GLATFELTER P H CO
Form 10-Q
May 10, 2010

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

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

or

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

For the quarterly period ended March 31, 2010
Commission file number 1-3560
P. H. Glatfelter Company
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of April 30, 2010, P. H. Glatfelter Company had 45,783,493 shares of common stock outstanding.

P. H. GLATFELTER COMPANY
REPORT ON FORM 10-Q
For the QUARTERLY PERIOD ENDED
MARCH 31, 2010
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PART I

Item 1 Financial Statements

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

	Three months ended March 31	
In thousands, except per share	**2010**	2009
Net sales	**$ 337,275**	$ 291,552
Energy and related sales net	**3,607**	1,931
Total revenues	**340,882**	293,483
Costs of products sold	**296,666**	250,169
Gross profit	**44,216**	43,314
Selling, general and administrative expenses	**34,670**	24,513
Gains on dispositions of plant, equipment and timberlands, net		(699)
Operating income	**9,546**	19,500
Non-operating income (expense)		
Interest expense	**(5,663)**	(5,126)
Interest income	**170**	708
Other net	**(3,983)**	17
Total other income (expense)	**(9,476)**	(4,401)
Income before income taxes	**70**	15,099
Income tax provision	**444**	3,561
Net income (loss)	**$ (374)**	$ 11,538
Earnings (loss) per share		
Basic	**$ (0.01)**	$ 0.25
Diluted	**(0.01)**	0.25
Cash dividends declared per common share	**0.09**	0.09
Weighted average shares outstanding		
Basic	**45,836**	45,595
Diluted	**45,836**	45,610

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

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

In thousands	**March 31 2010**	December 31 2009
Assets		
Current assets		
Cash and cash equivalents	**$ 26,575**	$ 135,420
Accounts receivable net	**154,781**	119,319
Inventories	**194,777**	168,370
Prepaid expenses and other current assets	**106,445**	96,947
Total current assets	**482,578**	520,056
Plant, equipment and timberlands net	**625,867**	470,632
Other assets	**222,659**	199,606
Total assets	**$ 1,331,104**	$ 1,190,294
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	**$ 10,000**	$ 13,759
Short-term debt	**5,060**	3,888
Accounts payable	**94,460**	63,604
Dividends payable	**4,178**	4,170
Environmental liabilities	**426**	440
Other current liabilities	**111,433**	100,249
Total current liabilities	**225,557**	186,110
Long-term debt	**359,690**	236,936
Deferred income taxes	**96,098**	96,668
Other long-term liabilities	**158,974**	159,876
Total liabilities	**840,319**	679,590
Commitments and contingencies		
Shareholders equity		
Common stock	**544**	544
Capital in excess of par value	**47,472**	46,746
Retained earnings	**707,271**	711,765
Accumulated other comprehensive loss	**(136,819)**	(119,885)

	618,468	639,170
Less cost of common stock in treasury	**(127,683)**	(128,466)
Total shareholders equity	**490,785**	510,704
Total liabilities and shareholders equity	**$ 1,331,104**	$ 1,190,294

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

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

In thousands	**Three months ended March 31** **2010**	2009
Operating activities		
Net income	**$ (374)**	$ 11,538
Adjustments to reconcile to net cash provided (used) by operations:		
Depreciation, depletion and amortization	**15,781**	14,428
Pension expense, net of unfunded benefits paid	**2,215**	1,357
Deferred income tax provision (benefit)	**(135)**	1,109
Gains on dispositions of plant, equipment and timberlands, net		(699)
Share-based compensation	**1,514**	1,039
Change in operating assets and liabilities		
Accounts receivable	**(14,510)**	(23)
Inventories	**(1,889)**	(8,554)
Prepaid and other current assets	**(4,103)**	2,535
Accounts payable	**17,632**	(5,370)
Environmental matters	**37**	(6,777)
Accruals and other current liabilities	**353**	(13,795)
Other	**3,849**	2,027
Net cash provided (used) by operating activities	**20,370**	(1,185)
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	**(6,136)**	(5,234)
Proceeds from disposals of plant, equipment and timberlands, net		728
Acquisition of Concert Industries Corp., net of cash acquired	**(233,006)**	
Net cash used by investing activities	**(239,142)**	(4,506)
Financing activities		
Proceeds from $100 million 7 % note offering, net of original issue discount	**95,000**	
Payments of note offering costs	**(2,804)**	
Net borrowings of revolving credit facility	**27,854**	5,434
Net borrowings of short term debt	**1,082**	782
Principal repayments 2011 Term Loan	**(4,000)**	(4,000)
Payment of dividends	**(4,165)**	(4,129)
Proceeds from stock options exercised and other	**107**	20
Net cash provided (used) by financing activities	**113,074**	(1,893)
Effect of exchange rate changes on cash	**(3,147)**	(978)
Net decrease in cash and cash equivalents	**(108,845)**	(8,562)
Cash and cash equivalents at the beginning of period	**135,420**	32,234

Cash and cash equivalents at the end of period	**$ 26,575**	$ 23,672
Supplemental cash flow information		
Cash paid (received) for		
Interest	**$ 259**	$ 820
Income taxes	**(2,533)**	2,926

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

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

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter) is a manufacturer of specialty papers and fiber-based engineered products. 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 throughout the United States and in over 85 other countries, either through wholesale paper merchants, brokers and agents or directly to customers.

2. ACCOUNTING POLICIES

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

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2009 Annual Report on Form 10-K (2009 Form 10-K).

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

3. ACQUISITION

On February 12, 2010, we completed the acquisition of all of the issued and outstanding stock of Concert Industries Corp. (Concert), a leading supplier of airlaid non-woven fabric-like material, for cash totaling $235.8 million based on the currency exchange rates on the closing date. Concert, with approximately 590 employees, has operations located in Gatineau, Quebec, Canada and Falkenhagen, Brandenburg, Germany. Annual revenues totaled $203.0 million in 2009.

Concert manufactures highly absorbent cellulose based airlaid non-woven materials used in products such as feminine hygiene and adult incontinence products, pre-moistened cleaning wipes, food pads, napkins and tablecloths, and baby wipes. The acquisition of Concert affords us the opportunity to grow with the industry leaders in feminine hygiene and adult incontinence products. Concert holds leading market share positions and seeks to build long-term customer relationships through superior quality, innovation and customer service programs. We believe that our acquisition of Concert provides us with an industry-leading global business that sells highly specialized, engineered fiber-based products to niche markets with substantial barriers to entry.

