GLATFELTER P H CO
Form 10-K
March 11, 2011

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

or

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

Commission file number 1-03560
P. H. Glatfelter Company
(Exact name of registrant as specified in its charter)

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

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

Title of Each Class	Name of Each Exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Based on the closing price as of June 30, 2010, the aggregate market value of the Common Stock of the Registrant held by non-affiliates was $490.7 million.

Common Stock outstanding on March 11, 2011 totaled 45,999,846 shares.

DOCUMENTS INCORPORATED BY REFERENCE

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

Proxy Statement to be dated on or about March 30, 2011 (Part III).

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

DECEMBER 31, 2010

Table of Contents

		Page
PART I		
Item 1	Business	1
Item 1A	Risk Factors	7
Item 1B	Unresolved Staff Comments	11
Item 2	Properties	11
Item 3	Legal Proceedings	11
	Executive Officers	11
Item 4	(Reserved)	12
PART II		
Item 5	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6	Selected Financial Data	13
Item 7	Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	23
Item 8	Financial Statements and Supplementary Data	24
Item 9	Changes in and Disagreements With Accountants on Accounting and Financial Disclosures	57
Item 9A	Controls and Procedures	57
Item 9B	Other Information	57
PART III		
Item 10	Directors, Executive Officers and Corporate Governance	57
Item 11	Executive Compensation	57
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	57
Item 13	Certain Relationships and Related Transactions, and Director Independence	57
Item 14	Principal Accountant Fees and Services	57
PART IV		

Item 15	Exhibits, Financial Statement Schedules	58
SIGNATURES		60
SCHEDULE II		61

EXHIBIT 10(P)
EXHIBIT 21
EXHIBIT 23
EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32.1

Table of Contents

PART I

ITEM 1 *BUSINESS*

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

Acquisitions Over the past several years we completed the following acquisitions:

Dollars in millions	Date	Est. Annual Revenue[1]	Business Unit	Primary Products
Location				
Canada and Germany	Feb 10	$ 203.0	Advanced Airlaid Materials	Airlaid non-woven for feminine hygiene, adult incontinence and other
Wales	Nov 07	53.4	Composite Fibers	Metallized
Ohio	Apr 06	440.0	Specialty Papers	Carbonless & forms
England	Mar 06	75.0	Composite Fibers	Tea & coffee filter papers

(1) Represents annual revenue prior to acquisition.

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

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

Specialty Papers with revenues earned from the sale of carbonless papers and forms, book publishing, envelope & converting, and engineered products;

Composite Fibers with revenue from the sale of food & beverage filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and technical specialties; and

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

Our Business Units Since completing the acquisition of Concert Industries Corp. (Concert) on February 12, 2010, we now manage our company as three distinct business units: (i) Specialty Papers; (ii) Composite Fibers; and (iii) Advanced Airlaid Materials. Consolidated net sales and the relative net sales contribution of each of our business units for the past three years are summarized below:

Dollars in thousands	**2010**	2009	2008
Net sales	**$ 1,455,331**	$ 1,184,010	$ 1,263,850
Business unit contribution			
Specialty Papers	**57.9%**	66.9%	66.0%
Composite Fibers	**28.8**	33.1	34.0
Advanced Airlaid Materials	**13.3**		
Total	**100.0%**	100.0%	100.0%

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

	2010	2009	2008
Specialty Papers	**764,670**	738,841	743,755
Composite Fibers	**90,350**	80,064	85,599
Advanced Airlaid Materials	**72,833**		
Total	**927,853**	818,905	829,354

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

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

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

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

Engineered products for digital imaging, transfer, casting, release, postal, playing card, FDA-compliant food and beverage applications, and other niche specialty applications.

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

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

In thousands	**2010**	2009	2008
Carbonless & forms	**$ 359,033**	$ 320,088	$ 338,067
Book publishing	**168,155**	176,646	201,040
Envelope & converting	**157,202**	146,812	138,293
Engineered products	**155,257**	143,490	149,372
Other	**2,967**	4,879	7,127
Total	**$ 842,614**	$ 791,915	$ 833,899

Many of the markets served by Specialty Papers are more mature and, in certain instances, declining. However, we have been successful in increasing this unit s

shipments through new product and new business development initiatives and leveraging the flexibility of our operating assets to efficiently respond to changing customer demands. During 2010, we invested approximately $10.4 million in product development activities and, in each of 2009 and 2008, we invested approximately $8.0 million. In each of the past three years, in excess of 50% of net sales were generated from products developed, enhanced or improved within the past five years.

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

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

In the carbonless paper and forms market, we compete with Appleton Papers and, to a lesser extent, Nekoosa Papers, Inc. We believe we are one of the leading producers of book publishing papers and compete in these markets with, among others, Domtar and North Pacific Paper (NORPAC). In the envelope sector we compete with International Paper, Domtar and Evergreen, among others. In our Specialty Papers engineered products markets, competition is product line specific as the necessity for technical expertise and specialized manufacturing equipment limits the number of companies offering multiple product lines. We compete with specialty divisions of large companies such as, among others, International Paper, Domtar, Boise, NewPage and Sappi. Service, product performance, technological advances and product pricing are important competitive factors with respect to all our products. We believe our reputation in these areas continues to be excellent.

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

Uncoated Capacity (short tons)	Principal Raw Material (PRM)	Estimated Annual Quantity of PRM (short tons)	Percent of PRM Purchased[1]	Percent of Need Generated Steam	Percent of Need Generated Electricity	Principal Source of Fuel	Estimated Annual Quantity
732,000	Pulpwood	2,321,000	97%	100%	90%	Coal	610,000 tons
	Wood- and other pulps	684,500	16			Natural gas	765,000 MCF

(1) Represents percent purchased from unrelated third-parties.

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

The Chillicothe, Ohio facility operates four paper machines producing uncoated and carbonless paper. This facility also includes a pulpmill that has a production capacity of approximately 955 tons of bleached pulp per day.

The principal raw material used to produce each facility s pulp is pulpwood, including both hardwoods and softwoods. Hardwoods are available within a relatively short distance of our mills. Softwoods are obtained from a variety of locations including the states of Pennsylvania, Maryland, Delaware, Virginia, Kentucky, Tennessee and South Carolina. To protect our sources of pulpwood, we actively promote conservation and forest management among suppliers and woodland owners. In addition to sourcing the pulpwood in the open market, we have long-term supply contracts that provide access to timber at market prices.

The Spring Grove facility produces more electricity than it requires. Excess electricity was sold to the local

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Table of Contents

power company under a long-term co-generation contract that expired on March 31, 2010. During 2010, in anticipation of the contract s expiration, we became a member of PJM Interconnection, a federally regulated regional transmission organization that coordinates the movement and ensures reliability of wholesale electricity in its region. As a member, we are committed to providing capacity to the high-voltage electricity grid and agree to sell excess power at market prices. Accordingly, our margin earned from energy sales will be subject to market volatility associated with the price at which energy is sold together with volatility in input costs, primarily related to coal.

Cellulosic Biofuel Production Credits and Alternative Fuel Mixture Credits The U.S. Internal Revenue Code (the IRC) provided tax credits for companies that produce cellulosic biofuel or use alternative fuel mixtures to produce energy to operate their businesses. The credits equal to $1.01 per gallon of cellulosic biofuel or $0.50 per gallon of alternative fuel contained in the mixture. In a memorandum issued in July 2010, the Internal Revenue Service issued guidance concluding that black liquor sold or used before January 1, 2010, qualifies for the cellulosic biofuel producer credit (CBPC) and no further certification of eligibility was needed.

In connection with filing our 2009 income tax return, we claimed $23.2 million, net of taxes, of CBPC for black liquor used during the period January 1, 2009 through February 19, 2009.

The alternative fuel mixture credit is refundable to the taxpayer. On May 11, 2009, we were notified by the Internal Revenue Service that our application to be registered as an alternative fuel mixer was approved. During 2009, we mixed and burned eligible alternative fuels for the period February 20, 2009 through December 31, 2009, and earned $107.8 million of alternative fuel mixture credits.

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

Food & Beverage paper used for tea bags and single serve coffee products;

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

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

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

We believe this business unit maintains a market leadership position in the growing tea bags and single-serve coffee products markets and the composite laminates market. Since the completion of the Caerphilly acquisition, we have the second largest market share for metallized products globally. Composite Fibers revenue composition by market consisted of the following for the years indicated:

In thousands	**2010**	2009	2008
Food & beverage	**$ 242,882**	$ 233,899	$ 252,545
Metallized	**88,753**	81,388	85,719

Composite laminates	**50,801**	46,442	58,705
Technical specialties and other	**36,781**	30,366	32,983
Total	**$ 419,217**	$ 392,095	$ 429,952

We believe many of the market segments served by Composite Fibers, particularly Food & Beverage and Metallized papers, present attractive growth opportunities by expanding into new geographic markets and by gaining market share through quality product and service offerings. Growth in these markets is driven by growing population and disposable income and changes in consumer preferences. Many of this unit s papers are technically sophisticated. Most of the papers produced in the Composite Fibers business unit, except for metallized papers, are extremely lightweight and require very specialized fibers. Our engineering capabilities, specifically designed papermaking equipment and customer orientation position us well to compete in these global markets.

The Composite Fibers Business Unit is comprised of the three paper making facilities (Germany, France and the United Kingdom), metallizing operations (Wales and Germany) and a pulp mill (the Philippines) with the indicated combined attributes:

Production Capacity (short tons)		Principal Raw Material (PRM)	Estimated Annual Quantity of PRM (short tons)	Percent of PRM Purchased(1)	Percent of Need Generated Steam	Percent of Need Generated Electricity	Principal Source of Fuel	Approximate Quantity
65,900	Lightweight	Abaca pulp	15,500	20%	100%	15%	Natural gas	1,654,000 MCF
		Wood pulp	42,600	100				
		Synthetic fiber	10,600	100				
28,800	Metallized	Base stock	30,500	100			Natural gas	44,500 MCF
12,500	Abaca pulp	Abaca fiber	19,100	100				

(1) Represents percent purchased from unrelated third-parties.

Table of Contents

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

In Composite Fibers markets, competition is product line specific as the necessity for technical expertise and specialized manufacturing equipment limits the number of companies offering multiple product lines. We believe we have leading market positions for paper used in tea bags and single serve coffee products and compete with companies such as Ahlstrom and Purico. In composite laminates we compete with PdM, a division of Schweitzer-Maudit, Purico and MB Papeles and for metallized products, competitors include Vacumet, AR Metallizing, Amsterdam Metallized Products, and Protec.

