single master trust fund. The strategic asset allocation for this trust fund is selected by management, reflecting the results of comprehensive asset liability modeling. The general principles guiding U.S. pension asset investment policies are those embodied in the Employee Retirement Income Security Act of 1974 (ERISA). These principles include discharging our investment responsibilities for the exclusive benefit of plan participants and in accordance with the prudent expert standard and other ERISA rules and regulations. We establish strategic asset allocation percentage targets and appropriate benchmarks for significant asset classes with the aim of achieving a prudent balance between return and risk.

Investments and decisions will be made solely in the interest of the Plan's participants and beneficiaries, and for the exclusive purpose of providing benefits accrued thereunder. The primary goal of the Plan is to ensure the solvency of the Plan over time and thereby meet its distribution objectives. Plan assets will be diversified. All investments in the Plan will be made in accordance with ERISA and other applicable statutes.

Risk is minimized by diversification by asset class, by style of each manager and by sector and industry limits when applicable. The target allocation for the Plan assets are:

|   |     |
|---|-----|
| Domestic Equity                         |     |
| Large cap                               | 39% |
| Small and mid cap                       | 13  |
| International equity                    | 13  |
| Real Estate Investment Trusts (REIT)    | 5   |
| Fixed income, cash and cash equivalents | 30  |

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Diversification is achieved by:

- i. placing restrictions on the percentage of equity investments in any one company, percentage of investment in any one industry, limiting the amount of assets placed with any one manager; and
- ii. setting targets for duration of fixed income securities, maintaining a certain level of credit quality, and limiting the amount of investment in non-investment grade paper.

A formal asset allocation review is done periodically to ensure that the Plan has an appropriate asset allocation based on the Plan's projected benefit obligations. The target return for each equity and fixed income manager will be one that places the manager's performance in the top 40% of its peers and on a gross basis, exceeds that of the manager's respective benchmark index. The target return for cash and cash equivalents is a return that at least equals that of the 90-day T-bills.

The Investment Policy statement lists specific categories of securities or activities that are prohibited including options, futures, commodities, hedge funds, limited partnerships, and our stock.

The table below presents the fair values of our benefit plan assets by level within the fair value hierarchy, as described in Note 2:

| <i>In millions</i>   | Fair Value Measurements at December 31,<br>2011 |          |          |         |
|----------------------|---|----------|----------|---------|
|                      | Total   | Level 1  | Level 2  | Level 3 |
| Domestic Equity      |   |          |          |         |
| Large cap            | \$ 164.5  | \$ 164.5 | \$       | \$      |
| Small and mid cap    | 57.7  | 57.7     |          |         |
| Other                | 0.6   | 0.5      | 0.1      |         |
| International equity | 79.7  | 48.3     | 31.4     |         |
| REIT                 | 26.4  | 26.4     |          |         |
| Fixed income         | 157.3   | 83.4     | 73.9     |         |
| Cash and equivalents | 17.3  |          | 17.3     |         |
| Total                | \$ 503.5  | \$ 380.8 | \$ 122.7 | \$      |

| <i>In millions</i>   | Fair Value Measurements at December 31,<br>2010 |          |          |         |
|----------------------|---|----------|----------|---------|
|                      | Total   | Level 1  | Level 2  | Level 3 |
| Domestic Equity      |   |          |          |         |
| Large cap            | \$ 185.8  | \$ 185.8 | \$       | \$      |
| Small and mid cap    | 67.5  | 67.5     |          |         |
| International equity | 93.7  | 57.8     | 35.9     |         |
| REIT                 | 24.1  | 24.1     |          |         |
| Fixed income         | 147.4   | 59.5     | 87.9     |         |
| Cash and equivalents | 14.1  | 0.2      | 13.9     |         |
| Total                | \$ 532.6  | \$ 394.9 | \$ 137.7 | \$      |

**Cash Flow** We were not required to make contributions to our qualified pension plan in 2011 nor do we expect to make any to this plan in 2012. Benefit

payments expected to be made in 2012 under our non-qualified pension plans and other benefit plans are summarized below:

| <i>In thousands</i>        |          |
|----------------------------|----------|
| Nonqualified pension plans | \$ 1,812 |
| Other benefit plans        | 4,269    |

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The following benefit payments under all pension and other benefit plans, and giving effect to expected future service, as appropriate, are expected to be paid:

| <i>In thousands</i> | <b>Pension Benefits</b> | <b>Other Benefits</b> |
|---------------------|-------------------------|-----------------------|
| 2012                | \$ 29,451               | \$ 4,269              |
| 2013                | 29,684                  | 4,244                 |
| 2014                | 29,973                  | 4,617                 |
| 2015                | 30,263                  | 4,648                 |
| 2016                | 30,417                  | 4,822                 |
| 2017 through 2021   | 153,495                 | 24,708                |

**Defined Contribution Plans** We maintain 401(k) plans for certain hourly and salaried employees. Employees may contribute up to 15% of their salary to these plans, subject to certain restrictions. We will match a portion of the employee's contribution, subject to certain limitations, in the form of shares of Glatfelter common stock. The expense associated with our 401(k) match was \$1.3 million, \$1.0 million and \$0.9 million in 2011, 2010 and 2009, respectively.

### 11. INVENTORIES

Inventories, net of reserves were as follows:

| <i>In thousands</i>     | <b>2011</b> | <b>2010</b> |
|-------------------------|-------------|-------------|
| Raw materials           | \$ 57,547   | \$ 52,538   |
| In-process and finished | 93,096      | 94,118      |
| Supplies                | 56,064      | 54,421      |
| Total                   | \$ 206,707  | \$ 201,077  |

We value all of our U.S. inventories, excluding supplies, on the LIFO method. If we had valued these inventories using the first-in, first-out method, inventories would have been \$22.1 million and \$20.2 million higher than reported at December 31, 2011 and 2010, respectively. During 2011 and 2010, we liquidated certain LIFO inventories, the effect of which did not have a significant impact on results of operations.

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

| <i>In thousands</i>              | 2011       | 2010       |
|----------------------------------|------------|------------|
| Land and buildings               | \$ 186,846 | \$ 185,469 |
| Machinery and equipment          | 1,102,709  | 1,080,065  |
| Furniture, fixtures, and other   | 117,082    | 109,168    |
| Accumulated depreciation         | (850,255)  | (807,441)  |
|                                  | 556,382    | 567,261    |
| Construction in progress         | 34,576     | 30,904     |
| Asset retirement obligation, net | 7,968      | 8,829      |
| Timberlands, less depletion      | 3,024      | 1,176      |
| Total                            | \$ 601,950 | \$ 608,170 |

**13. GOODWILL AND INTANGIBLE ASSETS**

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

| <i>In thousands</i>                     | December 31 |           |
|---|-------------|-----------|
|   | 2011        | 2010      |
| Goodwill Composite Fibers               | \$ 16,161   | \$ 16,483 |
| Specialty Papers                        |             |           |
| Customer relationships Composite Fibers | \$ 6,155    | \$ 6,155  |
| Technology and related                  | 4,174       | 4,194     |
| Customer relationships and related      | 1,790       | 1,799     |
| Advanced Airlaid Materials              |             |           |
| Technology and related                  | 1,560       | 1,594     |
| Customer relationships and related      | 3,238       | 3,350     |
| Total intangibles                       | 16,917      | 17,092    |
| Accumulated amortization                | (7,027)     | (5,245)   |
| Net intangibles                         | \$ 9,890    | \$ 11,847 |

The decrease in goodwill was due to foreign currency translation adjustments. Other than non-amortizable goodwill, intangible assets are amortized on a straight-line basis. Customer relationships are amortized over periods ranging from 3 years to 14 years and technology and related intangible assets are amortized over period ranging from 14 years to 20 years. The following table sets forth information pertaining to amortization of intangible assets:

| <i>In thousands</i>             | 2011     | 2010     |
|---------------------------------|----------|----------|
| Aggregate amortization expense: | \$ 1,858 | \$ 1,763 |
| Estimated amortization expense: |          |          |
| 2012                            | 1,816    |          |
| 2013                            | 1,346    |          |
| 2014                            | 1,346    |          |
| 2015                            | 1,346    |          |
| 2016                            | 884      |          |

The remaining weighted average useful life of intangible assets was 9.5 years at December 31, 2011.

**14. OTHER LONG-TERM ASSETS**

Other long-term assets consist of the following:

| <i>In thousands</i>         | December 31 |            |
|-----------------------------|-------------|------------|
|                             | 2011        | 2010       |
| Pension                     | \$ 59,821   | \$ 129,207 |
| Installment note receivable |             | 43,183     |
| Goodwill and intangibles    | 26,051      | 28,330     |
| Other                       | 26,690      | 30,167     |
| Total                       | \$ 112,562  | \$ 230,887 |

**15. OTHER CURRENT LIABILITIES**

Other current liabilities consist of the following:

| <i>In thousands</i>                                | December 31 |            |
|--|-------------|------------|
|  | 2011        | 2010       |
| Accrued payroll and benefits                       | \$ 48,654   | \$ 47,205  |
| Other accrued compensation and retirement benefits | 6,253       | 13,491     |
| Income taxes payable                               | 3,543       | 2,192      |
| Accrued rebates                                    | 10,839      | 16,086     |
| Other accrued expenses                             | 28,309      | 30,342     |
| Total  | \$ 97,598   | \$ 109,316 |

**16. LONG-TERM DEBT**

Long-term debt is summarized as follows:

| <i>In thousands</i>                                       | December 31 |            |
|---|-------------|------------|
|   | 2011        | 2010       |
| Revolving credit facility, due May 2014                   | n/a         | \$         |
| Revolving credit facility, due Nov. 2016                  | \$ 27,000   |            |
| 7 1/8% Notes, due May 2016                                | 200,000     | 200,000    |
| 7 1/8% Notes, due May 2016 net of original issue discount |             | 95,529     |
| Term Loan, due January 2013                               |             | 36,695     |
| Total long-term debt                                      | 227,000     | 332,224    |
| Less current portion                                      |             |            |
| Long-term debt, excluding current portion                 | \$ 227,000  | \$ 332,224 |

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

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

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Credit Rating ); or iii) the daily Euro-rate plus 100 basis points; or (b) the daily Euro-rate plus an applicable margin ranging from 125 basis points to 225 basis points based on the Corporate Credit Rating. For non-US dollar denominated borrowings, interest is based (b) above.