The share purchase agreement provides for, among other terms, i) an adjustment to the purchase price based on final working capital as of the closing balance sheet, which has yet to be agreed to; and ii) indemnification provisions for claims that may arise, including among others, uncertain tax positions and other third part claims. No amounts related to either of these provisions are included in the following preliminary allocation of the purchase price to assets acquired and liabilities assumed:

In thousands

Assets	
Cash	**$ 2,792**
Accounts receivable	**24,703**

Inventory	**28,034**
Prepaid and other current assets	**5,941**
Plant and equipment	**177,253**
Intangible assets	**3,138**
Deferred tax assets	**20,738**
Total	**262,599**
Liabilities	
Accounts payable and accrued expenses	**25,322**
Deferred tax liabilities	**1,267**
Other long term liabilities	**212**
Total	**26,801**
Total purchase price	**$ 235,798**

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We are in the process of finalizing valuations necessary to account for this transaction in accordance with the acquisition method of accounting set forth in FASB ASC 805, Business Combinations. Accordingly, the purchase price allocation set forth above is based on all information available to us at the present time and is subject to change, and such changes could be material.

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

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

During the first quarter of 2010, we incurred legal, professional and advisory costs directly related to the Concert acquisition totaling $7.0 million. All such costs are presented under the caption Selling, general and administrative expenses in the accompanying condensed consolidated statements of income. Deferred financing fees incurred in connection with issuing debt related to the acquisition totaled $2.7 million through March 31, 2010. 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 transaction gains, is presented under the caption Other-net in the accompanying condensed consolidated statements of income.

Our results of operations for the first three months of 2010 include the results of Concert prospectively since the acquisition was completed on February 12, 2010. All such results are reported herein as the Advanced Airlaid Materials business unit, a new reportable segment. Revenue and operating income of Concert included in our consolidated results of operations totaled $28.1 million and $0.2 million, respectively.

The table below summarizes pro forma financial information as if the acquisition and related financing transaction occurred as of January 1, 2009:

	Three months ended March 31	
In thousands, except per share	**2010**	2009
Pro forma		
Net sales	**$ 366,531**	$ 338,939
Net income	**9,968**	12,864
Earnings per share	**0.22**	0.28

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

4. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

There were no sales of timberlands in the first quarter of 2010. During the first quarter of 2009 we completed sales of timberlands as summarized by the following table:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2009			
Timberlands	189	$728	$699

	189	$728	$699

5. EARNINGS PER SHARE

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

	Three months ended March 31	
In thousands, except per share	**2010**	2009
Net income (loss)	**$ (374)**	$11,538
Weighted average common shares outstanding used in basic EPS	**45,836**	45,595
Common shares issuable upon exercise of dilutive stock options and restricted stock awards		15
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**45,836**	45,610
Earnings (loss) per share		
Basic	**$ (0.01)**	$ 0.25
Diluted	**(0.01)**	0.25

Approximately 1,574,324 and 1,245,910 of potential common shares have been excluded from the computation of diluted earnings per share for the three month period ended March 31, 2010 and 2009, respectively, due to their anti-dilutive nature.

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6. INCOME TAXES

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

As of March 31, 2010 and December 31, 2009, we had $40.1 million and $40.1 million, respectively, of gross unrecognized tax benefits. As of March 31, 2010, if such benefits were to be recognized, approximately $36.2 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

	Open Tax Year	
Jurisdiction	**Examination in progress**	**Examination not yet initiated**
United States		
Federal	N/A	2007 2009
State	2004	2004 2009
Canada (1)	N/A	2005 2009
Germany (1)	1999 2007	2007 2009
France	N/A	2006 2009
United Kingdom	N/A	2006 2009
Philippines	2005, 2007, & 2008	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 change within the next twelve months by as much as $11.1 million. Substantially all of this range relates to tax positions taken in the Germany and the United Kingdom.

We recognize interest and penalties related to uncertain tax positions as income tax expense. Interest expense recognized in the first quarter of 2010 totaled $0.2 million and $0.3 million in the first quarter of 2009. Accrued interest was $4.0 million and $3.8 million as of March 31, 2010 and December 31, 2009, respectively. We did not record any penalties associated with uncertain tax positions during the first quarters of 2010 or 2009.

7. STOCK-BASED COMPENSATION

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

Restricted Stock Units (RSU) Awards of RSU are made under our LTIP. The RSUs vest based solely on the passage of time on a graded scale over a three, four, and five-year period. The following table summarizes RSU activity during the first three months of 2010:

Units	**2010**	2009
Beginning balance	**564,037**	486,988
Granted	**126,450**	
Forfeited	**(8,820)**	
Restriction lapsed/shares delivered	**(16,252)**	(2,600)
Ending balance	**665,415**	484,388

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

	March 31	
*In thousand*s	**2010**	2009
Three months ended	**$405**	$340

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

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The following table sets forth information related to outstanding SOSARS.

	2010		2009	
SOSARS	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	**1,762,020**	**$ 11.84**	718,810	$ 14.63
Granted	**423,450**	**13.95**		
Exercised				
Canceled	**(50,383)**			
Outstanding at Mar 31,	**2,135,087**	**$ 12.27**	718,810	$ 14.63

SOSAR Grants	
Weighted average grant date fair value per share	**$ 4.72**
Aggregate grant date fair value *(in thousands)*	**$ 1,998**
Black-Scholes Assumptions	
Dividend yield	**2.58%**
Risk free rate of return	**2.54%**
Volatility	**42.31%**
Expected life	**6 yrs**

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

	March 31	
*In thousand*s	**2010**	2009
Three months ended	**$610**	$239

8. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

	Three months ended March 31	
In thousands	**2010**	2009
Pension Benefits		
Service cost	**$ 2,422**	$ 2,250
Interest cost	**6,008**	5,748
Expected return on plan assets	**(10,060)**	(9,844)
Amortization of prior service cost	**617**	537
Amortization of unrecognized loss	**3,399**	2,991
Net periodic benefit cost	**$ 2,386**	$ 1,682

Other Benefits		
Service cost	**$ 761**	$ 656
Interest cost	**880**	874
Expected return on plan assets	**(135)**	(122)
Amortization of prior service cost	**(306)**	(308)
Amortization of unrecognized loss	**453**	528
Net periodic benefit cost	**$ 1,653**	$ 1,628

In millions	**March 31, 2010**	Dec. 31, 2009
Pension Plan Assets		
Fair value of plan assets at end of period	**$503.8**	$485.7

9. COMPREHENSIVE INCOME

The following table sets forth comprehensive income and its components:

	Three months ended March 31	
In thousands	**2010**	2009
Net income (loss)	**$ (374)**	$ 11,538
Foreign currency translation adjustments	**(19,533)**	(11,469)
Amortization of unrecognized retirement obligations, net of tax	**2,599**	2,292
Comprehensive income (loss)	**$ (17,308)**	$ 2,361

10. INVENTORIES

Inventories, net of reserves, were as follows:

In thousands	**March 31, 2010**	Dec. 31, 2009
Raw materials	**$ 51,458**	$ 44,150
In-process and finished	**89,656**	78,340
Supplies	**53,663**	45,880
Total	**$194,777**	$168,370

11. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	**March 31, 2010**	Dec. 31, 2009
Revolving credit facility, due April 2011	**$ 27,953**	$
Term Loan, due April 2011	**10,000**	14,000
7 % Notes, due May 2016	**200,000**	200,000
7 % Notes, due May 2016 - net of original issue discount	**95,042**	

Term Loan, due January 2013	**36,695**	36,695
Total long-term debt	**369,690**	250,695
Less current portion	**(10,000)**	(13,759)
Long-term debt, net of current portion	**$359,690**	$236,936

On April 3, 2006, we, along with certain of our subsidiaries as borrowers and certain of our subsidiaries as guarantors, entered into a credit agreement with certain financial institutions. Pursuant to the credit agreement, we may borrow, repay and reborrow revolving credit loans in an aggregate principal amount not to exceed $200 million outstanding at any time. All borrowings under our credit facility are unsecured. In addition, we received a term loan in the principal amount of $100 million. Both agreements mature on April 2, 2011. As discussed in Note

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16, in April 2010, we refinanced our bank credit facility with a new four-year, $225 million, multi-currency revolving credit facility.

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

The credit agreement contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios, each as defined in the credit agreement, including a consolidated minimum net worth test and a maximum debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. A breach of these requirements, of which we were not aware of any at March 31, 2010, would give rise to certain remedies under the credit agreement as amended, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

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

On February 5, 2010, we issued an additional $100 million in aggregate principal amount of 7 % Notes due 2016 (together with the April 28, 2006 offering, the Senior Notes). The notes were issued at 95.0% of the principal amount. Net proceeds from this offering, which were used to fund, in part, the Concert acquisition, totaled $93.1 million, after deducting fees and expenses relating to the offering. The original issue discount is being accreted as a charge to income on the effective interest method.

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

Our credit agreement, as amended, contains a number of customary compliance covenants. In addition, the Senior Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity or a default under the credit agreement that accelerates the debt outstanding thereunder. As of March 31, 2010, 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 is fully secured by a letter of credit issued by The Royal Bank of Scotland plc. In January 2008, GPW Virginia monetized the Glawson note receivable by entering into a $36.7 million term loan agreement (the 2008 Term Loan) with a financial institution. The 2008 Term Loan is secured by all of the assets of GPW Virginia, including the Glawson note receivable, the related letter of credit and additional notes with an aggregate principal amount of $9.2 million that we issued in favor of GPW Virginia (the Company Note). The 2008 Term Loan bears interest at a six month reserve adjusted LIBOR rate plus a margin rate of 1.20% per annum. Interest on the 2008 Term Loan is payable semiannually. The principal amount of the 2008 Term Loan is due on January 15, 2013, but GPW Virginia may prepay the 2008 Term Loan at any time, in whole or in part, without premium or penalty. During the first quarter of 2010, GPW Virginia received aggregate interest payments of $0.05 million under the Glawson note receivable and the Company Note and, in turn, made interest payments of $0.15 million under the 2008 Term Loan.

Under terms of the above transaction, minimum credit ratings must be maintained by the respective financial institution issuing the letters of credit. If, after 60 days from the date such credit rating falls below the specified minimum, an event of default is deemed to have occurred under the respective debt instrument owed by us to the

financial institution unless actions are taken to cure such default. Potential remedial actions include: (i) amending the terms of the applicable debt instrument; (ii) a replacement of the letter of credit with an appropriately rated institution; or (iii) repaying the Note Payable.

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

In thousands	
2010	10,000
2011	27,953
2012	
2013	36,695
2014	
Thereafter	300,000

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

As of March 31, 2010 and December 31, 2009, we had $5.7 million of letters of credit issued to us by certain financial institutions. Such letters of credit reduce amounts available under our revolving credit facility. The letters of credit outstanding as of March 31, 2010, provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

12. ASSET RETIREMENT OBLIGATION

During 2008, we recorded $11.5 million, 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 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 the upward revision in 2009, was accrued with a corresponding increase in the carrying value of the property, equipment and timberlands caption on the consolidated balance sheet. The amount capitalized is being amortized as a charge to operations on the straight-line basis in relation to the expected closure period. Following is a summary of activity recorded during the first quarters of 2010 and 2009:

In thousands	**2010**	2009
Balance at January 1,	**$11,293**	$11,606
Accretion	**155**	161
Payments	**(394)**	(20)
Balance at March 31,	**$11,054**	$11,747

Of the total liability at March 31, 2010, $2.4 million is recorded in the accompanying consolidated balance sheet, under the caption Other current liabilities and 8.7 million is recorded under the caption Other long-term liabilities.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2010		December 31, 2009	
In thousands	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate Bonds	$295,042	$293,625	$200,000	$196,750

Variable rate debt	74,648	79,301	50,695	51,209
Total	$369,690	$372,926	$250,695	$247,959

As of March 31, 2010, we have $300.0 million of 7 % fixed rate debt, $100.0 million of which is recorded net of unamortized original issue discount and $200.0 million of which is publicly registered, but is thinly traded, and therefore, market prices are not readily available. Accordingly, the values set forth above are based on debt instruments with similar characteristics, or Level 2. The fair value of the remaining debt instruments was estimated using discounted cash flow models based on interest rates obtained from readily available, independent sources, or Level 3.

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14. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River Neenah, Wisconsin

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

The United States, the State of Wisconsin and various state and federal governmental agencies (collectively, the Governments), as well as private parties, have found PCBs in sediments 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 numbered from the most upstream (OU1) to the most downstream (OU5). OU1 is the reach from primarily Lake Winnebago to the dam at Appleton, and is comprised of Little Lake Butte des Morts. Our Neenah Facility discharged its wastewater into OU1. OU2 extends from the dam at Appleton to the dam at Little Rapids, OU3 from the dam at Little Rapids to the dam at De Pere, OU4 from the dam at De Pere to the mouth of the river, and OU5 from the mouth into the lower portion of Green Bay. The river extends 39 miles from the upstream end of OU1 to the downstream end of OU4.

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

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

Cleanup Decisions. Our liability exposure depends importantly on the decisions made by EPA and the Wisconsin Department of Natural Resources (WDNR) as to how the Site will be cleaned up, and consequently the costs and timing of those response actions. The nature of the response actions has been highly controversial. EPA issued a record of decision (ROD) selecting response actions for OU1 and OU2 in December 2002. EPA issued a separate ROD selecting response actions for OU3, OU4, and OU5 in March 2004 and in June 2007.

EPA amended the RODs for OUs 2-5 in June 2007 to require less dredging and more capping and covering of sediments containing PCBs. The governments have concluded that these methods will result in a reduction in the costs for this portion of the cleanup. Others disagree. Likewise, in June 2008, EPA also amended the ROD for OU1.