Advanced Airlaid Materials On February 12, 2010, we acquired Concert, which we now operate as the Advanced Airlaid Materials business unit. Founded in 1993, Concert is a leading global supplier of highly absorbent cellulose-based airlaid non-woven materials used to manufacture a diverse range of consumer and industrial products for growing global end-use markets. These products include:

- feminine hygiene;
- adult incontinence;
- home care such as specialty wipes;
- table top and towels; and
- food pads and other.

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

Sales of feminine hygiene product material accounted for 81% of Advanced Airlaid Material s revenue in 2010. These markets are considered to be more growth oriented in certain geographic regions driven by population growth, consumer preferences and suppliers ability to provide innovative products. In developing markets, demand is also influenced by increases in disposable income and cultural preferences.

The Advanced Airlaid Materials business unit operates two facilities with the following combined attributes:

Production Capacity (short tons)	Principal Raw Material	Estimated Annual Quantity of PRM (short tons)
102,300	Fluff pulp	68,200

Advanced Airlaid Materials operates state-of-the-art facilities in Gatineau, Quebec, Canada and Falkenhagen, Germany. The Gatineau location consists of two airlaid production lines employing multi-bonded and thermal airlaid techniques and a single-lane festooner. The Falkenhagen location operates three multi-bonded production lines and three single-lane festooners.

Prior to our acquisition of Concert, approximately $80 million was invested by its previous owners to install a new line at the Falkenhagen facility. The new line, which successfully commenced commercial production during the fourth quarter of 2009, increased annual rated capacity by 19,400 tons, a 27% increase in the business unit s capacity. A significant portion of this unit s capacity is under contract through 2013.

Advanced Airlaid Materials is a technology and product innovation leader in technically demanding segments of the airlaid market, most notably feminine hygiene. We believe that its facilities are among the most modern and flexible airlaid facilities in the world, which allow it to produce at industry leading operating rates. Its proprietary single-lane rotary festooning technology, which was developed in 2002, provides customers with product packaged for efficient use. Advanced Airlaid Materials has leading market positions in feminine hygiene and adult incontinence products, food pads and specialty wipes. This business unit s in-house technical product and process expertise, festooning capabilities and

rigorous customer requirements create large barriers to entry for new entrants.

The airlaid industry is made up of a few large producers, including Buckeye Technologies Inc., Georgia-Pacific LLC, Duni AB, Fiberweb Plc., and us.

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

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

Our strategy includes maintaining and expanding market leading positions in global growth markets, focusing on specialization and innovation, in part, through new product development, driving efficiencies and cost reduction through ongoing continuous improvement initiatives and maintaining our focus on maximizing cash flow. With respect to each business unit, our strategy includes:

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

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

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

- utilizing ongoing continuous improvement methodologies to ensure operational efficiencies; and

- maintaining superior customer service.

Composite Fibers The markets served by this business unit are characterized by long-term growth opportunities. To take advantage of this, our strategy is focused on:

- capturing world-wide growth in Composite Fibers   core markets of food & beverage, composite laminates and metallized papers;

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

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

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

- maintaining and expanding relationships with customers that are market-leading consumer product companies;
- expanding geographic reach of markets served;
- more fully utilizing and maximizing production capacity;
- employing continuous improvement methodologies and initiatives to reduce costs and improve efficiencies; and
- furthering our product innovation capabilities.

Balance Sheet We are focused on prudent financial management and the maintenance of a conservative capital structure. By aggressively managing working capital to maximize cash flow from operations, making disciplined capital expenditure decisions and, as opportunities warrant, monetizing the value of our timberland assets, we are able to maintain a strong balance sheet, thereby preserving the flexibility to pursue strategic opportunities that will benefit our shareholders.

Acquisitions We have a demonstrated ability to establish leading market positions through the successful acquisition and integration of complementary businesses. Since 2006, we have successfully completed and integrated four acquisitions. In February 2010, we further diversified our global footprint with the Concert acquisition, a technology and product innovation leader in technically demanding segments of the airlaid market, most notably feminine hygiene. We expect this acquisition will enable us to grow with our customers who are industry leading consumer products companies for feminine hygiene and adult incontinence products and complements our long-term strategy of driving growth in our markets in part through acquisitions.

Table of Contents

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

Capital Expenditures Our business is capital intensive and requires extensive expenditures for new and enhanced equipment. These capital investments are necessary for environmental compliance, normal upgrades or replacements, business strategy and research and development. For 2011, we expect capital expenditures to total approximately $60 million to $65 million.

Environmental Matters We are subject to laws and regulations which operate to protect the environment as well as human health and safety. We have, at various times, incurred significant costs to comply with those regulations, as new regulations are developed or regulatory priorities change. Currently, we anticipate that we could incur material capital and operating costs to comply with several air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT). Although we are in the process of analyzing the potential impact of these requirements, compliance could require significant capital expenditures. For a discussion of other environmental matters, see Item 8 Financial Statements and Supplementary Data Note 20.

Employees The following table summarizes our workforce as of December 31, 2010:

Location	Total	Hourly[1]	Salaried	Contract Period Start	Contract Period End	Union
U.S.						
Corporate/Spring Grove	969	603	366	Jan. 2011	Jan. 2014	United Steelworkers International
Chillicothe/Fremont	1,399	1,051	348	Aug. 2009	Aug. 2012	Union and the Office and Professional Employees International Union,
International						
Gernsbach, Germany	602	364	238	Sept. 2010	Nov. 2012	Industriegewerkschaft Bergbau, Chemie, Energie-IG BCE
Scaër, France	118	70	48	Nov. 2008	Nov. 2012	Confederation Generale des Travailleurs & Force Ouvriere

Lydney, England	283	211	72	Feb. 2011	Feb. 2012	Unite the Union
Caerphilly, Wales	125	83	42	Jan. 2011	Jan. 2012	General Maintenance & Boiler s
Philippines	92	63	29	Sept. 2007	Sept. 2012	Newtech Pulp Workers Union & Federation of Democratic Labor Org.
Falkenhagen, Germany	425	344	81	n/a	n/a	Works Council
Gatineau, Canada	324	240	84	Jan. 2010	Dec. 2013	La fraternité inter-provinciale des ouvriers en électricités
				Jul. 2010	Dec. 2011	Le syndicat canadien des communications, de l énergie et du papier
Total worldwide employees	4,337	3,029	1,308			

(1) Generally, the majority of the hourly employees included in the table above are covered by terms and conditions of the collective bargaining agreements with the respective labor organization indicated.

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

Available Information On our investor relations page of our Corporate website at www.glatfelter.com we make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and other related information as soon as reasonably practical after they are filed with the Securities and Exchange Commission. In addition, our website includes a Corporate Governance page consisting of, among others, our Governance Principles and Code of Business Conduct, and biographies of our Board of Directors and Executive Officers, Audit, Compensation, Finance and Nominating Committees of the Board of Directors and their respective Charters, Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter, our whistle-blower policy and other related material. We satisfy the disclosure requirement for any future amendments to, or waivers from, our Code of Business Conduct or Code of Business Ethics for the CEO and Senior Financial Officers by posting such information on our website. We will provide a copy of the Code of Business Conduct or Code of Business Ethics for the CEO and Senior Financial Officers, without charge, to any person who requests one, by calling (717) 225-2724.

Table of Contents

ITEM 1A RISK FACTORS

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

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

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

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

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

Our Philippine mill purchases abaca fiber to produce abaca pulp, which we use to manufacture our paper for tea bags and single serve coffee products at our Gernsbach, Scaër and Lydney facilities. However, at certain times in the past, the supply of abaca fiber has been constrained due to factors such as weather related damage to the source crop as well as selection by land owners of alternative uses of land in lieu of fiber producing activities.

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

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

Although we have contractual cost pass-through arrangements with certain customers we may not be able to fully pass increased raw materials or energy costs on to all customers if the market will not bear the higher price or where existing agreements with our customers limit price increases. If price adjustments significantly trail increases in raw materials or energy prices our operating results could be adversely affected.

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

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

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

- the entry of new competitors into the markets we serve, including foreign producers;
- the willingness of commodity-based producers to enter our markets when they are unable to

- compete or when demand softens in their traditional markets;
- the aggressiveness of our competitors pricing strategies, which could force us to decrease prices in order to maintain market share;
- our failure to anticipate and respond to changing customer preferences;
- the impact of emerging electronic-based substitutes for certain of our products such as book publishing and envelope;
- the impact of replacement or disruptive technologies;
- our inability to develop new, improved or enhanced products; and
- our inability to maintain the cost efficiency of our facilities.

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

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

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

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

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

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

We are subject to various environmental laws and regulations that govern our operations, including discharges into the environment, and the handling and disposal of hazardous substances and wastes. We are also subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. To comply with environmental laws and regulations, we have incurred, and will continue to incur, substantial capital and operating expenditures. We anticipate that environmental regulation of our operations will continue to become more burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. Because environmental regulations are not consistent worldwide,

our ability to compete globally may be adversely affected by capital and operating expenditures required for environmental compliance. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment, such as air and water quality, resulting from mills we operate or have operated. Potential obligations include compensation for the restoration of natural resources, personal injury and property damages.

Despite the December 2009 and March 2011 favorable rulings in the pending Fox River litigation, we continue to have exposure to liability for remediation and other costs related to the presence of polychlorinated biphenyls in the lower Fox River on which our former Neenah, Wisconsin mill was located. There can be no assurance that we will not be required to ultimately pay material amounts to resolve our liability in the Fox River matter. We have financial reserves for environmental matters, including the Fox River site, but we cannot be certain that those reserves will be adequate to provide for future obligations related to these matters, that our share of costs and/or damages for these matters will not exceed our available resources, or that such obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations.

Our environmental issues are complicated and should be reviewed in context; please see a more detailed discussion of these matters in Item 8 Financial Statements and Supplementary Data Note 20.

Table of Contents

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

Advanced Airlaid Materials generates the majority of its net sales of feminine hygiene products in 2010 from one customer. The loss of a significant customer could have a material adverse effect on their operating results. In addition, sales in the feminine hygiene market accounted for approximately 81% of Advanced Airlaid Materials net sales in 2010. A decline in sales of feminine hygiene products or in sales of feminine hygiene products generally could have a material adverse effect on this unit s operating results. Customers in the airlaid non-woven fabric material market, including the feminine hygiene market, may also switch to less expensive products or otherwise reduce demand for Advanced Airlaid Material s products, thus reducing the size of the markets in which it currently sells its products. Any of the foregoing could result in our failing to realize the benefits of the acquisition, which could have a material adverse effect on our financial performance and business prospects.