The Revolving 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, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios including: i) maximum net debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio; ii) a consolidated EBITDA to interest expense ratio; and iii) beginning December 31, 2015, a minimum liquidity ratio. A breach of these requirements would give rise to certain remedies under the Revolving Credit Agreement, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

On April 28, 2006 we completed an offering of \$200.0 million aggregate principal amount of our 7 1/8% Senior Notes due 2016 ( 7/8% Notes ). Net proceeds from this offering totaled approximately \$196.4 million, after deducting the commissions and other fees and expenses relating to the offering. The proceeds were primarily used to redeem \$150.0 million aggregate principal amount of our then outstanding notes plus the payment of applicable redemption premium and accrued interest.

On February 5, 2010, we issued \$100 million in aggregate principal amount of 7 1/8% Notes due 2016. The notes were issued at 95.0% of the principal amount. Net proceeds from this offering after deducting offering fees and expenses, were used to fund, in part, the Concert acquisition. Pursuant to the optional redemption provisions contained in the Indenture, we elected to redeem all of these notes on December 21, 2011 at 103.563% of par using, in part, borrowings under the Revolving Credit Agreement. The \$3.6 million redemption premium is reported under the caption other non-operating expenses other-net in the accompanying consolidated statements of income. The write-off of the related unamortized deferred financing fees and original issue discount totaled \$5.9 million and are reported under the caption Interest expense in the accompanying consolidated statements of income.

Interest on the 7 1/8% Notes accrues at the rate of 7 1/8% per annum and is payable semiannually in arrears on May 1 and November 1.

The 7 1/8% Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the Revolving Credit Agreement at maturity or a default under the Revolving Credit Agreement that accelerates the debt outstanding thereunder. As of December 31, 2011, we met all of the requirements of our debt covenants.

In November 2007, we sold approximately 26,000 acres of timberland. In connection with that transaction, we formed GPW Virginia Timberlands LLC ( GPW Virginia ) as an indirect, wholly owned and bankruptcy-remote subsidiary of ours. GPW Virginia received as consideration for the timberland sold in that transaction a \$43.2 million, interest-bearing note that matures in 2027 from the buyer, Glawson Investments Corp. ( Glawson ), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The Glawson note receivable was fully secured by a letter of credit issued by The Royal Bank of Scotland plc. In January 2008, GPW Virginia monetized the Glawson note receivable by entering into a \$36.7 million term loan agreement (the 2008 Term Loan ) with a financial institution. The 2008 Term Loan was secured by all of the assets of GPW Virginia, including the Glawson note receivable, the related letter of credit and additional notes with an aggregate principal amount of \$9.2 million that we issued in favor of GPW Virginia (the Company Note ). The principal amount of the 2008 Term Loan was due on January 15, 2013.

Under terms of the above transaction, minimum credit ratings must be maintained by the letter of credit issuing bank. An event of default is deemed to have occurred under the debt instrument governing the Note Payable unless actions are taken to cure such default within 60 days from the date such credit rating falls below the specified minimum. Potential remedial actions include: (i) amending the terms of the applicable debt instrument; (ii) a replacement of the letter of credit with an appropriately rated institution; or (iii) repaying the Note Payable.

On October 7, 2011, the credit rating of The Royal Bank of Scotland, the letter of credit issuer behind the Glawson Note, fell below the required minimum level. To avoid the occurrence of an event of default associated with the credit downgrade, on December 5, 2011, we, Glawson and SunTrust, as trustee, agreed to collapse the transaction, the effect of which was: i) the acceleration of



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the maturity date of the Glawson Note to December 5, 2011; (ii) satisfaction in full of the \$43.2 million Glawson Note owed to us; and (iii) the satisfaction in full of the \$36.7 million indebtedness owed by us to SunTrust under the Term Loan Agreement. As a result, we received net proceeds of approximately \$6.2 million, after accrued interest.

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

*In thousands*

|      |         |
|------|---------|
| 2012 | \$      |
| 2013 |         |
| 2014 |         |
| 2015 |         |
| 2016 | 227,000 |

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

As of December 31, 2011 and 2010, we had \$4.6 million and \$5.4 million, respectively, of letters of credit issued to us by certain financial institutions. Such letters of credit reduce amounts available under our revolving credit facility. The letters of credit outstanding as of December 31, 2011, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

**17. ASSET RETIREMENT OBLIGATION**

During 2008, we recorded \$11.5 million, net present value, of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, lagoons were used to dispose of residual waste material. Closure of the lagoons, which is expected to be completed over the next five 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, in addition to upward revisions, were accrued with a corresponding increase in the carrying value of the property, equipment and timberlands captioned on the consolidated balance sheet. The amount capitalized is being amortized as a charge to operations on the straight-line basis in relation to the expected closure period.

Following is a summary of the reserve for asset retirement obligations for the periods indicated:

| <i>In thousands</i> | 2011       | 2010        |
|---------------------|------------|-------------|
| Beginning balance   | \$ (9,717) | \$ (11,292) |
| Upward revision     | (611)      |             |
| Payments            | 1,199      | 2,179       |
| Accretion           | (550)      | (604)       |
| Ending balance      | \$ (9,679) | \$ (9,717)  |

Of the total liability at the end of 2011 and 2010, \$1.5 million is recorded in the accompanying consolidated balance sheets under the caption Other current liabilities and \$8.2 million is recorded under the caption Other long-term liabilities.

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The amounts reported on the consolidated balance sheets for cash and cash equivalents, accounts receivable and short-term debt approximate fair value. The following table sets forth the carrying value and fair value of long-term debt as of December 31:

| <i>In thousands</i> | 2011 | 2010 |
|---------------------|------|------|
|                     | Fair |      |

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|                    | Carrying<br>Value | Value             | Carrying<br>Value | Fair<br>Value     |
|--------------------|-------------------|-------------------|-------------------|-------------------|
| Fixed-rate Bonds   | \$ 200,000        | \$ 204,000        | \$ 295,529        | \$ 304,115        |
| Variable rate debt | 27,000            | 27,000            | 36,695            | 37,780            |
| <b>Total</b>       | <b>\$ 227,000</b> | <b>\$ 231,000</b> | <b>\$ 332,224</b> | <b>\$ 341,895</b> |

As of December 31, 2011, we had \$200.0 million of 7 1/8% fixed rate debt, and as of December 31, 2010, we had \$300.0 million of this debt, \$100.0 million of which was recorded net of unamortized original issue discount. These bonds are publicly registered, but thinly traded. Accordingly, the values set forth above are based on debt instruments with similar characteristics. The fair value of financial derivatives is set forth below in Footnote 19.

**19. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES**

As part of our overall risk management practices, we enter into financial derivatives primarily designed to either i) hedge foreign currency risks associated with forecasted transactions cash flow hedges ; or ii) mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and foreign currency denominated receivables and payables foreign currency hedges.

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**Derivatives Designated as Hedging Instruments – Cash Flow Hedges** In 2011, we began to use currency forward contracts as cash flow hedges to manage our exposure to fluctuations in the currency exchange rates on certain forecasted production costs expected to be incurred over a maximum of twelve months. Currency forward contracts involve fixing the EUR-USD exchange rate or USD-CAD for delivery of a specified amount of foreign currency on a specified date.

We designate certain currency forward contracts as cash flow hedges of forecasted raw material purchases or certain production labor costs with exposure to changes in foreign currency exchange rates. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges of foreign exchange risk is deferred as a component of accumulated other comprehensive income in the accompanying consolidated balance sheet and is subsequently reclassified into cost of products sold in the period that inventory produced using the hedged transaction affects earnings. The ineffective portion of the change in fair value of the derivative is recognized directly to earnings and reflected in the accompanying consolidated statement of income as non-operating income (expense) under the caption "Other net."

We had the following outstanding derivatives that were used to hedge foreign exchange risks associated with forecasted transactions and designated as hedging instruments:

| <i>In thousands</i>           | 2011   | December 31, | 2010 |
|-------------------------------|--------|--------------|------|
| Derivative                    |        | Buy Notional |      |
| Sell / Buy                    |        |              |      |
| Euro / U.S. dollar            | 22,730 |              |      |
| U.S. dollar / Canadian dollar | 11,019 |              |      |

These contracts have maturities of twelve months or less.