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NRD Assessment. The Natural Resources Trustees have engaged in work to assess NRDs at and arising from the Site. However, they have not completed a required NRD Assessment under the pertinent regulations. The Trustees 2009 estimate of NRDs and associated costs ranges from $287 million to $423 million, some of which has already been satisfied. With specific respect to NRD claims, we and others contended that the Trustees claims are barred by the applicable 3 year statute of limitations.

Past Costs Demand. By letter dated January 15, 2009, EPA demanded that we and six other parties reimburse EPA for approximately $17.6 million in costs that EPA claims it incurred as necessary costs of response not subject to any other agreement in this matter. In response, we and the other parties which were contacted notified the EPA that the supporting documentation provided by EPA did not allow us to fully evaluate this demand and we requested that the EPA provide additional supporting information for the claimed costs. EPA has not yet responded to this request. Accordingly we are unable to reasonably estimate our potential liability for these costs.

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

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

Notably, in April 2004, the United States District Court for the Eastern District of Wisconsin entered a consent decree (OU1 Consent Decree) in *United States v. P.H. Glatfelter Co.*, No. 2:03-cv-949, under which we and WTM I Corp. have been implementing the remedy in OU1, dividing costs evenly in addition to a $7 million contribution from Menasha Corp. and a $10 million contribution that the United States contributed from a separate settlement in *United States v. Appleton Papers Inc.*, No. 2:01-cv-816, obligating NCR and Appleton Papers to contribute to certain NRD projects. In June 2008, the parties entered into an amendment to the OU1 Consent Decree (Amended OU1 Consent Decree). This amendment allowed for implementation of the amended remedy for OU1 and committed us and WTM I to
implement that remedy without a cost limitation on that commitment. We and WTM I have substantially completed the amended remedy for OU1. We anticipate that the remaining tasks, other than monitoring and maintenance, will be completed by the second quarter of 2010.

Further, in November 2007, EPA issued an administrative order for remedial action (UAO) to Appleton Papers Inc., CBC Coating, Inc. (formerly known as Riverside Paper Corporation), Georgia-Pacific Consumer Products, L.P. (formerly known as Fort James Operating Company), Menasha Corporation, NCR Corporation, us, U.S. Paper Mills Corp., and WTM I Company directing those respondents to implement the amended remedy in OU2-5. Shortly following issuance of the UAO, Appleton Papers Inc. and NCR Corp. commenced litigation against us and others, as described below. Accordingly, we have no vehicle for complying with the UAO s overall requirements other than answering a judgment in the litigation, and we have so informed EPA. However, in February 2009, the EPA sent a demand to each of the respondents on the UAO other than WTM I demanding payment of the government s oversight costs under the UAO for the period from November 2007 through August 2008. In February 2009, we notified the EPA that we believed that its demand could prove distracting to litigation commenced by Appleton Papers and NCR against the other UAO respondents. In order to remove this distraction, and in the spirit of cooperation, we stated that we would satisfy the EPA s demand, an amount which was insignificant, in full. We paid this amount.

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. The Governments estimate that the total cost of implementing the amended remedy in OU1 will be approximately $102 million. Because we have completed a significant amount of work in this portion of the river, we believe the costs of completing the remedial actions specified in the amended ROD can be completed for this amount. On February 26, 2010, EPA issued an explanation of Significant Differences" a document explaining changes to a remedy, including changes in cost, that are significant but which do not require the issuance of a new Record of Decision. In that ESD, EPA estimated the

cost for the OU 2-5 remedy to be $701 million. EPA estimates costs as a range, in this case from $491 million to $1.05 billion. This estimate is slightly different than, but not inconsistent with, an estimate of the total cost for remediation of the Site that the Governments prepared for purposes of justifying a recent *de minimis* settlement with certain parties whose liability at the Site the United States and the Governments believe to be insignificant.

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That settlement was approved by the federal court in Green Bay on December 16, 2009. In their brief in support of that settlement, the Governments estimated the total past costs incurred at the Site including the OU1 project to be $200 million. In addition, they estimated the cost of implementing the remedy set forth in the amended ROD for OU2-5 (the downstream portions of the Site) to total between $600 million and $700 million exclusive of amounts already spent. For purposes of the settlement, the Governments took the high end of that range and applied a 50% contingency to arrive at a cost estimate for future cleanup work of $1.05 billion. Based upon independent estimates commissioned by various potentially responsible parties, we have no reason to disagree with the Governments assertion that future costs to implement the amended remedy for OU2-5 are likely to fall between $700 million and $1.05 billion.

NRDs. The Trustees claimed that we were jointly and severally responsible for NRDs with a value between $176 million and $333 million. In their recently filed brief, they further 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 (a) liability for most of these NRDs, (b) that if anyone is liable, that we are jointly and severally liable for the full amount; and (c) that the Trustees can pursue this claim at this late date as the limitations period for NRD claims is three years from discovery.

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

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

On December 16, 2009, the Court granted motions for summary judgment in our favor on the contribution claims brought by NCR and Appleton Papers Inc. in the Whiting litigation. The Court held that neither NCR nor Appleton Papers 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 Appleton Papers to us for costs we have incurred, or our liability to the governments or Trustees. NCR and Appleton Papers have stated their intention to appeal but, we and others believe that an appeal is not yet timely because the Court has not entered a final judgment.

As described above, we have counterclaims against NCR and Appleton Papers Inc. 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 Fox River site. Other defendants have similar claims. On January 20, 2010, the Court issued an order inviting submissions from the parties as to whether the counterclaims of the defendants, as well as certain additional claims, could be resolved without a trial within approximately six months. On April 3, 2010, we and others, including NCR and Appleton Papers Inc., filed separate motions for summary judgment on the counterclaims of the defendants. In the aggregate, the defendants motions seek a declaration that NCR and Appleton Papers, Inc. are liable to them for any future costs defendants may come to pay and seek recovery of just less than $210 million in past costs, plus interest on some of the

recovery. Our summary judgment motion sought recovery of $58.6 million in past costs and the declaration.

As noted above, on December 16, 2009, the Court approved a *de minimis* party consent decree (Consent Decree) settlement among the United States, the State of Wisconsin, and eleven defendants resolving those defendants liability for this site. The eleven settling defendants are: George A. Whiting Paper Co.; Green Bay

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Metropolitan Sewerage District; Green Bay Packaging, Inc.; Heart of the Valley Metropolitan Sewerage District; International Paper Co.; LaFarge North America Inc.; Leicht Transfer and Storage Co.; Neenah Foundry Co.; Procter & Gamble Paper Products Co.; Union Pacific Railroad Co.; and Wisconsin Public Service Corp. (collectively, the Eleven Settling Defendants). The Consent Decree reflects the conclusion by the United States and the State of Wisconsin that each of the Eleven Settling Defendants qualifies for treatment as a *de minimis* party under CERCLA. The Consent Decree requires the Settling Defendants to make a collective payment of $1,875,000. Those Eleven Settling Defendants have moved for judgment in the Whiting Litigation based upon the protections in the Consent Decree. In addition, the Governments on September 25, 2009, lodged a separate consent decree in the same case that would, if entered, resolve the liabilities of the City of De Pere. Under that consent decree, the City of De Pere would pay $210,000 to resolve its liability at the Site. That Consent Decree has not yet been approved.