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

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

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

Our pulp mill in Lanao del Norte on the Island of Mindanao in the Republic of the Philippines is located along the Pacific Rim in the world s hazard belt. By virtue of its geographic location, this mill is subject to, among other types of natural disasters, floods, droughts, cyclones, typhoons, earthquakes, windstorms and volcanic activity. Moreover, the area of Lanao del Norte has been a target of terrorist activities, including bombings, by suspected members of the al-Qaeda-linked Islamist groups in the Philippines, such as the Abu Sayyaf and the Rajah Solaiman Group and other Islamic militant groups, most notably the Moro Islamic Liberation Front. The most common bomb targets in Lanao del Norte to date have been power transmission towers. Our pulp mill in Mindanao is located in a rural portion of the island and is susceptible to attacks or power interruptions. The Mindanao mill supplies approximately 80% of the abaca pulp that is used by our Composite Fibers business unit to manufacture our paper for tea bags and single serve coffee products. Any interruption, loss or extended curtailment of operations at our Mindanao mill could materially

and adversely affect our operating results and financial condition.

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

Our pulp mill in the Philippines is located in a region that is unstable and subject to political unrest. As discussed above, our Philippine pulp mill produces abaca pulp, a significant raw material used by our Composite Fibers business unit, and is currently our main provider of abaca pulp. There are limited suitable alternative sources of readily available abaca pulp in the world. In the event of a disruption in supply from our Philippine mill, there is no guarantee that we could obtain adequate amounts of abaca pulp from alternative sources at a reasonable price or at all. As a consequence, any civil disturbance, unrest, political instability or other event that causes a disruption

in supply could limit the availability of abaca pulp and would increase our cost of obtaining abaca pulp. Such occurrences could adversely impact our sales volumes, revenues and operating results.

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

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

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

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

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

Substantially lower and more volatile market-based prices for sales of excess electricity compared to the fixed-price we historically received may prevent us from achieving the historical margins on our sales of excess electricity in relation to our coal supply contract, which could have a material adverse effect on our consolidated financial position and results of operations.

Because our Spring Grove facility produces more electricity than it requires for its operations, we sell the excess energy produced. Historically, we sold the excess electricity to the local power company under a fixed-price long-term contract, which expired March 31, 2010. We now sell our excess electricity at wholesale market prices prevailing at the time of sale. Market prices for electricity have historically been volatile and may continue to be substantially lower than the price we historically received under the expired contract.

We generate electricity at our Spring Grove facility using a variety of fuels, including coal. We purchase coal for this facility under a long-term, fixed price supply contract, which expires at the end of 2012. Our cost of coal, as well as the costs incurred for natural gas and other fuels used to generate electricity, have a major impact on the net revenue and overall profitability of our Specialty Paper business unit. The combination of market-based pricing for energy sales and the fixed pricing of the coal contract may limit our ability to generate the level of net revenues from energy sales that we historically achieved and limit the overall profitability of our Specialty Papers business unit, which could have a material adverse affect on our consolidated financial position and results of operations.

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

The U.S. Internal Revenue Code, or the Code, provided a tax credit for companies that used alternative fuel mixtures to produce energy to operate their businesses on or prior to December 31, 2009. During 2009, we registered two of our facilities with the IRS as alternative fuel mixers based on their use of black liquor as an alternative fuel source. For the year ended December 31, 2009, we had substantial alternative fuel mixture credits relating to these facilities. Our results of operations in 2009 included, on a pre-tax basis, $107.8 million of alternative fuel mixture credits all of which has been used or realized in cash. In the event that the IRS audits

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our tax return for the year ended December 31, 2009, the IRS may conclude that some or all of the credits claimed are subject to federal income taxes, which would subject us to additional tax liabilities and could have a material adverse effect on our results of operations and financial position.

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

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

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

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

ITEM 3 LEGAL PROCEEDINGS

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

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

EXECUTIVE OFFICERS

The following table sets forth certain information with respect to our executive officers as of March 11, 2011.

Name	Age	Office with the Company
Dante C. Parrini	46	President and Chief Executive Officer

John P. Jacunski	45	Senior Vice President and Chief Financial Officer
Jonathan A. Bourget	46	Vice President & General Manager, Advanced Airlaid Materials Business Unit
David C. Elder	42	Vice President and Corporate Controller
Thomas G. Jackson	45	Vice President, General Counsel and Secretary
Debabrata Mukherjee	41	Vice President & General Manager, Specialty Papers Business Unit
Martin Rapp	51	Vice President & General Manager, Composite Fibers Business Unit
Mark A. Sullivan	56	Vice President Global Supply Chain
William T. Yanavitch II	50	Vice President Human Resources and Administration

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

Dante C. Parrini became President and Chief Executive Officer effective January 1, 2011. Prior to this appointment, he was Executive Vice President and Chief Operating Officer, a position he held since February 2005. Mr. Parrini joined us in 1997 and has previously served as Senior Vice President and General Manager, a position he held beginning in January 2003 and prior to that as Vice President responsible for Sales and Marketing.

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

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

Table of Contents

responsibility, including General Manager Specialties Division in Europe, with Alcoa Inc.

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

Thomas G. Jackson became Vice President, General Counsel and Secretary in June 2008. Since joining us in November 2006, Mr. Jackson has held various positions in our legal department including Assistant General Counsel, Assistant Secretary and Director of Compliance. Prior to joining our company, Mr. Jackson was Director of Business Development at C&D Technologies, Inc. from August 2005 to September 2006 and prior to that was Deputy General Counsel at C&D Technologies from October 1999 to August 2005.

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

Martin Rapp joined Glatfelter in August 2006 and serves as Vice President and General Manager   Composite Fibers Business Unit. Prior to this, Mr. Rapp was Vice President and General Manager of Avery Dennison s Roll Materials Business in Central and Eastern Europe since August 2002.

Mark A. Sullivan was appointed Vice President, Global Supply Chain in February 2005. Mr. Sullivan joined our company in December 2003 as Chief Procurement Officer. His experience includes a broad array of operations and supply chain management responsibilities during 20 years with the DuPont Company.

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

ITEM 4 ***[RESERVED]***

PART II

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

Common Stock Prices and Dividends Declared Information

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

Quarter	High	Low	Dividend
2010			

Fourth	**$ 13.37**	**$ 11.62**	**$ 0.09**
Third	**12.65**	**10.08**	**0.09**
Second	**15.49**	**10.62**	**0.09**
First	**15.05**	**12.32**	**0.09**
2009			
Fourth	$ 12.58	$ 10.01	$ 0.09
Third	12.14	7.91	0.09
Second	11.59	6.00	0.09
First	9.80	4.57	0.09

As of March 11, 2011, we had 1,448 shareholders of record.

Table of Contents

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative 5-year total return of our common stock with the cumulative total returns of both a peer group and a broad market index. For the year ended December 31, 2010, we compare our stock performance to the S&P Small Cap 600 Paper Products index. This index is comprised of Buckeye Technologies Inc., Clearwater Paper Corp., Kapstone Paper & Packaging Corp., Neenah Paper Inc., Schweitzer-Mauduit International and Wausau Paper Corp. In addition, the chart includes a comparison to the Russell 2000, which we believe is an appropriate benchmark index for stocks such as ours.

The graph assumes that the value of the investment in our common stock, in each index, and the peer group (including reinvestment of dividends) was $100 on December 31, 2005 and charts it through December 31, 2010.

ITEM 6 *SELECTED FINANCIAL DATA*

As of or for the Year Ended December 31 *Dollars in thousands, except per share*	**2010(1)**	2009(3)	2008	2007	2006
Net sales	**$ 1,455,331**	$ 1,184,010	$ 1,263,850	$ 1,148,323	$ 986,411
Energy and related sales, net	**10,653**	13,332	9,364	9,445	10,726
Total revenue	**1,465,984**	1,197,342	1,273,214	1,157,768	997,137
Reversal of (charges for) shutdown and restructuring			856	(35)	(30,318)
Gains on dispositions of plant, equipment and timberlands, net	**453**	898	18,468	78,685	17,394
Net income (loss)	**$ 54,434(2)**	$ 123,442	$ 57,888	$ 63,472	$ (12,236)
Earnings (loss) per share					
Basic	**$ 1.19**	$ 2.70	$ 1.28	$ 1.41	$ (0.27)
Diluted	**1.17**	2.70	1.27	1.40	(0.27)
Total assets	**$ 1,341,747**	$ 1,190,294	$ 1,057,309	$ 1,287,067	$ 1,225,643
Total debt	**333,022**	254,583	313,285	313,185	397,613
Shareholders equity	**552,442**	510,704	342,707	476,068	388,368
Cash dividends declared per common share	**0.36**	0.36	0.36	0.36	0.36
Capital expenditures	**36,491**	26,257	52,469	28,960	44,460
Depreciation, depletion and amortization	**65,839**	61,256	60,611	56,001	50,021
Shares outstanding	**45,976**	45,706	45,434	45,141	44,821
Net tons sold	**927,853**	818,905	829,354	799,512	721,892
Number of employees	**4,337**	3,546	3,633	3,854	3,704

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

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

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

Table of Contents

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

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

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

ii. changes in the cost or availability of raw materials we use, in particular pulpwood, 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 products;

v. the impact of exposure to volatile market-based pricing for sales of excess electricity;

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

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

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

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

x. geopolitical events, including war and terrorism;

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

xii. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities;

xiii.

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

xiv. adverse results in litigation; and

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

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

Specialty Papers with revenues earned from the sale of carbonless papers and forms, book publishing, envelope & converting, and engineered products;

Composite Fibers with revenue from the sale of food & beverage filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and technical specialties; and

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

Overview On February 12, 2010, we completed the acquisition of Concert Industries Corp. (Concert), a manufacturer of highly absorbent cellulose-based airlaid non-woven materials with annual revenue in 2009 of $203 million. Our results of operations for 2010 include the results of Concert (now operated as the Advanced Airlaid Materials business unit) prospectively since the acquisition was completed.