**Derivatives Not Designated as Hedging Instruments – Foreign Currency Hedges** We also enter into forward foreign exchange contracts to mitigate the impact changes in currency exchange rates have on balance sheet monetary assets and liabilities. None of these contracts are designated as hedges for financial accounting purposes and, accordingly, changes in value of the foreign exchange forward contracts and in the offsetting underlying on-balance-sheet transactions are reflected in the accompanying statement of operations under the caption "Other net."

| <i>In thousands</i>           | 2011    | December 31,  | 2010    |
|-------------------------------|---------|---------------|---------|
| Derivative                    |         | Sell Notional |         |
| Sell / Buy                    |         |               |         |
| Euro / U.S. dollar            | 25,500  |               | 57,000  |
| Euro / British Pound          |         |               | 3,000   |
| Philippine peso / U.S. dollar | 150,000 |               | 247,000 |

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

**Fair Value Measurements**

The following table summarizes the fair values of derivative instruments as of December 31 for the year indicated and the line items in the accompanying consolidated balance sheet where the instruments are recorded:

| <i>In thousands</i>                         | 2011     | Prepaid and<br>Other Current<br>Assets | 2010 | 2011  | Other Current<br>Liabilities | 2010   |
|---|----------|--|------|-------|------------------------------|--------|
| Designated as hedging:                      |          |  |      |       |                              |        |
| Forward foreign currency exchange contracts | \$ 1,520 |  | \$   | \$    |                              | \$     |
| Not designated as hedging:                  |          |  |      |       |                              |        |
| Forward foreign currency exchange contracts | \$ 338   |  | \$   | \$ 15 |                              | \$ 581 |

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

The following table summarizes the amount of income or loss from derivative instruments recognized in our results of operations for the periods indicated and the line items in the accompanying consolidated statements of income where the results are recorded:

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| <i>In thousands</i>                          | <b>2011</b>     | 2010           | 2009     |
|--|-----------------|----------------|----------|
|  |                 | Gains (losses) |          |
| <b><i>Designated as hedging:</i></b>         |                 |                |          |
| Forward foreign currency exchange contracts: |                 |                |          |
| Effective portion cost of products sold      | <b>\$ 174</b>   | \$             | \$       |
| Ineffective portion other net                | <b>165</b>      |                |          |
| <b><i>Not designated as hedging:</i></b>     |                 |                |          |
| Forward foreign currency exchange contracts: |                 |                |          |
| Other net                                    | <b>\$ (686)</b> | \$ (1,047)     | \$ (400) |

The impact of activity not designated as hedging was substantially all offset by the remeasurement of the underlying on-balance sheet item.

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted

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prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described in Note 2.

The fair values of the foreign exchange forward contracts are considered to be Level 2. Foreign currency forward contracts are valued using foreign currency forward and interest rate curves. The fair value of each contract is determined by comparing the contract rate to the forward rate and discounting to present value. Contracts in a gain position are recorded in the consolidated balance sheet under the caption "Prepaid and other current assets" and the value of contracts in a loss position is recorded under the caption "Other current liabilities."

A rollforward of fair value amounts recorded as a component of accumulated other comprehensive income is as follows:

| <i>In thousands</i>                | 2011     | 2010 |
|------------------------------------|----------|------|
| Balance at January 1,              | \$       | \$   |
| Deferred gains on cash flow hedges | 1,823    |      |
| Reclassified to earnings           | (174)    |      |
| Balance at December 31,            | \$ 1,649 | \$   |

We expect substantially all of the amounts recorded as a component of accumulated other comprehensive income will be realized in results of operations within the next twelve months and the amount ultimately recognized will vary depending on actual market rates.

Credit risk related to derivative activity arises in the event a counterparty fails to meet its obligations to us. This exposure is generally limited to the amounts, if any, by which the counterparty's obligations exceed our obligation to them. Our policy is to enter into contracts only with financial institutions which meet certain minimum credit ratings.

**20. SHAREHOLDERS' EQUITY**

The following table summarizes outstanding shares of common stock:

| <i>In thousands</i>                     | 2011    | Year Ended December 31, |        |
|---|---------|-------------------------|--------|
|   |         | 2010                    | 2009   |
| Shares outstanding at beginning of year | 45,976  | 45,706                  | 45,434 |
| Shares repurchased                      | (3,505) |                         |        |
| Treasury shares issued for:             |         |                         |        |
| Restricted stock awards                 | 14      | 112                     | 86     |
| 401(k) plan                             | 143     | 132                     | 169    |
| Director compensation                   | 12      | 12                      | 17     |
| Employee stock options exercised        | 10      | 14                      |        |
| Shares outstanding at end of year       | 42,650  | 45,976                  | 45,706 |

**21. SHARE REPURCHASES**

In April 2011, our Board of Directors authorized a share repurchase program for up to \$50.0 million of our outstanding common stock. The following table summarizes share repurchases through December 31, 2011, made under this program:

|                            | shares    | (thousands) |
|----------------------------|-----------|-------------|
| Authorized amount          | n/a       | \$ 50,000   |
| Repurchases <sup>(1)</sup> | 3,505,485 | (48,799)    |
| Remaining authorization    |           | \$ 1,201    |

(1) Amounts reflect trades entered into through December 31, 2011. Cash spent on settled transactions, excluding commissions, totaled \$47.9 million. In January 2012, we completed additional share repurchases fully utilizing the authorized amount.

**22. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS**

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

| <i>In thousands</i> | Leases   | Other     |
|---------------------|----------|-----------|
| 2012                | \$ 4,425 | \$ 77,096 |
| 2013                | 3,360    | 27,157    |
| 2014                | 2,454    | 16,390    |
| 2015                | 1,948    | 721       |
| 2016                | 1,646    | 428       |
| Thereafter          | 6,466    | 7         |

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

At December 31, 2011, required minimum annual payments due under operating leases and other similar contractual obligations aggregated \$20.3 million and \$121.8 million, respectively.

**Fox River Neenah, Wisconsin**

**Background** We have significant uncertainties associated with environmental claims arising out of the presence of polychlorinated biphenyls ( PCBs ) in sediments in the lower Fox River and in the Bay of Green Bay Wisconsin ( Site ). As part of our 1979 acquisition of the Bergstrom Paper Company, we acquired a facility located at the Site (the Neenah Facility ). The Neenah Facility used wastepaper as a source of fiber. Discharges to the lower Fox River from the Neenah Facility that may have contained PCBs from wastepaper may have occurred from

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1954 to the late 1970s. We believe that any PCBs that the Neenah Facility may have discharged into the lower Fox River resulted from the presence of PCBs in NCR®-brand carbonless copy paper in the wastepaper that was recycled at the Neenah Facility. We closed the Neenah Facility in June 2006.

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

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

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

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

We are engaged in litigation to allocate costs and NRDs among the parties responsible for this site. The Governments have sought to recover response actions, response costs, and NRDs from us through three principal enforcement actions.

OU1 CD. On October 1, 2003, the United States and the State of Wisconsin commenced an action captioned *United States v. P.H. Glatfelter Co.* against us and WTM I Co. in the United States District Court for

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

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

Government Action. On October 14, 2010, the United States and the State of Wisconsin filed an action in the United States District Court for the Eastern District of Wisconsin captioned *United States v. NCR Corp.* (the Government Action) against 12 parties, including us. The Government Action seeks to recover from each of the defendants, jointly and severally, all of the governments' past costs of response, which approximates \$17 million to date, a declaration as to liability for all of the governments' future costs of response, and compensation for natural resource damages, as well as a declaration as to liability for compliance with the UAO for OU2-5. On March 29, 2011, the United States filed a motion for a preliminary injunction against NCR and API to require NCR and API to implement work in 2011 at a rate described as full-scale sediment remediation. On July 5, 2011, that motion was denied; in the course of that ruling, the court found that the governments were not likely to show that API was liable under CERCLA at all. The governments have since filed a renewed motion against NCR alone, which was again denied. API has moved for summary judgment on





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the ground that it is not liable at all, and that motion has been denied. The United States has now sought to begin active litigation of this case against the recipients of the UAO other than Georgia-Pacific (which has settled), including us.

**Whiting Litigation.** On January 7, 2008, NCR and API commenced litigation in the United States District Court for the Eastern District of Wisconsin captioned *Appleton Papers Inc. v. George A. Whiting Paper Co.*, seeking to reallocate costs and damages allegedly incurred or paid or to be incurred or paid by NCR or API (the Whiting Litigation). The case involves allocation claims among the two plaintiffs and 28 defendants including us. We and other defendants counterclaimed against NCR and API. Some of the claims have since been resolved as described below.

**Claims against governments.** The Whiting Litigation involves claims by certain parties against federal agencies who are responsible parties for this site. In the Government Action many defendants, including us, asserted counterclaims against the United States and the State of Wisconsin.

**Settlements.** Certain parties have resolved their liability to the United States affording them contribution protection. These settlements are embodied in consent decrees. Notably, we entered into the OU1 CD. Also, in a case captioned *United States v. George A. Whiting Paper Co.*, the district court entered two consent decrees under which 13 *de minimis* defendants in the Whiting Litigation settled with the United States and Wisconsin. The Court of Appeals for the Seventh Circuit denied an appeal of these settlements by NCR and API on May 4, 2011. Further, Georgia-Pacific Consumer Products LP, has entered into a consent decree resolving its liability for NRDs and a separate consent decree in the Government Action that resolves all of its liabilities except for the downstream portion of the OU4 remedy. Finally, the United States has lodged a consent decree that would resolve the liability of itself and two municipalities and has moved for entry of that decree. We oppose entry of that consent decree, which the district court must approve. The United States or the State of Wisconsin may enter into settlements with us or with other parties that would affect our ultimate obligations because settling parties may become unavailable to pay any share other than their settlement amount, depending upon the terms of the settlement and the court's order entering any consent decree.