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

Reserves for the Fox River Site. As of March 31, 2010, our reserve for our claimed liability at the Fox River, including our remediation and ongoing monitoring obligations at OU1, our claimed liability for the remediation of OU2-5, our claimed liability for NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled $17.4 million. No additional amounts were accrued during the first quarter of 2010 or 2009. Of our total reserve for the Fox River, $0.4 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remaining is recorded under the caption Other long term liabilities.

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

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

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

In setting our reserve for the Fox River, 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 and damages to the exclusion of other known PRPs at the Site who are also potentially jointly and severally liable. The

existence and ability of other PRPs to participate has also been taken into account in setting our reserve, and is generally based on our evaluation of recent publicly available financial information on each PRP, and any known insurance, indemnity or cost sharing agreements between PRPs and third parties. In addition, our assessment is based upon the magnitude, nature, location and circumstances associated with the various discharges of PCBs to the river and the relationship of

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those discharges to identified contamination. We will continue to evaluate our exposure and the level of our reserves, including, but not limited to, our potential share of the costs and NRDs, if any, associated with the Fox River site.

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

Other Information. Based in part upon the Court s December 16, 2009 ruling and the Court s January 10, 2010 order in the Whiting Litigation, we continue to believe that a volumetric allocation 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.

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

We previously entered into interim cost-sharing agreements with four of the other PRPs, which provided for those PRPs to share certain costs relating to scientific studies of PCBs discharged at the Site (Interim Cost Sharing Agreements). These interim cost-sharing agreements do not establish the final allocation of remediation costs incurred at the Site. Based upon our evaluation of the Court s December 16, 2009 ruling 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.

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

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

All remedial work in OU-1 has been completed and we and WTM I are in the process of decommissioning and performing the restoration of the staging area from which the remediation activity occurred and completing all

required reports for the project. We believe that these activities can be completed with the funds that remain in the OU1 Escrow Account.

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

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our consolidated financial position, liquidity and/or results of operations or could result in a default under our loan covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to this matter, that our share of costs and/or damages will not exceed our available resources, or that such obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations. If we are not successful in obtaining acknowledgment that the remedial work at OU1 has been substantially completed and/or should the United States seek to enforce the UAO for OU2-5 against us which requires us either to perform directly or to contribute significant amounts towards the performance of that work, those developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and might result in a default under our loan covenants.

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15. SEGMENT INFORMATION

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

	Three months ended March 31									
In millions	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net sales	**$207.7**	$199.6	**$101.5**	$91.9	**$ 28.1**	$	**$**	$	**$337.3**	$291.5
Energy and related sales, net	**3.6**	1.9							**3.6**	1.9
Total revenue	**211.3**	201.5	**101.5**	91.9	**28.1**				**340.9**	293.4
Cost of products sold	**181.7**	171.3	**86.1**	77.6	**26.9**		**2.0**	1.2	**296.7**	250.1
Gross profit	**29.6**	30.2	**15.4**	14.3	**1.2**		**(2.0)**	(1.2)	**44.2**	43.3
SG&A	**13.7**	11.8	**9.1**	8.8	**1.0**		**10.9**	3.9	**34.7**	24.5
Gains on dispositions of plant, equipment and timberlands								(0.7)		(0.7)
Total operating income (loss)	**15.9**	18.4	**6.3**	5.5	**0.2**		**(12.9)**	(4.4)	**9.5**	19.5
Non-operating income (expense)							**(9.4)**	(4.4)	**(9.4)**	(4.4)
Income (loss) before income taxes	**$ 15.9**	$ 18.4	**$ 6.3**	$ 5.5	**$ 0.2**	$	**$ (22.3)**	$ (8.8)	**$ 0.1**	$ 15.1
Supplementary Data										
Net tons sold	**193.2**	185.1	**21.3**	19.2	**11.1**				**225.6**	204.3
Depreciation, depletion and amortization	**$ 8.6**	$ 8.9	**$ 6.1**	$ 5.6	**$ 1.1**	$	**$**	$	**$ 15.8**	$ 14.5
Capital expenditures	**3.0**	3.6	**1.5**	1.6	**1.6**				**6.1**	5.2

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

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

16. SUBSEQUENT EVENT

On April 29, 2010 we entered into a new four-year, $225 million, multi-currency, revolving credit agreement with a consortium of banks. The new agreement replaces our existing bank credit agreement and matures May 31, 2014.

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

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

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17. GUARANTOR FINANCIAL STATEMENTS

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

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

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

In thousand	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$207,703	$12,604	$129,572	$(12,604)	$337,275
Energy and related sales net	3,607				3,607
Total revenues	211,310	12,604	129,572	(12,604)	340,882
Costs of products sold	185,628	10,409	113,092	(12,463)	296,666
Gross profit	25,682	2,195	16,480	(141)	44,216
Selling, general and administrative expenses	22,547	541	11,582		34,670
Gains on dispositions of plant, equipment and timberlands, net					
Operating income	3,135	1,654	4,898	(141)	9,546
Non-operating income (expense)					
Interest expense	(5,330)		(333)		(5,663)
Other income (expense) net	(899)	1,008	1,183	(5,105)	(3,813)
Total other income (expense)	(6,229)	1,008	850	(5,105)	(9,476)
Income (loss) before income taxes	(3,094)	2,662	5,748	(5,246)	70
Income tax provision (benefit)	(2,720)	1,165	2,172	(173)	444
Net income (loss)	$ (374)	$ 1,497	$ 3,576	$ (5,073)	$ (374)

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

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$199,607	$11,724	$ 91,945	$(11,724)	$291,552
Energy and related sales net	1,931				1,931
Total revenues	201,538	11,724	91,945	(11,724)	293,483

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

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Condensed Consolidating Balance Sheet as of March 31, 2010

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 610	$ 756	$ 25,209	$	$ 26,575
Other current assets	306,576	410,741	211,146	(472,460)	456,003
Plant, equipment and timberlands net	250,954	6,840	368,073		625,867
Other assets	760,609	168,744	108,627	(815,321)	222,659
Total assets	$1,318,749	$587,081	$713,055	$(1,287,781)	$1,331,104
Liabilities and Shareholders Equity					
Current liabilities	$ 310,165	$ 12,413	$374,985	$ (472,006)	$ 225,557
Long-term debt	322,995		36,695		359,690
Deferred income taxes	71,035	12,759	40,307	(28,003)	96,098
Other long-term liabilities	123,769	13,581	9,430	12,194	158,974
Total liabilities	827,964	38,753	461,417	(487,815)	840,319
Shareholders equity	490,785	548,328	251,638	(799,966)	490,785
Total liabilities and shareholders equity	$1,318,749	$587,081	$713,055	$(1,287,781)	$1,331,104