Table of Contents

Our reported results of operations for 2010 when compared to 2009 are lower primarily due to the higher amount of tax-related credits recorded in 2009 than in 2010 associated with cellulosic or alternative fuel mixtures. For 2010, net income included a $23.2 million tax benefit from cellulosic biofuel credits compared to $95.8 million, after-tax, alternative fuel mixture credits during 2009.

Our 2010 results include $9.1 million, after-tax, of acquisition and integration costs, together with a $1.7 million loss on forward foreign currency contracts that hedged the Canadian dollar purchase price, of the Concert acquisition. Interest expense increased $6.2 million in 2010 compared to 2009 due to financing part of the acquisition 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. Higher average selling prices offset the adverse affect of rising input costs, particularly purchased pulp.

Specialty Papers operating income totaled $58.4 million and $55.9 million for 2010 and 2009, respectively. The improvement in operating income was led by higher volumes shipped, higher average selling prices, productivity improvements and cost reduction initiatives partially offset by lower sales of excess energy and renewable energy credits. During 2009, the weak economic environment adversely affected demand in all markets served by Specialty Papers. As a result of weak demand in the first half of the year and our efforts to reduce inventory, this unit incurred market related downtime totaling 33,019 tons of paper.

Our Composite Fibers business unit s operating income increased to $32.9 million from $21.9 million in 2009. Volumes shipped during 2010 increased 12.8% compared to 2009 as a result of the improving economic environment. Conversely, during 2009, as a result of weak demand and our inventory reduction efforts, we incurred unscheduled downtime totaling approximately 6,480 tons of paper, or 9.4% of the unit s total capacity for the period.

Advanced Airlaid Materials earned $4.4 million of operating income on sales of $193.5 million for the ten and one half months of operations since the date of acquisition. The results were adversely impacted primarily by rapidly rising input costs, a lag in the timing of cost-pass throughs and currency fluctuations.

RESULTS OF OPERATIONS

2010 versus 2009

The following table sets forth summarized consolidated results of operations:

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

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

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

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

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 Business Unit Performance table.

Management evaluates results of operations of the business units before pension income or expense, alternative fuel mixture credits, charges related to the Fox River environmental reserves, restructuring related charges, unusual items, certain corporate level costs, and the effects of asset dispositions. Management believes that

Table of Contents

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

Unit Performance	**Year Ended December 31**									
n millions	Specialty Papers		Composite Fibers		Advanced Airlaid Materials		Other and Unallocated		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	
	$ 842.6	$ 791.9	**$ 419.2**	$ 392.1	**$ 193.5**	$	**$**	$	**$ 1,455.3**	$
d related sales, net	**10.7**	13.3							**10.7**	
nue	**853.3**	805.2	**419.2**	392.1	**193.5**				**1,466.0**	
oducts sold	**740.2**	693.9	**350.5**	334.4	**181.7**		**7.4**	(100.7)	**1,279.7**	
fit	**113.1**	111.3	**68.7**	57.7	**11.8**		**(7.4)**	100.7	**186.2**	
	54.7	55.4	**35.8**	35.8	**7.4**		**24.3**	19.1	**122.1**	
dispositions of plant, t and timberlands, net							**(0.5)**	(0.9)	**(0.5)**	
ating income (loss)	**58.4**	55.9	**32.9**	21.9	**4.4**		**(31.2)**	82.6	**64.6**	
ting income							**(31.1)**	(17.3)	**(31.1)**	
oss) before income	**$ 58.4**	$ 55.9	**$ 32.9**	$ 21.9	**$ 4.4**	**$**	**$ (62.3)**	$ 65.3	**$ 33.5**	$
entary Data										
old *(in thousands)*	**764.7**	738.8	**90.4**	80.1	**72.8**				**927.9**	
on, depletion and on	**$ 34.9**	$ 37.5	**$ 23.7**	$ 23.7	**$ 7.2**	$	**$**	$	**$ 65.8**	$
penditures	**24.1**	14.2	**8.2**	12.1	**4.2**				**36.5**	

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

Sales and Costs of Products Sold

In thousands	Year Ended December 31 **2010**	2009	Change
Net sales	**$ 1,455,331**	$ 1,184,010	$ 271,321
Energy and related sales net	**10,653**	13,332	(2,679)
Total revenues	**1,465,984**	1,197,342	268,642
Costs of products sold [(1)]	**1,279,737**	927,578	352,159

Gross profit	**$ 186,247**	$ 269,764	$ (83,517)
Gross profit as a percent of Net sales	**12.8%**	22.8%	

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

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

	Percent of total	
	2010	2009
Business Unit		
Specialty Papers	**57.9%**	66.9%
Composite Fibers	**28.8**	33.1
Advanced Airlaid Materials	**13.3**	
Total	**100.0%**	100.0%

Net sales Net sales for 2010 were $1,445.3 million, a 22.9% increase compared with $1,184.0 million for 2009, reflecting stronger business activity in the our Specialty Papers and Composite Fibers business units and the inclusion of Concert, now operated and reported as Advanced Airlaid Materials business unit, prospectively since the February 12, 2010 acquisition date.

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

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

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

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

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

Table of Contents

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

Composite Fibers operating profit increased $11.0 million, or 50.2%, in the year over year comparison. The improved performance was driven by the $10.8 million combined benefit from improved demand in markets served resulting in higher shipments and the elimination of market driven downtime. In addition, the production efficiencies from continuous improvement initiatives more than offset the adverse effect of foreign currency translation adjustments.

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

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

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

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

	Year Ended December 31		
In thousands	**2010**	2009	Change
Recorded as:			
Costs of products sold	**$ 7,056**	$ 4,936	$ 2,120
SG&A expense	**2,185**	2,097	88
Total	**$ 9,241**	$ 7,033	$ 2,208

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

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

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

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

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

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

Table of Contents

Income taxes For 2010, we recorded income tax benefits of $20.9 million on $33.5 million of pretax income. The comparable amounts in the same period of 2009 were income tax expense of $19.7 million on $143.1 million of pretax income. The benefit in 2010 was due to $23.2 million of cellulosic biofuel credits, net, recorded as an income tax benefit in 2010 as discussed further below. We also recorded the $2.5 million tax benefit discussed in the previous paragraph, as well as a $6.4 million adjustment to reduce tax liabilities resulting from the expiration of statutes on uncertain tax positions and other factors. The tax provision in 2009 included a $27.1 million benefit from nontaxable alternative fuel mixture credit.

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

In connection with the filing of our 2009 income tax return, we claimed $23.2 million, net of taxes, of CBPC. Subsequent to the end of 2010, we received a cash tax refund of $17.8 million, of which $2.7 million related to alternative fuel mixture credits earned in 2009. The CBPC claimed is attributable to black liquor produced and burned from January 1, 2009 through February 19, 2009, after which we began mixing black liquor and diesel fuel to qualify for alternative fuel mixture credits.

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

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

Foreign Currency In 2010, we owned and operated manufacturing facilities in Canada, Germany, France, the United Kingdom and the Philippines. The functional currency in Canada is the U.S. dollar, in Germany and France it is the Euro, in the UK it is the British Pound Sterling, and in the Philippines it is the Peso. During 2010, Euro functional currency operations generated approximately 25.5% of our sales and 24.6% of operating expenses and British Pound Sterling operations represented 8.8% of net sales and 8.7% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates. The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operation s results:

In thousands	Year Ended December 31, 2010 **Favorable (unfavorable)**
Net sales	**$ (15,000)**
Costs of products sold	**10,891**

SG&A expenses	**791**
Income taxes and other	**468**
Net income	**$ (2,850)**

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

RESULTS OF OPERATIONS

2009 versus 2008

The following table sets forth summarized consolidated results of operations:

	Year Ended December 31	
In thousands, except per share	2009	2008
Net sales	$ 1,184,010	$ 1,263,850
Gross profit	269,764	177,782
Operating income	160,405	99,209
Net income	123,442	57,888
Earnings per diluted share	2.70	1.27

The consolidated results of operations for 2009 and 2008 include the following items not considered to be part of our core business operations:

In thousands, except per share	After-tax Income (loss)	Diluted EPS
2009		
Alternative fuel mixture credits	$ 95,764	$ 2.09
Acquisition related costs	(1,768)	(0.04)
2008		
Gains on sale of timberlands	$ 10,984	$ 0.24
Reversal of shutdown and restructuring charges	517	0.01
Acquisition integration costs	(889)	(0.02)

18

Table of Contents

These items increased earnings by $94.0 million, or $2.05 per diluted share in 2009. Comparatively, the items identified above increased earnings in 2008 by $10.6 million, or $0.23 per diluted share.

Business Unit Performance

Dollars in millions	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2009	2008	2009	2008	**2009**	2008	**2009**	2008
et sales	$ 791.9	$ 833.9	$ 392.1	$ 430.0	$	$	$ 1,184.0	$ 1,263.9
nergy and related sales, net	13.3	9.4					13.3	9.4
otal revenue	805.2	843.3	392.1	430.0			1,197.3	1,273.2
ost of products sold	693.9	739.5	334.4	366.8	(100.7)	(10.8)	927.6	1,095.4
ross profit (loss)	111.3	103.8	57.7	63.2	100.7	10.8	269.8	177.8
G&A	55.4	54.6	35.8	38.2	19.1	5.1	110.3	97.9
eversal of shutdown and structuring charges						(0.9)		(0.9)
ains on dispositions of plant, quipment and timberlands, net					(0.9)	(18.5)	(0.9)	(18.5)
otal operating income (loss)	55.9	49.2	21.9	25.0	82.6	25.1	160.4	99.2
onoperating income xpense)					(17.3)	(18.2)	(17.3)	(18.2)
come (loss) before income xes	$ 55.9	$ 49.2	$ 21.9	$ 25.0	$ 65.3	$ 6.9	$ 143.1	$ 81.0
upplementary Data								
et tons sold *(in thousands)*	738.8	743.8	80.1	85.6			818.9	829.4
epreciation, depletion and mortization	$ 37.5	$ 35.0	$ 23.7	$ 25.6	$	$	$ 61.3	$ 60.6
apital expenditures	14.2	20.9	12.1	31.6			26.3	52.5

Year Ended December 31

Sales and Costs of Products Sold

In thousands	Year Ended December 31 2009	2008	Change
Net sales	$ 1,184,010	$ 1,263,850	$ (79,840)
Energy and related sales net	13,332	9,364	3,968
Total revenues	1,197,342	1,273,214	(75,872)
Costs of products sold[1]	927,578	1,095,432	(167,854)

Gross profit	$ 269,764	$ 177,782	$ 91,982
Gross profit as a percent of Net sales	22.8%	14.1%	

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

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

	Percent of total	
Business Unit	2009	2008
Specialty Papers	66.9%	66.0%
Composite Fibers	33.1	34.0
Total	100.0%	100.0%

Net sales Net sales totaled $1,184.0 million for 2009, a decrease of $79.8 million, or 6.3%, compared to 2008.