**Cleanup Decisions.** The extent of our exposure depends, in large part, on the decisions made by EPA and

the Wisconsin Department of Natural Resources (WDNR) as to how the Site will be cleaned up and the costs and timing of those response actions. The nature of the response actions has been highly controversial. Between 2002 and 2008, the EPA issued records of decision (RODs) regarding required remedial actions for the OUs. Some of those RODs have been amended. We contend that the remedy for OU2-5 is arbitrary and capricious. We and others may litigate that issue in the Government Action. If we were to be successful in modifying any existing selected remedy, our exposure could be reduced materially.

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

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

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

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

On December 16, 2009, the court granted motions for summary judgment in our favor in the Whiting

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

We also filed counterclaims against NCR and API to recover the costs we have incurred and may later incur and the damages we have paid and may later pay in connection with the Site. Other defendants have similar claims. On February 28, 2011, the district court granted our summary judgment motions on those counterclaims in part and denied them in part. The court granted a declaration that NCR and API are liable to us (and to others) in contribution for 100% of any costs of response (that is, clean up) that we may be required to pay for work in OU2-5 in the future. The court requires further proceedings to decide whether or to what extent NCR and API owe contribution to us and others for costs that we and others incurred in the past and costs that we and others incurred in connection with OU1. On September 30, 2011, the court clarified its ruling with respect to NRDs and natural resource damage assessment costs, holding that NCR and API owe full contribution to us (and others) for NRDs or natural resource damage assessment costs that we have paid or may be required to pay in the future. The remaining issues on our pending counterclaims under the Superfund statute were litigated at a trial which began February 21, 2012. We expect the court to determine the precise amounts due us on our counterclaims with respect to costs and damages we have already paid.

**Reserves for the Site.** As of December 31, 2011, our reserve for our claimed liability at the Site, including our remediation and ongoing monitoring obligations at OU1, our claimed liability for the remediation of the rest of the Site, our claimed liability for NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled \$16.6 million. Of our total reserve for the Fox River, \$0.3 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remainder is recorded under the caption Other long term liabilities.

Although we believe that amounts already funded by us and WTM to implement the OU1 remedy are adequate and no payments have been required since January 2009, there can be no assurance that these amounts will in fact

suffice. WTM has filed a bankruptcy petition in the Bankruptcy Court in Richmond; accordingly, there can be no assurance that WTM will be able to fulfill its obligation to pay half of any additional costs, if required.

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

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

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

The amount and timing of future expenditures for environmental compliance, cleanup, remediation and personal injury, NRDs and property damage liabilities cannot be ascertained with any certainty due to, among other things, the unknown extent and nature of any contamination, the response actions that may ultimately be

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required, the availability of remediation equipment, and landfill space, and the number and financial resources of any other PRPs.

**Other Information.** The Governments have published studies estimating the amount of PCBs discharged by each identified PRP's facility to the lower Fox River and Green Bay. These reports estimate the Neenah Facility's share of the mass of PCBs discharged to be as high as 27%. We do not believe the discharge mass estimates used in these studies are accurate because (a) the studies themselves disclose that they are not accurate and (b) the PCB mass estimates contained in the studies are based on assumptions that are unsupported by existing data on the Site. We believe that the Neenah Facility's absolute and relative contribution of PCB mass is significantly lower than the estimates set forth in these studies.

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

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

**Range of Reasonably Possible Outcomes.** Our analysis of the range of reasonably possible outcomes is derived from all available information, including but not limited to official documents such as RODs, discussions with the United States and other PRPs, as well as legal counsel and engineering consultants. Based on our analysis of the current RODs and cost estimates for work to be performed at the Site, we believe that it is reasonably possible that our costs associated with the Fox River

matter may exceed our cost estimates and the aggregate amounts accrued for the Fox River matter by amounts that are insignificant or that could range up to \$265 million over an undeterminable period that could range beyond 15 years. We believe that the likelihood of an outcome in the upper end of the monetary range is significantly less than other possible outcomes within the range and that the possibility of an outcome in excess of the upper end of the monetary range is remote. The two summary judgments in our favor in the Whiting Litigation, if sustained on appeal, suggest that outcomes in the upper end of the monetary range have become somewhat less probable, while increases in cost estimates for some of the work may make an outcome in the upper end of the range more likely.

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

**Ecusta Environmental Matters** Beginning in April 2003, government authorities, including the North Carolina Department of Environment and Natural Resources ( NCDENR ), initiated discussions with us and other parties regarding, among other environmental issues, certain landfill closure liabilities associated with our former Ecusta mill and its properties (the Ecusta Property ). The discussions focused on NCDENR's desire to establish a plan and secure financial resources to close three landfills located at the Ecusta Property and to address other environmental matters at the facility. During the third quarter of 2003, the discussions ended with NCDENR's conclusion to hold us responsible for the closure of three landfills. Accordingly, in 2003 we established reserves

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totaling approximately \$7.6 million representing estimated landfill closure costs. During 2009, we completed the closure of the last of those three landfills (collectively, the Landfill Closure and Post-Closure Obligations ). All Landfill Closures have been completed in accordance with plans submitted and approved by NCDENR. We continue to satisfy any Post-Closure Obligations, the financial impact of which are not material to our consolidated financial position or results of operations.

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

On January 25, 2008, we entered into a series of agreements with, among others, Davidson River Village, LLC ( DRV )- the current owner of the Ecusta Property pursuant to which we transferred potential liabilities for certain environmental matters at the Ecusta Property to DRV (the DRV Transaction ). In connection with the DRV Transaction, DRV assumed, and indemnified us for, liability arising from environmental matters and conditions at the Ecusta Property with certain exceptions, including the Landfill Closure and Post-Closure Obligations and investigation and remediation (if necessary) of any pollutants that may have migrated from the Ecusta Property to the Davidson and French Broad Rivers (the River Areas ), which liabilities were retained by us. During 2011, the plan for remediation of the mercury releases described above was completed and accepted by the environmental agencies.

**Table of Contents****23. SEGMENT AND GEOGRAPHIC INFORMATION**

The following tables set forth profitability and other information by business unit:

For the year ended  
December 31, 2011

| <i>In millions</i>  | Specialty Papers | Composite Fibers | Advanced Airlaid<br>Materials | Other and<br>Unallocated | Total      |
|---|------------------|------------------|-------------------------------|--------------------------|------------|
| Net sales   | \$ 875.1         | \$ 476.0         | \$ 252.0                      | \$                       | \$ 1,603.2 |
| Energy and related sales, net                                     | 9.3              |                  |                               |                          | 9.3        |
| Total revenue   | 884.4            | 476.0            | 252.0                         |                          | 1,612.5    |
| Cost of products sold   | 775.7            | 395.7            | 227.7                         | 7.2                      | 1,406.3    |
| Gross profit  | 108.7            | 80.3             | 24.3                          | (7.2)                    | 206.2      |
| SG&A  | 51.4             | 39.5             | 10.9                          | 23.0                     | 124.9      |
| Gains on dispositions of plant,<br>equipment and timberlands, net |                  |                  |                               | (4.0)                    | (4.0)      |
| Total operating income (loss)                                     | 57.3             | 40.8             | 13.4                          | (26.2)                   | 85.3       |
| Non-operating income<br>(expense)                                 |                  |                  |                               | (34.4)                   | (34.4)     |
| Income (loss) before income<br>taxes                              | \$ 57.3          | \$ 40.8          | \$ 13.4                       | \$ (60.7)                | \$ 50.8    |
| <b>Supplementary Data</b>   |                  |                  |                               |                          |            |
| Plant, equipment and<br>timberlands, net                          | \$ 250.2         | \$ 176.2         | \$ 175.6                      |                          | \$ 602.0   |
| Depreciation, depletion and<br>amortization                       | 36.0             | 24.8             | 8.5                           |                          | 69.3       |
| Capital expenditures  | 31.4             | 22.5             | 10.6                          |                          | 64.5       |

For the year ended  
December 31, 2010

| <i>In millions</i>  | Specialty Papers | Composite Fibers | Advanced Airlaid<br>Materials | Other and<br>Unallocated | Total      |
|---|------------------|------------------|-------------------------------|--------------------------|------------|
| Net sales   | \$ 842.6         | \$ 419.2         | \$ 193.5                      | \$                       | \$ 1,455.3 |
| Energy and related sales, net                                     | 10.7             |                  |                               |                          | 10.7       |
| Total revenue   | 853.3            | 419.2            | 193.5                         |                          | 1,466.0    |
| Cost of products sold   | 740.2            | 350.5            | 181.7                         | 7.4                      | 1,279.7    |
| Gross profit  | 113.1            | 68.7             | 11.8                          | (7.4)                    | 186.2      |
| SG&A  | 54.7             | 35.8             | 7.4                           | 24.3                     | 122.1      |
| Gains on dispositions of plant,<br>equipment and timberlands, net |                  |                  |                               | (0.5)                    | (0.5)      |
| Total operating income (loss)                                     | 58.4             | 32.9             | 4.4                           | (31.2)                   | 64.6       |
| Non-operating income<br>(expense)                                 |                  |                  |                               | (31.1)                   | (31.1)     |
| Income (loss) before income<br>taxes                              | \$ 58.4          | \$ 32.9          | \$ 4.4                        | \$ (62.3)                | \$ 33.5    |
| <b>Supplementary Data</b>   |                  |                  |                               |                          |            |
| Plant, equipment and<br>timberlands, net                          | \$ 251.3         | \$ 181.6         | \$ 175.3                      | \$                       | \$ 608.2   |
| Depreciation, depletion and<br>amortization                       | 34.9             | 23.7             | 7.2                           |                          | 65.8       |
| Capital expenditures  | 24.1             | 8.2              | 4.2                           |                          | 36.5       |