Condensed Consolidating Balance Sheet as of December 31, 2009

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 76,970	$ 985	$ 57,465	$	$ 135,420
Other current assets	275,490	260,834	148,090	(299,778)	384,636
Plant, equipment and timberlands net	255,886	6,921	207,825		470,632
Other assets	600,116	145,304	75,731	(621,545)	199,606
Total assets	$1,208,462	$414,044	$489,111	$ (921,323)	$1,190,294
Liabilities and Shareholders Equity					
Current liabilities	$ 301,908	$ 1,357	$179,273	$ (296,428)	$ 186,110
Long-term debt	200,241		36,695		236,936

Deferred income taxes	71,035	15,347	26,284	(15,998)	96,668
Other long-term liabilities	124,574	13,531	9,654	12,117	159,876
Total liabilities	697,758	30,235	251,906	(300,309)	679,590
Shareholders equity	510,704	383,809	237,205	(621,014)	510,704
Total liabilities and shareholders equity	$1,208,462	$414,044	$489,111	$ (921,323)	$1,190,294

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

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	$(167,159)	$ 147,045	$ 45,784	$ (300)	$ 20,370
Investing activities					
Purchase of plant, equipment and timberlands	(2,953)	(17)	(3,166)		(6,136)
Acquisition of Concert Industries Corp., net of cash acquired			(233,006)		(233,006)
Repayments from (advances of) intercompany loans, net	(2,139)	(141,757)	4,506	139,390	
Total investing activities	(5,092)	(141,774)	(231,666)	139,390	(239,142)
Financing activities					
Net (repayments of) proceeds from indebtedness	116,027		1,105		117,132
Payment of dividends to shareholders	(4,165)				(4,165)
(Repayments) borrowings of intercompany loans, net	(16,078)	(200)	155,668	(139,390)	
Payment of intercompany dividends		(300)		300	
Proceeds from stock options exercised and other	107				107
Total financing activities	95,891	(500)	156,773	(139,090)	113,074
Effect of exchange rate on cash			(3,147)		(3,147)
Net increase (decrease) in cash	(76,360)	(229)	(32,256)		(108,845)
Cash at the beginning of period	76,970	985	57,465		135,420
Cash at the end of period	$ 610	$ 756	$ 25,209	$	$ 25,575

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

In thousands	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	$ 16,303	$ 354	$ (17,242)	$ (600)	$ (1,185)
Investing activities					

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

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Glatfelter s Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our 2009 Annual Report on Form 10-K.

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

i. variations in demand for our products including the impact of any unplanned market-related downtime, or variations in product pricing;

ii. changes in the cost or availability of raw materials we use, in particular pulpwood, market pulp, pulp substitutes, caustic soda and abaca fiber;

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

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

v. our inability to renew our electricity sales agreement resulting in exposure to market-based pricing that is currently significantly below historical margins in relation to our current coal supply contract;

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 impairment of financial institutions and any resulting impact on us, our customers or our vendors;

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

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

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

xi. geopolitical events, including war and terrorism;

xii. disruptions in production and/or increased costs due to labor disputes;

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

xiv. adverse results in litigation; and

xv. our ability to finance, consummate and integrate current or future acquisitions.

Introduction We manufacture, both domestically and internationally, a wide array of specialty papers and fiber-based engineered products. We manage our business along three business units: i) Specialty Papers with revenues earned from the sale of carbonless papers and forms, book publishing, envelope & converting, and

engineered products; ii) Composite Fibers with revenue from the sale of food & beverage filtration papers, metallized papers, composite laminates used for decorative and furniture and flooring applications, and technical specialties; and iii) Advanced Airlaid Materials with revenue from the sale of airlaid non-woven fabric like materials used in feminine hygiene products, adult incontinence products, pre-moistened cleaning wipes, food pads, napkins and tablecloths, and baby wipes.

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Overview Our reported results of operations for the first three months of 2010 when compared with the same period of 2009 are lower primarily as a result of acquisition and integration costs related to the February 12, 2010 acquisition of Concert Industries Corp. (Concert). In addition, we recorded a $3.4 million pre-tax loss on forward foreign currency contracts that hedged the Canadian dollar purchase price.

Operationally, our results were favorably affected by higher volumes shipped associated with improving demand in many of the markets served by our businesses and the inclusion of Concert. However, these benefits were offset by the adverse affects of production inefficiencies attributable, in part, to severe weather conditions. In addition, rising input costs, particularly purchased pulp, adversely impacted gross margins. This was offset by lower energy costs, primarily attributable to natural gas pricing.

RESULTS OF OPERATIONS

Three months ended March 31, 2010 versus the Three months ended March 31, 2009

The following table sets forth summarized results of operations:

	Three months ended March 31	
In thousands, except per share	**2010**	2009
Net sales	**$337,275**	$291,552
Gross profit	**44,216**	43,314
Operating income	**9,546**	19,500
Net income (loss)	**(374)**	11,538
Earnings (loss) per share	**(0.01)**	0.25

The consolidated results of operations for the three months ended March 31, 2010 and 2009 include the following significant items:

In thousands, except per share	**After-tax** *Gain (loss)*	**Diluted EPS**
2010		
Acquisition and integration costs	**$(7,002)**	**$ (0.15)**
Foreign currency hedge on acquisition price	**(2,076)**	**(0.05)**
2009		
Gains on sale of timberlands	$ 378	$ 0.01

The above items reduced earnings by $9.1 million, or $0.20 per diluted share, in first quarter of 2010 and increased earnings by $0.4 million, or $0.1 per diluted share, in the first quarter of 2009.

Business Units

	Three months ended March 31									
In millions	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net sales	**$207.7**	$199.6	**$101.5**	$91.9	**$ 28.1**	$	**$**	$	**$337.3**	$291.5

Energy and related sales, net	**3.6**	1.9						**3.6**	1.9
Total revenue	**211.3**	201.5	**101.5**	91.9	**28.1**	**0.0**		**340.9**	293.4
Cost of products sold	**181.7**	171.3	**86.1**	77.6	**26.9**	**2.0**	1.2	**296.7**	250.1
Gross profit	**29.6**	30.2	**15.4**	14.3	**1.2**	**(2.0)**	(1.2)	**44.2**	43.3
SG&A	**13.7**	11.8	**9.1**	8.8	**1.0**	**10.9**	3.9	**34.7**	24.5
Gains on dispositions of plant, equipment and timberlands							(0.7)		(0.7)
Total operating income (loss)	**15.9**	18.4	**6.3**	5.5	**0.2**	**(12.9)**	(4.4)	**9.5**	19.5
Non-operating income (expense)						**(9.4)**	(4.4)	**(9.4)**	(4.4)
Income (loss) before income taxes	**$ 15.9**	$ 18.4	**$ 6.3**	$ 5.5	**$ 0.2**	$ **$(22.3)**	$(8.8)	**$ 0.1**	$ 15.1
Supplementary Data									
Net tons sold	**193.2**	185.1	**21.3**	19.2	**11.1**			**225.6**	204.3
Depreciation, depletion and amortization	**$ 8.6**	$ 8.9	**$ 6.1**	$ 5.6	**$ 1.1**	$ **$**	$	**$ 15.8**	$ 14.5
Capital expenditures	**3.0**	3.6	**1.5**	1.6	**1.6**			**6.1**	5.2