In the Specialty Papers business unit, 2009 net sales decreased $42.0 million to $791.9 million. Operating income increased $6.7 million in the year over year comparison and totaled $55.9 million in 2009. The improvement in operating income was primarily due to $12.2 million of productivity efficiencies and cost reduction initiatives and $4.5 million of lower input costs. These favorable factors were offset by $7.6 million of lower volumes and mix impact and $2.1 million of lower selling prices. Operating income was also adversely impacted by the costs of unplanned downtime at the Spring Grove and Chillicothe facilities totaling approximately $6.6 million in 2009 compared to 2008.

We sell excess power generated by the Spring Grove, PA facility pursuant to a long-term contract that expired March 31, 2010. The following table summarizes this activity for each of the past two years:

In thousands	2009	2008	Change
Energy sales	$ 20,128	$ 19,731	$ 397
Costs to produce	(11,883)	(10,367)	(1,516)
Net	8,245	9,364	(1,119)
Renewable energy credits	5,087		5,087
Total	$ 13,332	$ 9,364	$ 3,968

Renewable energy credits (RECs) represent sales of certified credits earned related to burning renewable sources of energy such as black liquor and wood waste.

In Composite Fibers, 2009 net sales were $392.1 million, a decline of $37.9 million from 2008. Operating income declined by $3.0 million in the comparison to $21.9 million. Total volumes shipped by this business unit declined 6.5% led by lower shipments of composite laminates and food & beverage paper products, which declined 18.5% and 5.5%, respectively. The translation of foreign currencies adversely impacted net sales by $23.0 million; however, higher average selling prices contributed $6.2 million.

Energy and raw material costs in the Composite Fibers business unit were $3.9 million higher in 2009 than in 2008. Market-related downtime adversely impacted operating results by $7.4 million in 2009 compared to 2008.

Table of Contents

Pension Expense/Income The following table summarizes the amounts of pension (expense) or income recognized for 2009 compared to 2008:

	Year Ended December 31		
In thousands	2009	2008	Change
Recorded as:			
Costs of products sold	$ (4,936)	$ 11,067	$ (16,003)
SG&A expense	(2,097)	4,995	(7,092)
Total	$ (7,033)	$ 16,062	$ (23,095)

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. The fair value of the plans assets declined approximately 29% during 2008. As a result, during 2009 we recognized net pension expense totaling approximately $7.0 million, on a pre-tax basis. However, we were not required to make cash contributions to our qualified defined benefit pension plans in 2009.

Selling, general and administrative (SG&A) SG&A expenses increased $12.4 million in the year-to-year comparison and totaled $110.3 million for 2009. In 2009, SG&A included $2.1 million of pension expense compared with $5.0 million of pension income in 2008. In addition, we incurred higher legal and professional fees related to the Fox River environmental matter and the Concert acquisition.

Gain on Sales of Plant, Equipment and Timberlands, net During the years ended December 31, 2009 and 2008, we completed sales of timberlands which are summarized by the following table:

Dollars in thousands	Acres	Proceeds	Gain
2009			
Timberlands	319	$ 951	$ 906
Other	n/a		(8)
Total		$ 951	$ 898
2008			
Timberlands	4,561	$ 19,279	$ 18,649
Other	n/a		(181)
Total		$ 19,279	$ 18,468

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

Income taxes Our results of operations for 2009 reflect an effective tax rate of 13.8% compared to 28.6% in 2008. The lower tax rate in 2009 was primarily due to a tax benefit of $27.1 million due to nontaxable alternative fuel mixture credits, and from a lower proportion of timberland gains, which are taxed at a higher effective tax rate.

Foreign Currency In 2009, we owned and operated paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The functional currency in Germany and France is the Euro, in the UK it is the British Pound Sterling, and in the Philippines it is the Peso. During 2009, Euro functional currency operations generated approximately 19.8% of our sales and 18.9% of operating expenses and British Pound Sterling operations represented 10.6% of net sales and 10.8% of operating expenses. The translation of the results from international operations into U.S. dollars is subject to changes in foreign currency exchange rates. The table below summarizes the translation impact on reported results that changes in currency exchange rates had on our non-U.S. based operations from the conversion of these operation s results:

In thousands	Year Ended December 31, 2009 Favorable (unfavorable)
Net sales	$ (22,975)
Costs of products sold	24,116
SG&A expenses	3,233
Income taxes and other	883
Net income	$ 5,257

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

LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires significant expenditures for new or enhanced equipment, for environmental compliance matters including, but not limited to, the Clean Air Act, to support our research and development efforts and for our business strategy. In addition, we have mandatory debt service requirements of both principal and interest. The following table summarizes cash flow information for each of the years presented:

	Year Ended December 31	
In thousands	**2010**	2009
Cash and cash equivalents at beginning of period	**$ 135,420**	$ 32,234
Cash provided by (used for)		

Operating activities	**168,005**	163,868
Investing activities	**(264,217)**	12,544
Financing activities	**59,681**	(75,329)
Effect of exchange rate changes on cash	**(3,101)**	2,103
Net cash (used) provided	**(39,632)**	103,186
Cash and cash equivalents at end of period	**$ 95,788**	$ 135,420

At the end of the 2010, we had $95.8 million in cash and cash equivalents and $219.6 million available under our revolving credit agreement, which matures in May 2014. Operating cash flow improved by $4.1 million primarily due to cash received from alternative fuel mixture credits offset by less provision of cash from
20

Table of Contents

working capital in 2010 than in 2009. In January 2009, we used $6.5 million to satisfy a commitment we had to fund certain Fox River environmental remediation activities.

Net cash used by investing activities totaled $264.2 million in 2010 reflecting the Concert acquisition. Capital expenditures totaled $36.5 million and $26.2 million in 2010 and 2009, respectively. Capital expenditures are expected to approximate $60 million to $65 million in 2011.

Net cash provided by financing activities totaled $59.7 million in 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. In addition, during 2010, we refinanced our revolving credit facility and repaid a $14.0 million term loan. In 2009, net cash used for financing activities totaled $75.3 million, primarily reflecting reductions of debt including $34.0 million repaid in connection with the unwinding of the 2003 timberland installment sale.

During 2010 and 2009, cash dividends paid on common stock totaled $16.7 million and $16.6 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:

	December 31	
In thousands	**2010**	2009
Revolving credit facility, due April 2011	n/a	$
Revolving credit facility, due May 2014	$	n/a
Term Loan, due April 2011		14,000
71/8% Notes, due May 2016	**200,000**	200,000
71/8% Notes, due May 2016 net of original issue discount	**95,529**	
Term Loan, due January 2013	**36,695**	36,695
Total long-term debt	**332,224**	250,695
Less current portion		(13,759)
Long-term debt, excluding current portion	**$ 332,224**	$ 236,936

Our credit agreement 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 December 31, 2010, we met all of the requirements of our debt covenants.

The significant terms of the debt instruments are more fully discussed in Item 8 Financial Statements and Supplementary Data Note 16.

We are subject to various federal, state and local laws and regulations which operate to protect the environment as well as human health and safety. We have, at various times, incurred significant costs to comply with these regulations, as new regulations are developed or regulatory priorities change. Currently, we anticipate that we could incur material capital and operating costs to comply with several air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT). Although we are in the process of analyzing the potential impact of these requirements, compliance could require significant capital expenditures. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 8 Financial Statements and Supplementary Data Note 20 for a summary of significant environmental matters.

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

Off-Balance-Sheet Arrangements As of December 31, 2010 and 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 8 Financial Statements and Supplementary Data.

Table of Contents

Contractual Obligations The following table sets forth contractual obligations as of December 31, 2010:

		Payments Due During the Year Ended December 31,			
In millions	Total	2011	2012 to 2013	2014 to 2015	2016 and beyond
Long-term debt[1]	$ 456	$ 22	$ 80	$ 43	$ 311
Operating leases[2]	26	8	8	3	7
Purchase obligations[3]	135	88	33	5	9
Other long-term obligations[4],[5]	94	17	17	18	42
Total	$ 711	$ 135	$ 138	$ 69	$ 369

(1) Represents principal and interest payments due on long-term debt. At December 31, 2010, we had $300.0 million of debt maturing in May 2016 and bearing a fixed rate of interest at 71/8%, payable semiannually, and a $36.7 million note maturing in January 2013 bearing interest at six-month reserve adjusted LIBOR plus a margin rate of 1.66% per annum.

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

(3) Represents open purchase order commitments and other obligations, primarily for raw material forward purchases and pulpwood contracts with minimum annual purchase obligations. In certain situations, prices are subject to variations based on market prices. In such situations, the information above is based on prices in effect at December 31, 2010 or expectations based on historical experience and/or current market conditions.

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

(5) Since we are unable to reasonably estimate the timing of ultimate payment, the amounts set forth above do not include any payments that may be made related to uncertain tax positions, including potential interest, accounted for in accordance with ASC 740-10-20. As discussed in more detail in Item 8 Financial Statements, Note 8, Income Taxes , such amounts totaled $38.7 million at December 31, 2010.

Critical Accounting Policies and Estimates

The preceding discussion and analysis of our consolidated financial position and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, long-lived assets, pension and post-retirement obligations, environmental liabilities and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying

values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

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

Table of Contents

conditions warrant. Changes to these assumptions will increase or decrease our reported income or expense, which will result in changes to the recorded benefit plan assets and liabilities.

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

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

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

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

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

	Year Ended December 31					At December 31, 2010	
Dollars in thousands	2011	2012	2013	2014	2015	Carrying Value	Fair Value
Long-term debt							
Average principal outstanding							
At fixed interest rates							
Senior Notes	$ 295,874	$ 296,600	$ 297,389	$ 298,244	$ 299,171	$ 295,529	$ 304,115
At variable interest rates	36,695	36,695	1,407			36,695	37,780

						$ 332,224	$ 341,895
Weighted-average interest rate							
Fixed interest rate debt							
Senior Notes	7.13%	7.13%	7.13%	7.13%	7.13%		
Variable interest rate debt	1.66%	1.66%	1.66%				

The table above presents the average principal outstanding and related interest rates for the next five years for debt outstanding as of December 31, 2010. Fair values included herein have been determined based upon rates currently available to us for debt with similar terms and remaining maturities.