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For the year ended  
December 31, 2009

| <i>In millions</i>   | Specialty Papers | Composite Fibers | Advanced Airlaid<br>Materials | Other and<br>Unallocated | Total           |
|--|------------------|------------------|-------------------------------|--------------------------|-----------------|
| Net sales  | \$ 791.9         | \$ 392.1         | \$                            | \$                       | \$ 1,184.0      |
| Energy and related sales, net  | 13.3             |                  |                               |                          | 13.3            |
| <b>Total revenue</b>   | <b>805.2</b>     | <b>392.1</b>     |                               |                          | <b>1,197.3</b>  |
| Cost of products sold  | 693.9            | 334.4            |                               | (100.7)                  | 927.6           |
| <b>Gross profit</b>  | <b>111.3</b>     | <b>57.7</b>      |                               | <b>100.7</b>             | <b>269.8</b>    |
| SG&A   | 55.4             | 35.8             |                               | 19.1                     | 110.3           |
| Gains on dispositions of plant,<br>equipment and timberlands,<br>net |                  |                  |                               | (0.9)                    | (0.9)           |
| <b>Total operating income (loss)</b>                                 | <b>55.9</b>      | <b>21.9</b>      |                               | <b>82.6</b>              | <b>160.4</b>    |
| Non-operating income<br>(expense)                                    |                  |                  |                               | (17.3)                   | (17.3)          |
| <b>Income (loss) before income<br/>taxes</b>                         | <b>\$ 55.9</b>   | <b>\$ 21.9</b>   | <b>\$</b>                     | <b>\$ 65.3</b>           | <b>\$ 143.1</b> |
| <b>Supplementary Data</b>  |                  |                  |                               |                          |                 |
| Plant, equipment and<br>timberlands, net                             | \$ 262.8         | \$ 207.8         | \$                            | \$                       | \$ 470.6        |
| Depreciation, depletion and<br>amortization                          | 37.5             | 23.7             |                               |                          | 61.3            |
| Capital expenditures   | 14.2             | 12.1             |                               |                          | 26.3            |

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

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

Management evaluates results of operations of the business units before pension income or expense, alternative fuel mixture credits, debt redemption costs, restructuring related charges, 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.

Our Specialty Papers business unit focuses on producing papers for the following markets:

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

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

**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, FDA-compliant food and beverage applications, and other niche specialty applications.

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

| <i>In thousands</i>   | <b>2011</b>       | 2010       | 2009       |
|-----------------------|-------------------|------------|------------|
| Carbonless & forms    | <b>\$ 368,582</b> | \$ 359,033 | \$ 320,088 |
| Book publishing       | <b>166,506</b>    | 168,155    | 176,646    |
| Envelope & converting | <b>170,380</b>    | 157,202    | 146,812    |
| Engineered products   | <b>166,660</b>    | 155,257    | 143,490    |
| Other                 | <b>2,950</b>      | 2,967      | 4,879      |
| Total                 | <b>\$ 875,078</b> | \$ 842,614 | \$ 791,915 |

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

**Food & Beverage** papers used for single-serve coffee and tea products and other applications;

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

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

**Technical Specialties** is a diverse line of paper products used in batteries, medical masks and other highly engineered applications. Composite Fibers' revenue composition by market consisted of the following for the years indicated:

| <i>In thousands</i>             | 2011       | 2010       | 2009       |
|---------------------------------|------------|------------|------------|
| Food & beverage                 | \$ 284,748 | \$ 242,882 | \$ 233,899 |
| Metallized                      | 95,276     | 88,753     | 81,388     |
| Composite laminates             | 53,334     | 50,801     | 46,442     |
| Technical specialties and other | 42,671     | 36,781     | 30,366     |
| Total                           | \$ 476,029 | \$ 419,217 | \$ 392,095 |

On February 12, 2010, we acquired Concert Industries Corp., which we now operate as the Advanced Airlaid Materials business unit. This business unit is a leading global supplier of highly absorbent cellulose-based airlaid non-woven materials used to manufacture a diverse range of consumer and industrial products for growing global end-user markets. These products include:

feminine hygiene;

adult incontinence;

home care such as specialty wipes;

table top and towels; and

food pads and other.

| <i>In thousands</i> | 2011       | 2010       | 2009 |
|---------------------|------------|------------|------|
| Feminine hygiene    | \$ 206,724 | \$ 157,691 |      |
| Adult Incontinence  | 6,083      | 6,146      |      |
| Home care           | 24,492     | 17,902     |      |
| Food pads           | 9,526      | 8,200      |      |
| Other               | 5,222      | 3,560      |      |



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Total **\$ 252,047** \$ 193,499  
 No individual customer accounted for more than 10% of our consolidated net sales in 2011, 2010 or 2009. However, one customer accounted for the majority of Advanced Airlaid Materials net sales in 2011 and 2010.

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

|                     | 2011         |  |              | 2010       |  |            | 2009      |  |     |
|---------------------|--------------|--|--------------|------------|--|------------|-----------|--|-----|
|                     | Net sales    | Plant,<br>Equipment and<br>Timberlands | Net          | Net sales  | Plant,<br>Equipment and<br>Timberlands | Net        | Net sales | Plant,<br>Equipment and<br>Timberlands | Net |
| <i>In thousands</i> |              |  |              |            |  |            |           |  |     |
| United States       | \$ 933,357   | \$ 250,217                             | \$ 880,089   | \$ 251,318 | \$ 824,833                             | \$ 262,807 |           |  |     |
| Germany             | 410,183      | 181,537                                | 327,952      | 198,585    | 191,660                                | 124,881    |           |  |     |
| United Kingdom      | 122,218      | 57,634                                 | 128,598      | 55,672     | 125,047                                | 60,104     |           |  |     |
| Canada              | 88,018       | 86,079                                 | 75,195       | 80,177     |  |            |           |  |     |
| Other               | 49,378       | 26,483                                 | 43,497       | 22,418     | 42,470                                 | 22,840     |           |  |     |
| Total               | \$ 1,603,154 | \$ 601,950                             | \$ 1,455,331 | \$ 608,170 | \$ 1,184,010                           | \$ 470,632 |           |  |     |

**Table of Contents****24. GUARANTOR FINANCIAL STATEMENTS**

Our 7 1/8% Notes are fully and unconditionally guaranteed, on a joint and several basis, by certain of our 100%-owned domestic subsidiaries, PHG Tea Leaves, Inc., Mollanvick, Inc., The Glatfelter Pulp Wood Company, and Glatfelter Holdings, LLC. The following presents our consolidating statements of income and cash flows for the years ended December 31, 2011, 2010 and 2009 and our consolidating balance sheets as of December 31, 2011 and 2010. 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.

*Correction to classification of Condensed Consolidating Statement of Cash Flows* For the presentation of the condensed consolidating statement of cash flows for the year ended December 31, 2010 included herein, we have corrected the classification of certain intercompany financing transactions to correctly classify \$144 million of net intercompany capital transfers between the Parent Company and wholly-owned guarantor and non-guarantor subsidiaries which were made in connection with the Concert acquisition. For the Parent Company, the correction reclassified the transfers from operating cash activities to investing activities made by the Parent to the Guarantors of \$120 million and to the non-Guarantors of \$24 million. Similar reclassifications were made to the Guarantors and non-Guarantors amounts to reflect the receipt of this net capital contribution as a financing activity. For the condensed consolidating statement of cash flows for the year ended December 31, 2009 included herein, we corrected the classification to transfer from operating cash activities to investing activities a \$19 million intercompany sale of a subsidiary from a guarantor to a non-guarantor. These reclassifications had no effect on the total cash flows of the Parent, Guarantors, or non Guarantors, or on the reported amounts of cash flows for any period presented in our accompanying consolidated statement of cash flows.

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

| <i>In thousands</i>  | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--|-------------------|------------|-------------------|------------------------------|--------------|
| Net sales  | \$ 875,077        | \$ 50,837  | \$ 728,077        | \$ (50,837)                  | \$ 1,603,154 |
| Energy sales net   | 9,344             |            |                   |                              | 9,344        |
| Total revenues   | 884,421           | 50,837     | 728,077           | (50,837)                     | 1,612,498    |
| Costs of products sold   | 787,216           | 47,330     | 622,841           | (51,082)                     | 1,406,305    |
| Gross profit   | 97,205            | 3,507      | 105,236           | 245                          | 206,193      |
| Selling, general and administrative expenses                   | 70,632            | 2,681      | 51,558            |                              | 124,871      |
| Gains on dispositions of plant, equipment and timberlands, net | (348)             | (3,590)    | (12)              |                              | (3,950)      |
| Operating income (loss)  | 26,921            | 4,416      | 53,690            | 245                          | 85,272       |
| Other non-operating income (expense)                           |                   |            |                   |                              |              |
| Interest expense, net  | (28,035)          | 7,838      | (6,631)           | (4,300)                      | (31,128)     |
| Other net  | 41,954            | 467        | 1,447             | (47,167)                     | (3,299)      |
| Total other income (expense)                                   | 13,919            | 8,305      | (5,184)           | (51,467)                     | (34,427)     |
| Income (loss) before income taxes                              | 40,840            | 12,721     | 48,506            | (51,222)                     | 50,845       |
| Income tax provision (benefit)                                 | (1,854)           | 2,161      | 9,369             | (1,525)                      | 8,151        |
| Net income (loss)  | \$ 42,694         | \$ 10,560  | \$ 39,137         | \$ (49,697)                  | \$ 42,694    |