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

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

Sales and Costs of Products Sold

	Three months ended March 31		
In thousands	**2010**	2009	Change
Net sales	**$337,275**	$291,552	$45,723
Energy and related sales net	**3,607**	1,931	1,676
Total revenues	**340,882**	293,483	47,399
Costs of products sold	**296,666**	250,169	46,497
Gross profit	**$ 44,216**	$ 43,314	$ 902
Gross profit as a percent of Net sales	**13.1%**	14.9%	

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

	Three months ended March 31	
Percent of Total	**2010**	2009
Business Unit		
Specialty Papers	**61.6%**	68.5%
Composite Fibers	**30.1**	31.5
Advanced Airlaid Material	**8.3**	
Total	**100.0%**	100.0%

Net sales for the first quarter of 2010 were $337.3 million, a 15.7% increase compared with $291.6 million for the first quarter of 2009, reflecting improved demand and the inclusion of Concert, now operated and reported as Advanced Airlaid Materials business unit.

In the Specialty Papers business unit, 2010 first quarter net sales increased $8.1 million, or 4.1%, to $207.7 million. The increase was primarily due to higher volumes shipped. Lower average selling prices negatively impacted net sales

by $2.0 million in the quarter-over-quarter comparison.

Specialty Papers 2010 first-quarter operating profit declined $2.4 million compared with the prior-year quarter primarily due to higher maintenance and other costs associated with production interruptions and the impact of severe weather conditions. These unfavorable factors were partially offset by benefits from the lack of market-related downtime this quarter, improved shipping volumes and mix, and a $1.6 million increase in the sale of renewable energy credits.

We sell excess power generated by the Spring Grove, PA facility. The following table summarizes this activity for the first quarters of 2010 and 2009:

In thousands	**2010**	2009	Change
Energy sales	**$ 4,605**	$ 4,847	$ (242)
Costs to produce	**(2,612)**	(2,916)	(304)
Net	**1,993**	1,931	62
Renewable energy credits	**1,614**		1,614
Total	**$ 3,607**	$ 1,931	$1,676

Prior to March 31, 2010, all such sales were made pursuant to a long-term contract that expired at the end of the first quarter 2010. We continue to sell power but at market rates, the forward pricing for which is nearly 40% below the expired contract rate. We expect increased volatility and lower overall profitability.

Renewable energy credits (RECs) represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste. We sell RECs into an emerging and somewhat illiquid market. The extent and value of future revenues from REC sales is dependent on many factors outside of management s control. Therefore, we may not be able to generate consistent additional sales of RECs in future periods. In addition, although an appeal by a consumer advocacy group of the certification by the Public Utility Commission of Ohio of our Chillicothe, OH facility using black liquor as a renewable energy generator was upheld, we are unable to predict its ultimate outcome until the appeal process is exhausted.

In Composite Fibers, 2010 first quarter net sales were $101.5 million, an increase of $9.6 million, or 10.4%, from the first quarter of 2009. The improvement in Composite

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Fibers net sales reflects strengthening demand in most of its product lines. On a constant currency basis, average selling prices were lower by $0.8 million, and the translation of foreign currencies favorably affected net sales by approximately $5.7 million.

Lower energy costs, primarily natural gas, favorably affected this business unit s profitability by $3.4 million. However, production inefficiencies driven, in part, by severe weather and material usage, partially offset this benefit. On a net basis, Composite Fibers operating profit increased $0.8 million, or 14.5%, in the quarter-to-quarter comparison.

Results for Advanced Airlaid Materials are included from February 12, 2010, the date of the Concert acquisition. Reported results were adversely impacted by $1.2 million as a result of charging cost of products sold for the write up of acquired inventory to fair value.

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

	Three months ended March 31		
In thousands	**2010**	2009	Change
Recorded as:			
Costs of products sold	**$(1,893)**	$(1,188)	$(705)
SG&A expense	**(493)**	(494)	1
Total	**$(2,386)**	$(1,682)	$(704)

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

Selling, general and administrative (SG&A) expenses totaled $34.7 million, a $10.2 million increase primarily due to acquisition and integration related costs associated with the Concert transaction. For the remainder of 2010, integration costs are expected to approximate $2 million to $3 million.

Income taxes For the first three months of 2010, we recorded a provision for income taxes of $0.4 million on $0.1 million of pretax income. The comparable amounts in the first quarter of 2009 were income tax expense of $3.6 million on $15.1 million of pretax income. The lower tax provision in 2010 was primarily due to $11.9 million of acquisition and integration costs incurred in the first quarter of 2010, a significant portion of which are non-deductible. There were no such costs in the first quarter of 2009.

Foreign Currency We own and operate facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency of our Canadian operations is the U.S. dollar. However, in Germany and France it is the Euro, in the UK it is the British Pound Sterling, and in the Philippines the currency is the Peso. During the first three months of 2010, Euro functional currency operations generated approximately 23.8% of our sales and 22.7% of operating expenses and British Pound Sterling operations represented 8.6% of net sales and 8.9% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the effect from foreign currency translation on the first three months of 2010 reported results compared to the first three months 2009:

In thousands	Three months ended March 31 **Favorable (unfavorable)**

Net sales	**$**	**5,720**
Costs of products sold		**(5,271)**
SG&A expenses		**(506)**
Income taxes and other		**(30)**
Net income	**$**	**(87)**

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

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LIQUIDITY AND CAPITAL RESOURCES

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

	Three months ended March 31	
In thousands	**2010**	2009
Cash and cash equivalents at beginning of period	**$ 135,420**	$32,234
Cash provided by (used for)		
Operating activities	**20,370**	(1,185)
Investing activities	**(239,142)**	(4,506)
Financing activities	**113,074**	(1,893)
Effect of exchange rate changes on cash	**(3,147)**	(978)
Net cash used	**(108,845)**	(8,562)
Cash and cash equivalents at end of period	**$ 26,575**	$23,672

As of March 31, 2010, we had $26.6 million in cash and cash equivalents and $166.3 million available under our revolving credit agreement. As discussed in Item 1 Financial Statements, Note 16, we refinanced this facility with a new four-year, $225 million revolving credit agreement. In addition, in April 2010, we received a $54.9 million federal income tax refund in connection with the filing of our 2009 corporate income tax return which included the benefit of alternative fuel mixture credits.