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At December 31, 2010, we had long-term debt outstanding of $332.2 million, of which $36.7 million or 10.0% was at variable interest rates. Variable-rate debt outstanding represents 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 December 31, 2010, the weighted-average interest rate paid was approximately 1.66%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by $0.4 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 2010, Euro functional currency operations generated approximately 25.5% of our sales and 24.6% of operating expenses and British Pound Sterling operations represented 8.8% of net sales and 8.7% of operating expenses.

ITEM 8 *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As of December 31, 2010, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We excluded from our assessment, as permitted under the applicable SEC rules, regulations and related interpretations, the internal control over financial reporting of Concert Industries Corp., which was acquired on February 12, 2010, and whose total assets constitute 21% of total assets, and which represented 13% of total net sales, of the consolidated financial statement amounts as of and for the year ended December 31, 2010. Management has determined that the Company s internal control over financial reporting as of December 31, 2010 is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

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

The Company s internal control over financial reporting as of December 31, 2010, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2010.

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

changes in conditions or deterioration in the degree of compliance with policies or procedures.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of P. H. Glatfelter Company and subsidiaries (the Company) as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting of Concert Industries Corp., which was acquired on February 12, 2010 and whose total assets constitute 21% of total assets, and which represented 13% of total net sales, of the consolidated financial statement amounts as of and for the year ended December 31, 2010. Accordingly, our audit did not include the internal control over financial reporting at Concert Industries Corp. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2010 of the Company and our report dated March 11, 2011 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 11, 2011

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of P. H. Glatfelter Company and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of P. H. Glatfelter Company and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2011 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 11, 2011
26

Table of Contents

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

	Year Ended December 31		
In thousands, except per share	**2010**	2009	2008
Net sales	**$ 1,455,331**	$ 1,184,010	$ 1,263,850
Energy and related sales net	**10,653**	13,332	9,364
Total revenues	**1,465,984**	1,197,342	1,273,214
Costs of products sold	**1,279,737**	927,578	1,095,432
Gross profit	**186,247**	269,764	177,782
Selling, general and administrative expenses	**122,111**	110,257	97,897
Reversal of shutdown and restructuring charges			(856)
Gains on disposition of plant, equipment and timberlands, net	**(453)**	(898)	(18,468)
Operating income	**64,589**	160,405	99,209
Other nonoperating income (expense)			
Interest expense	**(25,547)**	(19,220)	(23,160)
Interest income	**808**	1,886	4,975
Other net	**(6,321)**	75	2
Total other nonoperating expense	**(31,060)**	(17,259)	(18,183)
Income before income taxes	**33,529**	143,146	81,026
Income tax (benefit) provision	**(20,905)**	19,704	23,138
Net income	**$ 54,434**	$ 123,442	$ 57,888
Weighted average shares outstanding			
Basic	**45,922**	45,678	45,247
Diluted	**46,374**	45,774	45,572
Earnings per share			
Basic	**$ 1.19**	$ 2.70	$ 1.28
Diluted	**1.17**	2.70	1.27

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

Table of Contents

P. H. GLATFELTER COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except par values	December 31 **2010**	2009
Assets		
Current assets		
Cash and cash equivalents	**$ 95,788**	$ 135,420
Accounts receivable (less allowance for doubtful accounts: 2010 $3,118; 2009 $2,888)	**141,208**	119,319
Inventories	**201,077**	168,370
Prepaid expenses and other current assets	**64,617**	96,947
Total current assets	**502,690**	520,056
Plant, equipment and timberlands net	**608,170**	470,632
Other long-term assets	**230,887**	199,606
Total assets	**$ 1,341,747**	$ 1,190,294
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	**$**	$ 13,759
Short-term debt	**798**	3,888
Accounts payable	**98,594**	63,604
Dividends payable	**4,190**	4,170
Environmental liabilities	**248**	440
Other current liabilities	**109,316**	100,249
Total current liabilities	**213,146**	186,110
Long-term debt	**332,224**	236,936
Deferred income taxes	**94,918**	96,668
Other long-term liabilities	**149,017**	159,876
Total liabilities	**789,305**	679,590
Commitments and contingencies		
Shareholders equity		
Common stock, $.01 par value; authorized 120,000,000 shares; issued 54,361,980 shares (including shares in treasury: 2010 8,385,772; 2009 8,655,826)	**544**	544
Capital in excess of par value	**48,145**	46,746
Retained earnings	**749,453**	711,765
Accumulated other comprehensive income (loss)	**(121,247)**	(119,885)
	676,895	639,170
Less cost of common stock in treasury	**(124,453)**	(128,466)

Total shareholders equity	**552,442**	510,704
Total liabilities and shareholders equity	**$ 1,341,747**	$ 1,190,294

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

28

Table of Contents

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

In thousands	Year Ended December 31 **2010**	2009	2008
Operating activities			
Net income	**$ 54,434**	$ 123,442	$ 57,888
Adjustments to reconcile to net cash provided by operations:			
Depreciation, depletion and amortization	**65,839**	61,256	60,611
Amortization of debt issuance costs and original issue discount	**2,758**	1,690	1,654
Pension expense (income), net of unfunded benefits paid	**8,637**	6,343	(16,062)
Reversals of shutdown and restructuring charges			(856)
Deferred income taxes	**(16,815)**	(22,981)	3,265
Gains on dispositions of plant, equipment and timberlands, net	**(453)**	(898)	(18,468)
Share-based compensation	**5,767**	4,599	4,350
Alternative fuel mixture credits, net of credits applied to taxes due	**54,880**	(57,946)	
Change in operating assets and liabilities			
Accounts receivable	**(598)**	16,542	(17,668)
Inventories	**(7,592)**	28,207	(9,975)
Prepaid and other current assets	**(13,318)**	1,451	871
Accounts payable	**21,064**	2,390	4,264
Environmental matters	**(29)**	(7,728)	(13,012)
Accruals and other current liabilities	**(1,490)**	6,676	(10,557)
Other	**(5,079)**	825	7,120
Net cash provided by operations	**168,005**	163,868	53,425
Investing activities			
Expenditures for purchases of plant, equipment and timberlands	**(36,491)**	(26,257)	(52,469)
Proceeds from disposal of plant, equipment and timberlands	**564**	951	19,279
Proceeds from timberland installment sale note receivable		37,850	
Acquisitions, net of cash acquired	**(228,290)**		
Net cash provided (used) by investing activities	**(264,217)**	12,544	(33,190)
Financing activities			
Proceeds from $100 million 71/8% note offering, net of original issue discount	**95,000**		
Payments of note offering and credit facility costs	**(5,340)**		
Net repayments of revolving credit facility		(6,725)	(24,197)
Repayments of $100 million term loan facility	**(14,000)**	(16,000)	(13,000)
Net (repayments of) proceeds from other short-term debt	**(3,208)**	(2,008)	2,927
(Repayments of) proceeds from borrowing under Term Loans due 2013		(34,000)	36,695
Payment of dividends	**(16,746)**	(16,596)	(16,469)

Proceeds and excess tax benefits from stock options exercised and proceeds from government grants	**3,975**		1,165
Net cash provided (used) by financing activities	**59,681**	(75,329)	(12,879)
Effect of exchange rate changes on cash	**(3,101)**	2,103	(4,955)
Net (decrease) increase in cash and cash equivalents	**(39,632)**	103,186	2,401
Cash and cash equivalents at the beginning of period	**135,420**	32,234	29,833
Cash and cash equivalents at the end of period	**$ 95,788**	$ 135,420	$ 32,234
Supplemental cash flow information			
Cash paid (received) for			
Interest	**$ 23,193**	$ 17,338	$ 21,243
Income taxes	**(40,265)**	16,634	20,011

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

Table of Contents

P. H. GLATFELTER COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
For the Years Ended December 31, 2010, 2009 and 2008

In thousands	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders Equity
Balance at January 1, 2008	$ 544	$ 44,697	$ 563,608	$ 4,061	$ (136,842)	$ 476,068
Net income			57,888			57,888
Foreign currency translation adjustments				(32,029)		
Change in benefit plans net funded status, net of tax benefit of $92,570				(148,165)		
Other comprehensive income				(180,194)		(180,194)
Comprehensive income						(122,306)
Tax effect on employee stock options exercised		38				38
Cash dividends declared ($0.36 per share)			(16,495)			(16,495)
Share-based compensation expense		3,244				3,244
Delivery of treasury shares						
Performance Shares		(1,739)			1,400	(339)
401(k) plans		(248)			1,768	1,520
Director compensation		(43)			206	163
Employee stock options exercised net		(143)			957	814
Balance at December 31, 2008	544	45,806	605,001	(176,133)	(132,511)	342,707
Comprehensive income						
Net income			123,442			123,442
Foreign currency translation adjustments				11,941		
Change in benefit plans net funded status, net of taxes of $27,164				44,307		
Other comprehensive income				56,248		56,248
Comprehensive income						179,690

Cash dividends declared ($0.36 per share)			(16,678)			(16,678)
Share-based compensation expense		3,502				3,502
Delivery of treasury shares						
RSUs		(1,483)			1,280	(203)
401(k) plans		(995)			2,517	1,522
Director compensation		(84)			248	164
Balance at December 31, 2009	544	46,746	711,765	(119,885)	(128,466)	510,704
Comprehensive income						
Net income			**54,434**			**54,434**
Foreign currency translation adjustments				**(17,227)**		
Change in benefit plans net funded status, net of taxes of $9,905				**15,865**		
Other comprehensive income				**(1,362)**		**(1,362)**
Comprehensive income						**53,072**
Tax effect on employee stock options exercised		**(50)**				**(50)**
Cash dividends declared ($0.36 per share)			**(16,746)**			**(16,746)**
Share-based compensation expense		**3,962**				**3,962**
Delivery of treasury shares						
RSUs		**(2,152)**			**1,662**	**(490)**
401(k) plans		**(318)**			**1,960**	**1,642**
Director compensation		**(16)**			**179**	**163**
Employee stock options exercised net		**(27)**			**212**	**185**
Balance at December 31, 2010	**$ 544**	**$ 48,145**	**$ 749,453**	**$ (121,247)**	**$ (124,453)**	**$ 552,442**

30

P. H. GLATFELTER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

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

2. ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

sum of expected undiscounted cash flows is less than the carrying value of the asset, the asset s fair value is estimated and an impairment loss is recognized for any deficiencies. Goodwill is reviewed, on a discounted cash flow basis, during the third quarter of each year for impairment. Impairment losses, if any, are recognized for the amount by which the carrying value of the reporting unit exceeds its fair value. The carrying value of a reporting unit is defined using an enterprise premise which is generally determined by the difference between the unit s assets and operating liabilities.