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

| <i>In thousands</i>  | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--|-------------------|------------|-------------------|------------------------------|--------------|
| Net sales  | \$ 842,615        | \$ 49,919  | \$ 612,716        | \$ (49,919)                  | \$ 1,455,331 |
| Energy and related sales, net                                  | 10,653            |            |                   |                              | 10,653       |
| Total revenues   | 853,268           | 49,919     | 612,716           | (49,919)                     | 1,465,984    |
| Costs of products sold   | 753,562           | 43,468     | 532,454           | (49,747)                     | 1,279,737    |
| Gross profit   | 99,706            | 6,451      | 80,262            | (172)                        | 186,247      |
| Selling, general and administrative expenses                   | 73,802            | 2,287      | 46,022            |                              | 122,111      |
| Gains on dispositions of plant, equipment and timberlands, net | (123)             | (373)      | 43                |                              | (453)        |
| Operating income   | 26,027            | 4,537      | 34,197            | (172)                        | 64,589       |
| Other non-operating income (expense)                           |                   |            |                   |                              |              |
| Interest expense, net  | (24,963)          | 7,445      | (5,906)           | (1,315)                      | (24,739)     |
| Other net  | 24,428            | (1,218)    | 330               | (29,861)                     | (6,321)      |
| Total other income (expense)                                   | (535)             | 6,227      | (5,576)           | (31,176)                     | (31,060)     |
| Income (loss) before income taxes                              | 25,492            | 10,764     | 28,621            | (31,348)                     | 33,529       |
| Income tax provision (benefit)                                 | (28,942)          | 2,463      | 6,142             | (568)                        | (20,905)     |
| Net income (loss)  | \$ 54,434         | \$ 8,301   | \$ 22,479         | \$ (30,780)                  | \$ 54,434    |

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

| <i>In thousands</i>  | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--|-------------------|------------|-------------------|------------------------------|--------------|
| Net sales  | \$ 791,915        | \$ 46,796  | \$ 392,095        | \$ (46,796)                  | \$ 1,184,010 |
| Energy and related sales, net                                  | 13,332            |            |                   |                              | 13,332       |
| Total revenues   | 805,247           | 46,796     | 392,095           | (46,796)                     | 1,197,342    |
| Costs of products sold   | 597,693           | 42,320     | 334,544           | (46,979)                     | 927,578      |
| Gross profit   | 207,554           | 4,476      | 57,551            | 183                          | 269,764      |
| Selling, general and administrative expenses                   | 71,484            | 2,304      | 36,469            |                              | 110,257      |
| Gains on dispositions of plant, equipment and timberlands, net | 9                 | (907)      |                   |                              | (898)        |
| Operating income   | 136,061           | 3,079      | 21,082            | 183                          | 160,405      |
| Other non-operating income (expense)                           |                   |            |                   |                              |              |
| Interest expense, net  | (16,324)          | 5,025      | (2,810)           | (3,225)                      | (17,334)     |
| Other net  | 15,000            | 1,470      | (144)             | (16,251)                     | 75           |
| Total other income (expense)                                   | (1,324)           | 6,495      | (2,954)           | (19,476)                     | (17,259)     |
| Income (loss) before income taxes                              | 134,737           | 9,574      | 18,128            | (19,293)                     | 143,146      |
| Income tax provision (benefit)                                 | 11,295            | 3,382      | 6,171             | (1,144)                      | 19,704       |
| Net income (loss)  | \$ 123,442        | \$ 6,192   | \$ 11,957         | \$ (18,149)                  | \$ 123,442   |

**Table of Contents****Condensed Consolidating Balance Sheet as of December 31, 2011**

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

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

| <i>In thousands</i>                        | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|--|-------------------|------------|-------------------|------------------------------|--------------|
| <b>Assets</b>                              |                   |            |                   |                              |              |
| <b>Current assets</b>                      |                   |            |                   |                              |              |
| Cash and cash equivalents                  | \$ 61,953         | \$ 91      | \$ 33,744         | \$                           | \$ 95,788    |
| Other current assets                       | 230,957           | 380,986    | 203,048           | (408,089)                    | 406,902      |
| Plant, equipment and timberlands net       | 244,157           | 7,161      | 356,836           | 16                           | 608,170      |
| Other assets                               | 773,254           | 167,877    | 103,250           | (813,494)                    | 230,887      |
| Total assets                               | \$ 1,310,321      | \$ 556,115 | \$ 696,878        | \$ (1,221,567)               | \$ 1,341,747 |
| <b>Liabilities and Shareholders Equity</b> |                   |            |                   |                              |              |
| Current liabilities                        | \$ 277,343        | \$ 3,672   | \$ 336,679        | \$ (404,548)                 | \$ 213,146   |
| Long-term debt                             | 295,529           |            | 36,695            |                              | 332,224      |
| Deferred income taxes                      | 70,575            | 14,836     | 42,204            | (32,697)                     | 94,918       |
| Other long-term liabilities                | 114,432           | 13,210     | 9,999             | 11,376                       | 149,017      |
| Total liabilities                          | 757,879           | 31,718     | 425,577           | (425,869)                    | 789,305      |
| Shareholders equity                        | 552,442           | 524,397    | 271,301           | (795,698)                    | 552,442      |
| Total liabilities and shareholders equity  | \$ 1,310,321      | \$ 556,115 | \$ 696,878        | \$ (1,221,567)               | \$ 1,341,747 |

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**Condensed Consolidating Statement of Cash Flows for the year  
ended December 31, 2011**

| <i>In thousands</i>                                     | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|---|-------------------|------------|-------------------|------------------------------|--------------|
| Net cash provided (used) by                             |                   |            |                   |                              |              |
| Operating activities                                    | \$ 75,787         | \$ 1,705   | \$ 67,115         | \$ (4,300)                   | \$ 140,307   |
| Investing activities                                    |                   |            |                   |                              |              |
| Purchase of plant, equipment and timberlands            | (31,239)          | (124)      | (33,128)          |                              | (64,491)     |
| Proceeds from disposal plant, equipment and timberlands | 627               | 3,821      | 43                |                              | 4,491        |
| Proceeds from timberland installment note receivable    |                   |            | 43,170            |                              | 43,170       |
| Repayments from (advances of) intercompany loans, net   | (11,924)          | (6,974)    | (7,600)           | 26,498                       |              |
| Intercompany capital contributed                        |                   | (16,000)   |                   | 16,000                       |              |
| Total investing activities                              | (42,536)          | (19,277)   | 2,485             | 42,498                       | (16,830)     |
| Financing activities                                    |                   |            |                   |                              |              |
| Net (repayments of) proceeds from indebtedness          | (78,235)          |            | (37,493)          |                              | (115,728)    |
| Payment of dividends to shareholders                    | (16,611)          |            |                   |                              | (16,611)     |
| Repurchases of common stock                             | (48,033)          |            |                   |                              | (48,033)     |
| (Repayments) borrowings of intercompany loans, net      | 50,450            | 24,675     | (48,627)          | (26,498)                     |              |
| Intercompany capital received                           |                   |            | 16,000            | (16,000)                     |              |
| Payment of intercompany dividends                       |                   | (4,300)    |                   | 4,300                        |              |
|   | 232               |            |                   |                              | 232          |
| Total financing activities                              | (92,197)          | 20,375     | (70,120)          | (38,198)                     | (180,140)    |
| Effect of exchange rate on cash                         |                   |            | (848)             |                              | (848)        |
| Net increase (decrease) in cash                         | (58,946)          | 2,803      | (1,368)           |                              | (57,511)     |
| Cash at the beginning of period                         | 61,953            | 91         | 33,744            |                              | 95,788       |
| Cash at the end of period                               | \$ 3,007          | \$ 2,894   | \$ 32,376         | \$                           | \$ 38,277    |

**Condensed Consolidating Statement of Cash Flows for the year  
ended December 31, 2010**

| <i>In thousands</i>                                     | Parent<br>Company | Guarantors  | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|---|-------------------|-------------|-------------------|------------------------------|--------------|
| Net cash provided (used) by                             |                   |             |                   |                              |              |
| Operating activities                                    | \$ 137,406        | \$ (12,077) | \$ 43,991         | \$ (1,315)                   | \$ 168,005   |
| Investing activities                                    |                   |             |                   |                              |              |
| Purchase of plant, equipment and timberlands            | (23,367)          | (695)       | (12,429)          |                              | (36,491)     |
| Proceeds from disposal plant, equipment and timberlands | 124               | 387         | 53                |                              | 564          |
| Repayments from (advances of) intercompany loans, net   | (8,257)           | (105,294)   | 6,895             | 106,656                      |              |
| Intercompany capital contributed, net                   | (143,520)         | (24,995)    |                   | 168,515                      |              |
| Acquisitions, net of cash acquired                      |                   |             | (228,290)         | 0                            | (228,290)    |
| Total investing activities                              | (175,020)         | (130,597)   | (233,771)         | 275,171                      | (264,217)    |
| Financing activities                                    |                   |             |                   |                              |              |
| Net (repayments of) proceeds from indebtedness          | 75,660            |             | (3,208)           |                              | 72,452       |
| Payment of dividends to shareholders                    | (16,746)          |             |                   |                              | (16,746)     |
| (Repayments) borrowings of intercompany loans, net      | (40,292)          | (425)       | 147,373           | (106,656)                    |              |
| Intercompany capital received, net                      |                   | 143,520     | 24,995            | (168,515)                    |              |
| Payment of intercompany dividends                       |                   | (1,315)     |                   | 1,315                        |              |
| Proceeds from stock options exercised and other         | 3,975             |             |                   |                              | 3,975        |
| Total financing activities                              | 22,597            | 141,780     | 169,160           | (273,856)                    | 59,681       |
| Effect of exchange rate on cash                         |                   |             | (3,101)           |                              | (3,101)      |
| Net increase (decrease) in cash                         | (15,017)          | (894)       | (23,721)          |                              | (39,632)     |
| Cash at the beginning of period                         | 76,970            | 985         | 57,465            |                              | 135,420      |
| Cash at the end of period                               | \$ 61,953         | \$ 91       | \$ 33,744         | \$                           | \$ 95,788    |