Operating cash flow improved by $21.6 million in the first quarter of 2010 compared to the same quarter of 2009. While net income in 2010 was lower as a result of acquisition related costs, we consumed less net working capital in 2010 and did not need to fund environmental payments associated with the Fox River environmental matter as in 2009 using $6.5 million less in cash.

Net cash used by investing activities totaled $239.2 million in the first quarter of 2010 reflecting the Concert acquisition. Capital expenditures totaled $6.1 million and $5.2 million in the first quarter of 2010 and 2009, respectively

Net cash provided by financing activities totaled $113.1 million in the first quarter of 2010, reflecting increased borrowings to fund the Concert acquisition including the proceeds, net of debt issue costs and original issue discount, from the issuance of $100.0 million of senior notes, at 95% of par.

During the first quarters of 2010 and 2009 cash dividends paid on common stock totaled $4.2 million and $4.1 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.

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

In thousands	**March 31, 2010**	Dec. 31, 2009
Revolving credit facility, due April 2011	**$ 27,953**	$
Term Loan, due April 2011	**10,000**	14,000
7 % Notes, due May 2016	**200,000**	200,000
7 % Notes, due May 2016 - net of original issue discount	**95,042**	

Term Loan, due January 2013	**36,695**	36,695
Total long-term debt	**369,690**	250,695
Less current portion	**(10,000)**	(13,759)
Long-term debt, net of current portion	**$359,690**	$236,936

The significant terms of the debt obligations are set forth in Item 1 Financial Statements Note 11 and Note 16. Although we do not have immediate intentions to make additional use of our facility, we believe this agreement, and the banks that are party to it, provides us with ready access to liquidity should we need it.

We are subject to loss contingencies resulting from regulation by various federal, state, local and foreign governmental authorities with respect to the environmental impact of mills we operate, or have operated. To comply with environmental laws and regulations, we have incurred substantial capital and operating expenditures in past years. We anticipate that environmental regulation of our operations will continue to become more burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 1 Financial Statements Note 14 for a summary of significant environmental matters.

We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, our credit facility or other bank lines of credit and other long-term debt. However, as discussed in Item 1 Financial Statements Note 14, an unfavorable outcome of various environmental matters could have a material adverse impact on our consolidated financial position, liquidity and/or results of operations.

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Our credit agreement contains a number of customary compliance covenants. A breach of these requirements would give rise to certain remedies under the credit agreement as amended, among which are the termination of the agreement and accelerated repayment of the outstanding borrowings plus accrued and unpaid interest under the credit facility. In addition, the 7 % Notes contain cross default provisions that could result in all such notes becoming due and payable in the event of a failure to repay debt outstanding under the credit agreement at maturity or a default under the credit agreement, that accelerates the debt outstanding thereunder. As of March 31, 2010 we were not aware of any breach of any such requirements.,

Off-Balance-Sheet Arrangements As of March 31, 2010 and December 31, 2009, we had not entered into any off-balance-sheet arrangements. Financial derivative instruments, to which we are a party, and guarantees of indebtedness, which solely consist of obligations of subsidiaries and a partnership, are reflected in the condensed consolidated balance sheets included herein in Item 1 Financial Statements.

Outlook For Specialty Papers, we expect shipping volumes to be flat in the second quarter of 2010 compared with the first quarter of 2010 and selling prices are expected to increase in the same comparison. In addition, purchased pulp costs are expected to be higher in the second quarter of 2010 compared to the first quarter of 2010, which will offset the benefit of higher selling prices. We also plan to complete the annually scheduled maintenance outages at both the Chillicothe and Spring Grove facilities in the second quarter of 2010. The outages are expected to adversely impact second-quarter results by approximately $0.26 to $0.28 per share.

For Composite Fibers, we anticipate shipping volumes in the second quarter of 2010 to be approximately 5 percent higher than the first quarter of 2010. Selling prices are expected to be relatively in line with the first quarter and input costs are expected to be higher due to continued increases in wood pulp prices which are expected to offset the impact of higher shipping volumes.

Shipping volumes for the Advanced Airlaid Material business unit in the second quarter of 2010 are expected to remain relatively in line with the run-rates reported in the first quarter, adjusted for a full quarter of volume. In addition, the effect of stepping-up the basis of inventory from the application of purchase accounting is expected to be $0.1 million for the second quarter. We expect the acquisition will be slightly accretive to 2010 earnings, excluding acquisition and integration costs. For the remainder of 2010, integration costs are expected to approximate $2 million to $3 million.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

	Year Ended December 31					At March 31, 2010	
Dollars in thousands	2010	2011	2012	2013	2014	Carrying Value	Fair Value
Long-term debt							
Average principal outstanding							
At fixed interest rates							
Bond	$300,000	$300,000	$300,000	$300,000	$300,000	$295,042	$293,625
At variable interest rates	69,567	45,295	36,695	1,407		74,648	79,301
						$369,690	$372,926
Weighted-average interest rate							
On fixed rate debt							
Bond	7.13%	7.13%	7.13%	7.13%	7.13%		
On variable rate debt	1.40	1.55	1.66	1.66			

The table above presents average principal outstanding and related interest rates for the next five years. The amounts set forth above for fixed rate bonds represent the coupon rate. Such amounts include $100.0 million of bonds issued at a 5% original issue discount resulting in a 8.16% yield. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities. Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At March 31, 2010, we had long-term debt outstanding of $369.7 million, of which $74.6 million or 20.1% was at variable interest rates.

Variable-rate debt outstanding represents i) borrowings under our revolving credit facility and term loans that accrue interest based on the domestic prime rate or a Eurocurrency rate, at our option, plus a margin; and ii) a cash collateralized borrowing incurred in connection with the 2007 installment timberland sale that accrues interest based on 6 month LIBOR plus a margin. At March 31, 2010, the weighted average interest rate paid on variable rate debt was 1.40%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by $0.7 million.

We are subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. Dollar. During the first three months of 2010, Euro functional currency operations generated approximately 23.8% of our sales and 22.7% of operating expenses and British Pound Sterling operations represented 8.6% of net sales and 8.9% of operating expenses.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Our chief executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2010, have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Changes in Internal Controls On February 12, 2010, we completed the acquisition of Concert Industries Corp. We are in the process of incorporating Concert s internal controls into our control structure. We consider the ongoing integration of Concert a material change in our internal control over financial reporting. There were no other changes in our internal control over financial reporting during the three months ended March 31, 2010, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

ITEM 6. EXHIBITS

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

31.1 Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

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

32.1 Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

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

SIGNATURES

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

P. H. GLATFELTER COMPANY
(Registrant)

May 10, 2010

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

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EXHIBIT INDEX

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