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

Income Taxes Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with FASB ASC 740 Income Taxes (ASC 740). Under ASC 740, tax expense includes U.S. and international income taxes plus the provision for

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

Income tax contingencies are accounted for in accordance with FASB ASC 740-10-20 Income Taxes (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*). Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is less than certain. We and our subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and record any necessary adjustments in the period in which the facts that give rise to a revision become known.

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

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

Revenue Recognition We recognize revenue on product sales when the customer takes title and assumes the risks and rewards of ownership. Estimated costs for sales incentives, discounts and sales returns and allowances are recorded as sales reductions in the period in which the related revenue is recognized.

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

Revenue from renewable energy credits is recognized when all risks, rights and rewards to the certificate are transferred to the counterparty.

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

Accumulated Other Comprehensive Income The amounts reported on the consolidated Statement of Shareholders Equity for Accumulated Other Comprehensive Income (Loss) at December 31, 2010 consisted of a loss of $120.4 million from additional defined benefit liabilities, net of tax, and $0.8 million of losses from foreign currency

translation adjustments.

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

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

32

We use the following valuation techniques to measure fair value for our assets and liabilities:

Level 1 Quoted market prices in active markets for identical assets or liabilities;

Level 2 Significant other observable inputs (e.g. quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs); and

Level 3 Unobservable inputs for the asset or liability, which are valued based on management s estimates of assumptions that market participants would use in pricing the asset or liability.

3. ACQUISITIONS

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

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

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

We and the sellers reached agreement on working capital related adjustments that reduced the purchase price by $4.7 million. In addition, as a result of further evaluation of asset appraisals, contingencies and other factors, in accordance with FASB ASC 805, Business Combinations, we have determined that certain retrospective adjustments to the February 12, 2010 provisional allocation of the purchase price to assets acquired and liabilities assumed were required.

The following summarizes the impact of the adjustments recorded in 2010 and retrospectively reflected in the financial statements. This provisional purchase price allocation is based on information currently available to management:

In thousands	**As originally presented**	**Adjustment**	**Adjusted**
Assets			
Cash	**$ 2,792**	$	**$2,792**
Accounts receivable	**24,703**		**24,703**
Inventory	**28,034**		**28,034**
Prepaid and other current assets	**5,941**	**(1,316)**	**4,625**
Plant, equipment and timberlands	**177,253**	**8,301**	**185,554**

Intangible assets	**3,138**	**1,902**	**5,040**
Deferred tax assets and other assets	**20,738**	**(5,830)**	**14,908**
Total	**262,599**	**3,057**	**265,656**
Liabilities			
Accounts payable and accrued expenses	**25,322**	**611**	**25,933**
Deferred tax liabilities	**1,267**	**3,852**	**5,119**
Other long term liabilities	**212**	**3,310**	**3,522**
Total	**26,801**	**7,773**	**34,574**
Total purchase price	**$ 235,798**	**$ (4,716)**	**$231,082**

The adjustments set forth above did not materially impact previously reported results of operations, earnings per share, or cash flows.

We are in the process of finalizing certain contingencies and the impact on taxes of any final adjustments to such necessary to account for the Concert transaction in accordance with the acquisition method of accounting set forth in FASB ASC 805. Accordingly, the provisional 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 technology and 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 to 20 years reflecting the expected future value.

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

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

In addition, in connection with the Concert acquisition, we entered into a series of forward foreign currency contracts to hedge the acquisition s Canadian dollar purchase price. All contracts were settled for cash during the first quarter of 2010 and resulted in a $3.4 million loss, net of realized currency translation gains, which is presented under the caption Other-net in the accompanying consolidated statements of income for the year ended December 31, 2010.

Our results of operations for the year ended December 31, 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. Net sales and operating income of Concert included in our consolidated results of operations totaled $193.5 million and $4.4 million, respectively, for 2010.

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

	Year Ended December 31	
In thousands, except per share	**2010**	2009
Pro forma		
Net sales	**$1,480,980**	$1,388,120
Net income	**69,116**	135,713
Diluted earnings per share	**1.49**	2.96

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

4. ALTERNATIVE FUEL MIXTURE CREDITS

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

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

5. ENERGY AND RELATED SALES, NET

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

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

In thousands	**2010**	2009	2008
Energy sales	**$14,296**	$20,128	$19,731
Costs to produce	**(10,403)**	(11,883)	(10,367)
Net energy sales	**3,893**	8,245	9,364
Renewable energy credits	**6,760**	5,087	
Total energy and related sales , net	**$10,653**	$13,332	$9,364

6. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

During 2010, 2009 and 2008, we completed the following sales of assets:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2010			
Timberlands	**164**	**$ 387**	**$ 373**
Other	**n/a**	**177**	**80**
Total		**$ 564**	**$ 453**
2009			
Timberlands	319	$ 951	$ 906
Other	n/a		(8)
Total		$ 951	$ 898
2008			
Timberlands	4,561	$ 19,279	$ 18,649
Other	n/a		(181)
Total		$ 19,279	$ 18,468

The amounts set forth above for 2008 include a $2.9 million gain from the sale of 246 acres of timberlands for cash consideration to George H. Glatfelter II, our retired chief executive officer, and his spouse. The 246 acres of timberlands had been independently appraised and marketed for public sale by us. Based on those appraisals and the marketing process that was pursued, we and our Board believed that the sale price agreed to with the Glatfelters constituted fair market value for the timberland.

7. EARNINGS PER SHARE

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

In thousands, except per share	**2010**	2009	2008
Net income	**$54,434**	$ 123,442	$ 57,888
Weighted average common shares outstanding used in basic EPS	**45,922**	45,678	45,247
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	**452**	96	325
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**46,374**	45,774	45,572
Basic EPS	**$1.19**	$ 2.70	$ 1.28
Diluted EPS	**1.17**	2.70	1.27

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

In thousands	**2010**	2009	2008
Potential common shares	**1,405**	2,215	1,132

8. INCOME TAXES

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

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

	Year Ended December 31		
In thousands	**2010**	2009	2008
Current taxes			

Federal	**$ (8,238)**	$ 29,848	$ 5,647
State	**(392)**	4,050	2,609
Foreign	**4,540**	8,787	11,617
	(4,090)	42,685	19,873
Deferred taxes and other			
Federal	**(17,530)**	(23,943)	9,026
State	**(131)**	3,760	86
Foreign	**846**	(2,798)	(5,847)
	(16,815)	(22,981)	3,265
Income tax (benefit)/provision	**$ (20,905)**	$ 19,704	$ 23,138

The amounts set forth above for total deferred taxes and other included a deferred tax benefit of $17.6 million in 2010, a deferred tax benefit of $23.0 million in 2009 and a deferred tax provision of $3.0 million in 2008, respectively. Other taxes totaled $0.8 million, $0.0 million, and $0.2 million in 2010, 2009 and 2008, respectively, related to uncertain tax positions expected to be taken in future tax filings.

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

	Year Ended December 31		
In thousands	**2010**	2009	2008
United States	**$ 2,384**	$ 122,657	$ 61,387
Foreign	**31,145**	20,489	19,639
Total pretax income	**$ 33,529**	$ 143,146	$ 81,026

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

	Year Ended December 31		
	2010	2009	2008
Federal income tax provision at statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal income tax benefit	**1.4**	0.7	3.1
Foreign income tax rate differential	**(4.9)**	(0.5)	(2.5)
Change in statutory tax rates	**1.5**	(0.3)	
Tax credits	**(7.8)**	(1.8)	(5.7)
Change in unrecognized tax benefits, net	**(12.4)**	8.0	2.5
Cellulosic Biofuel Credit, net of incremental state tax and manufacturing deduction benefit	**(69.3)**		
Adjustment for prior year estimates	**(6.8)**		
Alternative fuel mixture credits		(26.4)	
Valuation allowance release			(1.8)
Other	**1.0**	(0.9)	(2.0)
(Benefit)/provision for income taxes	**(62.3)%**	13.8%	28.6%

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

	2010		2009	
In thousands	**Current Asset (Liability)**	**Non current Asset (Liability)**	Current Asset (Liability)	Non-current Asset (Liability)
Reserves	**$ 5,628**	**$ 10,422**	$ 7,404	$ 9,677
Compensation	**3,850**	**4,070**	3,367	3,934
Post-retirement benefits	**1,807**	**18,225**	1,708	19,637
Property	**692**	**(98,012)**	12	(100,071)
Pension	**449**	**(43,428)**	660	(38,000)
Installment sales		**(14,030)**	(4)	(14,070)
Inventories	**348**		438	
Other	**78**	**5,617**	258	4,608
Tax carryforwards	**8,002**	**57,547**		29,238
Subtotal	**20,854**	**(59,589)**	13,843	(85,047)
Valuation allowance	**(2,925)**	**(22,895)**	(2,379)	(9,789)
Total	**$ 17,929**	**$ (82,484)**	$ 11,464	$ (94,836)

The increase in the valuation allowance of $13.7 million from 2009 is primarily related to the establishment of a valuation allowance for certain acquired deferred tax assets related to Concert.

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

	December 31	
In thousands	**2010**	2009
Prepaid expenses and other current assets	**$ 17,929**	$ 11,519
Other long-term assets	**12,434**	1,832
Other current liabilities		55
Deferred income taxes	**94,918**	96,668

At December 31, 2010, we had state and foreign tax net operating loss (NOL) carryforwards of $78.6 million and $273.0 million, respectively. These NOL carryforwards are available to offset future taxable income, if any. The state NOL carryforwards expire between 2014 and 2027; certain foreign NOL carryforwards expire between 2013 and 2030.

In addition, we had federal foreign tax credit carryforwards of $0.3 million, which expire in 2013, various state tax credit carryforwards totaling $0.4 million, which expire between 2014 and 2027, and foreign tax credits of $3.2 million which expire between 2019 and 2030.