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**Condensed Consolidating Statement of Cash Flows for the year  
ended December 31, 2009**

| <i>In thousands</i>                                     | Parent<br>Company | Guarantors | Non<br>Guarantors | Adjustments/<br>Eliminations | Consolidated |
|---|-------------------|------------|-------------------|------------------------------|--------------|
| Net cash provided (used) by                             |                   |            |                   |                              |              |
| Operating activities                                    | \$ 102,891        | \$ (1,138) | \$ 65,340         | \$ (3,225)                   | \$ 163,868   |
| Investing activities                                    |                   |            |                   |                              |              |
| Purchase of plant, equipment and timberlands            | (14,040)          | (137)      | (12,080)          |                              | (26,257)     |
| Proceeds from disposal plant, equipment and timberlands |                   | 951        |                   |                              | 951          |
| Proceeds from timberland installment note receivable    |                   |            | 37,850            |                              | 37,850       |
| Proceeds from sale of (investment in) subsidiary        |                   | 18,672     | (18,672)          |                              |              |
| Repayments from (advances of) intercompany loans, net   | 9,186             | (9,394)    |                   | 208                          |              |
| Total investing activities                              | (4,854)           | 10,092     | 7,098             | 208                          | 12,544       |
| Financing activities                                    |                   |            |                   |                              |              |
| Net (repayments of) proceeds from indebtedness          | (22,725)          |            | (36,008)          |                              | (58,733)     |
| Payment of dividends to shareholders                    | (16,596)          |            |                   |                              | (16,596)     |
| (Repayments) borrowings of intercompany loans, net      | 9,394             | (5,500)    | (3,686)           | (208)                        |              |
| Payment of intercompany dividends                       |                   | (3,225)    |                   | 3,225                        |              |
| Total financing activities                              | (29,927)          | (8,725)    | (39,694)          | 3,017                        | (75,329)     |
| Effect of exchange rate on cash                         |                   |            | 2,103             |                              | 2,103        |
| Net increase (decrease) in cash                         | 68,110            | 229        | 34,847            |                              | 103,186      |
| Cash at the beginning of period                         | 8,860             | 756        | 22,618            |                              | 32,234       |
| Cash at the end of period                               | \$ 76,970         | \$ 985     | \$ 57,465         | \$                           | \$ 135,420   |

**25. QUARTERLY RESULTS (UNAUDITED)**

| <i>In thousands,<br/>except per share</i> | Diluted         |            |              |           |                   |          |           |           |
|---|-----------------|------------|--------------|-----------|-------------------|----------|-----------|-----------|
|   | Earnings (loss) |            |              |           |                   |          |           |           |
|   | Net sales       |            | Gross Profit |           | Net Income (loss) |          | Per Share |           |
|   | 2011            | 2010       | 2011         | 2010      | 2011              | 2010     | 2011      | 2010      |
| First                                     | \$ 396,771      | \$ 337,275 | \$ 60,167    | \$ 44,216 | \$ 17,426         | \$ (374) | \$ 0.38   | \$ (0.01) |
| Second                                    | 397,985         | 362,781    | 37,500       | 35,460    | 2,501             | 103      | 0.05      |           |
| Third                                     | 416,493         | 379,097    | 54,916       | 55,740    | 13,026            | 39,437   | 0.28      | 0.85      |
| Fourth                                    | 391,905         | 376,178    | 53,610       | 50,831    | 9,741             | 15,268   | 0.22      | 0.33      |

The information set forth above for net income (loss) and earnings (loss) per share includes the impact of the following, on an after-tax basis:

| <i>In thousands</i> | Cellulosic       |      |                                |      |         |        |  |      |   |            |
|---------------------|------------------|------|--------------------------------|------|---------|--------|--|------|---|------------|
|                     | Early Redemption |      | Workforce<br>Efficiency Charge |      | Biofuel |        | Gains (losses) on Sales                |      | Acquisition Integration<br>Costs Foreign currency |            |
|                     | of Bonds         |      | Efficiency Charge              |      | Credits |        | of Plant, Equipment and<br>Timberlands |      | Hedge Loss  |            |
|                     | 2011             | 2010 | 2011                           | 2010 | 2011    | 2010   | 2011                                   | 2010 | 2011  | 2010       |
| First               | \$               | \$   | \$                             | \$   | \$      | \$     | \$ 1,718                               | \$   | \$ (275)  | \$ (9,078) |
| Second              |                  |      |                                |      |         |        | (69)                                   | 99   | (518)   | (915)      |
| Third               |                  |      |                                |      |         | 23,100 | 245                                    |      |   | (407)      |
| Fourth              | (6,065)          |      | (652)                          |      |         | 84     | 2,266                                  | 964  |   | (345)      |





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### ***ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES***

None.

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

#### **Disclosure Controls and Procedures**

Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), as of December 31, 2011, have concluded that, as of the evaluation date, our disclosure controls and procedures were effective.

#### **Internal Control Over Financial Reporting**

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

#### **Changes in Internal Control over Financial Reporting**

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

### ***ITEM 9B OTHER INFORMATION***

None.

## **PART III**

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

**Directors** The information with respect to directors required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2012. Our board of directors has determined that, based on the relevant experience of the members of the Audit Committee, all members are *audit committee financial experts* as this term is set forth in the applicable regulations of the SEC.

**Executive Officers of the Registrant** The information with respect to the executive officers required under this Item incorporated herein by reference to Executive Officers as set forth in Part I, page 11 of this report.

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

### ***ITEM 11 EXECUTIVE COMPENSATION***

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2012.

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

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2012.

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

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2012.

**ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 29, 2012.

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

**Table of Contents****PART IV****ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) 1. Our Consolidated Financial Statements as follows are included in Part II, Item 8:
- i. Consolidated Statements of Income for the Years Ended December 31, 2011, 2010 and 2009
  - ii. Consolidated Balance Sheets as of December 31, 2011 and 2010
  - iii. Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009
  - iv. Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2011, 2010 and 2009
  - v. Notes to Consolidated Financial Statements for the Years Ended December 31, 2011, 2010 and 2009
2. Financial Statement Schedules (Consolidated) are included in Part IV:
- i. Schedule II -Valuation and Qualifying Accounts For Each of the Three Years in the Period Ended December 31, 2011

**(b) Exhibit Index**

| Exhibit | Number  | Description of Documents  | Incorporated by Reference to |                               |
|---------|---|---|------------------------------|-------------------------------|
|         |   |   | Exhibit                      | Filing                        |
| 2       | (a)   | Share Purchase Agreement, dated January 4, 2010, among Brookfield Special Situations Management Limited, P. H. Glatfelter Company and Glatfelter Canada, Inc., (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the Securities and Exchange Commission upon request).  | 2(a)                         | 2009 Form 10-K                |
|         | (b)   | Amendment to the Share Purchase Agreement, dated February 12, 2010.   | 2(b)                         | 2009 Form 10-K                |
| 3       | (a)   | Articles of Incorporation, as amended through December 20, 2007 (restated for the purpose of filing on EDGAR)   | 3(b)                         | 2007 Form 10-K                |
|         | (b)   | By-Laws as amended through January 20, 2012.  | 3.1                          | January 20, 2012 Form 8-K     |
| 4       | (a)   | Indenture, dated as of April 28, 2006, by and between the Company and SunTrust Bank, as trustee relating to 7 1/8 Notes due 2016  | 4.1                          | May 3, 2006 Form 8-K          |
|         | (b)   | First Supplemental Indenture, dated as of September 22, 2006, among Glatfelter Holdings, LLC, Glatfelter Holdings II, LLC, the Existing Subsidiary Guarantors named therein and SunTrust Bank relating to 7 1/8 Notes due 2016  | 4.3                          | September 22, 2006 Form S-4/A |
| 10      | (a)   | Amended Credit Agreement, dated as of November 21, 2011, by and among the Company, certain of its subsidiaries as borrowers and certain of its subsidiaries as guarantors and PNC Bank, National Association, as administrative agent, PNC Capital Markets LLC, J.P. Morgan Securities LLC and RBS Citizens, N.A. as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A. and Citizens Bank of Pennsylvania, as co-syndication agents, and certain other banks as lenders. | 10.1                         | Nov. 23, 2011 Form 8-K        |
|         | (b)   | P. H. Glatfelter Company Amended and Restated Management Incentive Plan, effective January 1, 2010**  | 10.1                         | May 5, 2010 Form 8-K          |
|         | (c)   | P. H. Glatfelter Company Supplemental Executive Retirement Plan, as amended and restated effective April 23, 1998 and further amended December 20, 2000**   | 10(c)                        | 2000 Form 10-K**              |
|         | (d)   | P. H. Glatfelter Company Supplemental Management Pension Plan, effective as of April 23, 1998**   | 10(f)                        | 1998 Form 10-K**              |
|         | (e)   | P. H. Glatfelter Company Amended and Restated Long-term Incentive Plan**  | 10.1                         | May 5, 2009 Form 8-K          |
|         | (f)   | Form of 2007 Top Management Restricted Stock Unit Award Certificate**   | 10(t)                        | 2006 Form 10-K                |
|         | (g)   | Form of Top Management Restricted Stock Unit Award Certificate**  | 10.2                         | May 5, 2009 Form 8-K          |
|         | (h)   | Form of Non-Employee Director Restricted Stock Unit Award Certificate**   | 10.3                         | April 27, 2005 Form 8-K       |
|         | (i)   | Form of Stock-Only Stock Appreciation Right Award Certificate**   | 10.3                         | May 5, 2009 Form 8-K          |
|         | (j)   | P. H. Glatfelter Company Deferred Compensation Plan for Directors, effective as of April 22, 1998**   | 10(h)                        | 1998 Form 10-K**              |
| (k)     | Form of Change in Control Employment Agreement by and between P. H. Glatfelter Company and certain employees, dated as of December 8, 2008 ** | 10(j)   | 2008 Form 10-K               |                               |
| (k)     | (A) Schedule of Change in Control Employment Agreements filed herewith. **  |   |                              |                               |

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|     |   |       |                           |
|-----|---|-------|---------------------------|
| (l) | Non-Competition and Non-Solicitation Agreement by and between P. H. Glatfelter Company and Dante C. Parrini, dated July 2, 2010. ** | 10.1  | July 2, 2010<br>Form 8-K  |
| (m) | Summary of Non-Employee Director Compensation (effective January 1, 2007)**   |       | Dec. 15, 2004<br>Form 8-K |
| (n) | Service Agreement, commencing on August 1, 2007, between the Registrant (through a wholly owned subsidiary) and Martin Rapp**       | 10(r) | 2006 Form 10-K            |

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| Exhibit | Number  | Description of Documents  | Incorporated by Reference to |                             |
|---------|---------|---|------------------------------|-----------------------------|
|         |         |   | Exhibit                      | Filing                      |
|         | (o)     | Retirement Pension Contract, dated October 31, 2008, between Registrant (through a wholly owned subsidiary) and Martin Rapp**   | 10(t)                        | 2007 Form 10-K              |
|         | (p)     | Guidelines for Executive Severance  | 10.2                         | July 6, 2010<br>Form 8-K    |
|         | (q)     | Agreement between the State of Wisconsin and Certain Companies Concerning the Fox River, dated as of January 31, 1997, among P. H. Glatfelter Company, Fort Howard Corporation, NCR Corporation, Appleton Papers Inc., Riverside Paper Corporation, U.S. Paper Mills, Wisconsin Tissue Mills Inc. and the State of Wisconsin  | 10(i)                        | 1996 Form 10-K              |
|         | (r)     | Consent Decree for Remedial Design and Remedial Action at Operable Unit 1 of the Lower Fox River and Green Bay site by and among the United States of America and the State of Wisconsin v. P. H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills, Inc.)   | 10.3(a)                      | June 30, 2010<br>Form 10-Q  |
|         | (s) (A) | Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.)   | 10.3(b)                      | June 30, 2010<br>Form 10-Q  |
|         | (s) (B) | Second Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.)  | 10.3(c)                      | June 30, 2010<br>Form 10-Q  |
|         | (t)     | Amended Consent Decree for Remedial Design and Remedial Action at Operable Unit 1 of the Lower Fox River and Green Bay Site by and among the United States of America and the State of Wisconsin v. P. H. Glatfelter and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.), certain Appendices have been intentionally omitted, copies of which can be obtained free of charge from the Registrant) | 10.3(d)                      | June 30, 2010<br>Form 10-Q  |
|         | (u)     | Administrative Order for Remedial Action dated November 13, 2007; issued by the United States Environmental Protection Agency   | 10.2                         | Nov 19, 2007<br>Form 8-K    |
|         | (v)     | Timberland Purchase & Sale Agreement - Virginia Timberlands, entered into by and among Glawson Investments Corp., GIC Investments LLC and Glatfelter Pulp Wood Company, dated and effective as of August 8, 2007  | 10.1                         | Sept. 30, 2007<br>Form 10-Q |
|         | 14      | Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter, filed herewith   |                              |                             |
|         | 21      | Subsidiaries of the Registrant, filed herewith  |                              |                             |
|         | 23      | Consent of Independent Registered Public Accounting Firm, filed herewith.   |                              |                             |
|         | 31.1    | Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302 (a) of the Sarbanes-Oxley Act Of 2002, filed herewith  |                              |                             |
|         | 31.2    | Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 302 (a) of the Sarbanes-Oxley Act Of 2002, filed herewith   |                              |                             |
|         | 32.1    | Certification of Dante C. Parrini, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, filed herewith  |                              |                             |
|         | 32.2    | Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, filed herewith   |                              |                             |
|         | 101.INS | XBRL Instance Document, filed herewith  |                              |                             |
|         | 101.SCH | XBRL Taxonomy Extension Schema, filed herewith  |                              |                             |
|         | 101.CAL | XBRL Extension Calculation Linkbase , filed herewith  |                              |                             |
|         | 101.LAB | XBRL Extension Label Linkbase, filed herewith   |                              |                             |
|         | 101.PRE | XBRL Extension Presentation Linkbase, filed herewith  |                              |                             |

\*\* Management contract or compensatory plan

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**SIGNATURES**

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

P. H. GLATFELTER COMPANY

(Registrant)

March 9, 2012

By /s/ Dante C. Parrini  
Dante C. Parrini  
Chairman and

Chief Executive Officer

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

| Date          | Signature   | Capacity                                 |
|---------------|---|--|
| March 9, 2012 | /s/ Dante C. Parrini<br><br>Dante C. Parrini<br><br>Chairman and Chief Executive Officer              | Principal Executive Officer and Director |
| March 9, 2012 | /s/ John P. Jacunski<br><br>John P. Jacunski<br><br>Senior Vice President and Chief Financial Officer | Principal Financial Officer              |
| March 9, 2012 | /s/ David C. Elder<br><br>David C. Elder<br><br>Vice President, Finance                               | Chief Accounting Officer                 |
| March 9, 2012 | /s/ Kathleen A. Dahlberg<br><br>Kathleen A. Dahlberg  | Director                                 |
| March 9, 2012 | /s/ Nicholas DeBenedictis<br><br>Nicholas DeBenedictis  | Director                                 |
| March 9, 2012 | *   | Director                                 |

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|               |                      |          |
|---------------|----------------------|----------|
|               | Kevin M. Fogarty     |          |
| March 9, 2012 | /s/ J. Robert Hall   | Director |
|               | J. Robert Hall       |          |
| March 9, 2012 | /s/ Richard C. III   | Director |
|               | Richard C. III       |          |
| March 9, 2012 | /s/ Ronald J. Naples | Director |
|               | Ronald J. Naples     |          |
| March 9, 2012 | /s/ Richard L. Smoot | Director |
|               | Richard L. Smoot     |          |
| March 9, 2012 | /s/ Lee C. Stewart   | Director |
|               | Lee C. Stewart       |          |

\* Mr. Fogarty was elected to the Registrant's Board of Directors after the period covered by this Annual Report on Form 10-K.

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

I, Dante C. Parrini, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of P. H. Glatfelter Company ( Glatfelter );
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. Glatfelter s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Glatfelter s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in Glatfelter s internal control over financial reporting that occurred during Glatfelter s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter s internal control over financial reporting; and
5. Glatfelter s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter s auditors and the audit committee of Glatfelter s board of directors or persons performing the equivalent functions:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter s internal control over financial reporting.



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Date: March 9, 2012

By: /s/ Dante C. Parrini  
Dante C. Parrini  
Chairman and Chief Executive Officer

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

I, John P. Jacunski, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of P. H. Glatfelter Company ( Glatfelter );
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. Glatfelter s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Glatfelter s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in Glatfelter s internal control over financial reporting that occurred during Glatfelter s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter s internal control over financial reporting; and
5. Glatfelter s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter s auditors and the audit committee of Glatfelter s board of directors or persons performing the equivalent functions:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter s internal control over financial reporting.

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Date: March 9, 2012

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

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## Schedule Valuation and Qualifying Accounts

Schedule II

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

For each of the three years ended December 31, 2011

**Valuation and Qualifying Accounts**

| <i>In thousands</i>                          | Doubtful Accounts |          |          | Allowance for<br>Sales Discounts and Deductions |          |          |
|--|-------------------|----------|----------|---|----------|----------|
|  | 2011              | 2010     | 2009     | 2011  | 2010     | 2009     |
| Balance, beginning of year                   | \$3,118           | \$ 2,888 | \$ 2,633 | \$ 2,845  | \$ 2,789 | \$ 3,369 |
| Provision                                    | 149               | 1,269    | 506      | 4,080   | 3,593    | 3,575    |
| Write-offs, recoveries and discounts allowed | (385)             | (993)    | (306)    | (4,070)   | (3,517)  | (4,197)  |
| Other (a)                                    | (21)              | (46)     | 55       | (24)  | (20)     | 42       |
| Balance, end of year                         | \$2,861           | \$ 3,118 | \$ 2,888 | \$ 2,831  | \$ 2,845 | \$ 2,789 |

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

(a) Relates primarily to changes in currency exchange rates.