We have established a valuation allowance of $25.8 million against the net deferred tax assets, primarily due to the uncertainty regarding the ability to utilize state and foreign tax NOL carryforwards and certain deferred foreign tax credits.

Tax credits and other incentives reduce tax expense in the year the credits are claimed. In 2010, we recorded tax credits of $2.6 million related to Research and Development credits and the fuels tax credits. In 2009 and 2008 similar tax credits of $2.6 million and $4.7 million, respectively, were recorded.

At December 31, 2010 and 2009, unremitted earnings of subsidiaries outside the United States deemed to be permanently reinvested totaled $160.8 million and $134.6 million, respectively. Because the unremitted earnings of subsidiaries are deemed to be permanently reinvested as of December 31, 2010, no deferred tax liability has been recognized in our consolidated financial statements.

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

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

With respect to CBPC, although we do not intend to claim any additional credits, we could amend our 2009 federal tax return and claim additional credits. If we were to elect to do so, we would be required to return cash already

received from alternative fuel mixture credits, since we can only claim either the alternative fuel mixture credit or CBPC. The ability to realize the value of any additional CBPC depends on future taxable income. We continue to evaluate opportunities, if any, to claim additional CBPC from qualifying activities based on the results of our ongoing operations.

As of December 31, 2010, December 31, 2009 and December 31, 2008, we had $38.7 million, $40.1 million and $29.2 million of gross unrecognized tax benefits, respectively. As of December 31, 2010, if such benefits were to be recognized, approximately $35 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

In millions	**2010**	2009	2008
Balance at January 1	**$40.1**	$29.2	$26.1
Increases in tax positions for prior years	**1.6**	0.7	0.4
Decreases in tax positions for prior years	**(1.8)**		
Acquisition related:			
Purchase accounting	**3.2**		
Decrease for prior years[(1)]	**(2.2)**		
Increases in tax positions for current year	**1.9**	11.2	3.2
Settlements		(0.8)	
Lapse in statute of limitations	**(4.1)**	(0.2)	(0.5)
Balance at December 31	**$38.7**	$40.1	$29.2

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

We, or one of our subsidiaries, file income tax returns with the United States Internal Revenue Service, as well as various state and foreign authorities. The

following table summarizes tax years that remain subject to examination by major jurisdiction:

Jurisdiction	Open Tax Years: Examinations not yet initiated	Open Tax Years: Examination in progress
United States		
Federal	2007 2010	N/A
State	2005 2010	2004 & 2006 2008
Canada[1]	2006 2010	2008 2009
Germany[1]	2008 2010	2003 2009
France	2007 2010	N/A
United Kingdom	2007 2010	N/A
Philippines	2010	2007 2009

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to $8.2 million. Substantially all of this range relates to tax positions taken in the U.S. and in Germany.

We recognize interest and penalties related to uncertain tax positions as income tax expense. The Company accrued minimal interest, net of reversals during 2010, and in total, as of December 31, 2010, has recognized a liability for interest of $3.8 million. During 2009, the Company accrued interest of $1.1 million, and in total, as of December 31, 2009 has recognized a liability for interest of $3.8 million. During 2008, the Company accrued interest of $0.8 million. We did not record any penalties associated with uncertain tax positions during 2010 or 2009.

9. STOCK-BASED COMPENSATION

On April 29, 2009, our shareholders approved the P. H. Glatfelter Amended and Restated Long Term Incentive Plan (the LTIP) to authorize, among other things, the issuance of up to 5,500,000 shares of Glatfelter common stock to eligible participants. The LTIP provides for the issuance of restricted stock units, restricted stock awards, non-qualified stock options, performance shares, incentive stock options and performance units. As of December 31, 2010, 2,661,632 shares of common stock were available for future issuance under the LTIP.

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

Restricted Stock Units (RSU) Awards of RSUs are made under the LTIP. Under terms of the awards, RSUs vest based solely on the passage of time on a graded scale over a three, four, and five-year period. The following table

summarizes RSU activity during the past three years:

Units	**2010**	2009	2008
Beginning balance	**564,037**	486,988	505,173
Granted	**203,889**	205,360	137,649
Forfeited	**(37,368)**	(8,700)	(25,214)
Restriction lapsed/shares delivered	**(150,757)**	(119,611)	(130,620)
Ending balance	**579,801**	564,037	486,988
Dollars in thousands			
Compensation expense	**$1,708**	$1,622	$1,772

The weighted average grant fair value per unit for awards in 2010, 2009 and 2008 was $13.24, $10.11 and $14.82, respectively. As of December 31, 2010, unrecognized compensation expense for outstanding RSUs totaled $3.4 million. The weighted average remaining period over which the expense will be recognized is 3.6 years.

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

	2010		2009		2008	
SOSARS	**Shares**	**Wtd Avg Exercise Price**	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	**1,762,020**	**$ 11.84**	718,810	$ 14.63	484,800	$ 15.30
Granted	**470,520**	**13.77**	1,043,210	9.91	284,240	13.49
Exercised						
Canceled	**(170,663)**	**11.81**			(50,230)	14.63
Outstanding at Dec. 31,	**2,061,877**	**12.28**	1,762,020	$ 11.84	718,810	$ 14.63
Exercisable at Dec. 31,	**1,135,281**	**12.78**	390,575	14.89	150,967	15.30
Vested and expected to vest	**2,059,524**		1,676,227		690,418	
Weighted average grant date fair value per share		**$ 4.65**		$ 2.83		$ 3.77
Aggregate grant date fair value *(in thousands)*		**2,179**		$ 2,957		$ 1,002
Black-Scholes Assumptions						
Dividend yield		**2.61%**		3.63%		2.67%
Risk free rate of return		**2.48**		2.26		3.71
Volatility		**42.34**		40.59		32.09
Expected life		**6yrs**		6yrs		6yrs
Compensation expense *(in thousands)*	**$ 2,254**		$ 1,880		$ 1,472	

Under terms of the SOSAR, the recipients received the right to receive a payment in the form of shares of common stock equal to the difference, if any, in the fair market value of one share of common stock at the time of exercising the SOSAR and the strike price. The SOSARs vest ratably over a three year period. As of December 31, 2010, the intrinsic value of SOSARs vested and expected to vest totaled $2.3 million.

Non-Qualified Stock Options The following table summarizes the activity with respect to non-qualified stock options:

	2010		2009		2008	
Non-Qualified Options	**Shares**	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**453,050**	**$ 14.20**	537,700	$ 14.08	700,270	$ 13.81
Granted						
Exercised	**(14,250)**	**12.95**			(64,400)	12.64
Canceled	**(76,750)**	**13.09**	(84,650)	13.46	(98,170)	13.08
Outstanding and exercisable at end of year	**362,050**	**$ 14.49**	453,050	$ 14.20	537,700	$ 14.08

	Options Outstanding			Options Exercisable	
Non-Qualified Options	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$10.78 to $12.41	**36,250**	**3.0**	**$ 11.24**	**36,250**	**$ 11.24**
12.95 to 14.44	**132,700**	**1.9**	**13.71**	**132,700**	**13.71**
15.44 to 17.16	**178,100**	**1.0**	**15.47**	**178,100**	**15.47**
17.54 to 18.78	**15,000**	**1.3**	**17.54**	**15,000**	**17.54**
	362,050	**1.5**		**362,050**	

All options expire on the earlier of termination or, in some instances, a defined period subsequent to termination of employment, or ten years from the date of grant. The exercise price represents the quoted market price of Glatfelter common stock on the date of grant, or the average quoted market prices of Glatfelter common stock on the first day before and after the date of grant for which quoted market price information was available if such information was not available on the date of grant. As of December 31, 2010, the intrinsic value of outstanding stock options totaled $0.04 million.

10. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

Table of Contents

requirements of the Employee Retirement Income Security Act of 1974. We use a December 31-measurement date for all of our defined benefit plans.

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

	Pension Benefits		Other Benefits	
In millions	**2010**	2009	**2010**	2009
Change in Benefit Obligation				
Balance at beginning of year	**$ 406.1**	$ 386.3	**$62.6**	$58.6
Service cost	**9.5**	8.6	**2.9**	2.6
Interest cost	**23.9**	23.4	**3.4**	3.5
Plan amendments	**1.2**	1.9		
Actuarial (gain)/loss	**17.9**	12.9	**(5.7)**	1.3
Benefits paid	**(24.3)**	(27.0)	**(4.7)**	(3.4)
Balance at end of year	**$ 434.3**	$ 406.1	**$58.5**	$62.6
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$ 485.7**	$ 400.6	**$6.3**	$5.7
Actual return on plan assets	**63.2**	110.0	**0.9**	1.6
Employer contributions	**1.8**	2.1	**3.7**	2.4
Benefits paid	**(24.3)**	(27.0)	**(4.7)**	(3.4)
Fair value of plan assets at end of year	**526.4**	485.7	**6.2**	6.3
Funded status at end of year	**$ 92.1**	$ 79.6	**$(52.3)**	$(56.3)

The net prepaid pension cost for qualified pension plans is primarily included in Other long-term assets, and the accrued pension cost for non-qualified pension plans and accrued post-retirement benefit costs are primarily included in Other long-term liabilities on the Consolidated Balance Sheets at December 31, 2010 and 2009.

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

	Pension Benefits		Other Benefits	
In millions	**2010**	2009	**2010**	2009
Other long-term assets	**$ 129.2**	$ 112.9	**$**	$
Current liabilities	**(8.6)**	(1.8)	**(3.9)**	(4.6)
Other long-term liabilities	**(28.5)**	(31.5)	**(48.4)**	(51.7)
Net amount recognized	**$ 92.1**	$ 79.6	**$ (52.3)**	$ (56.3)

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

	Pension Benefits		Other Benefits	
In millions	**2010**	2009	**2010**	2009
Prior service cost/(credit)	**$ 15.5**	$ 16.5	**$(4.2)**	$(5.3)
Net actuarial loss	**170.8**	189.2	**14.1**	21.5

The accumulated benefit obligation for all defined benefit pension plans was $417.1 million and $390.9 million at December 31, 2010 and 2009, respectively.

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

	Pension Benefits		Other Benefits	
	2010	2009	**2010**	2009
Discount rate benefit obligation	**5.80%**	6.10%	**5.10%**	5.90%
Future compensation growth rate	**4.0**	4.0		

The discount rates set forth above were estimated based on the modeling of expected cash flows for each of our benefit plans and selecting a portfolio of high-quality debt instruments with maturities matching the respective cash flows of each plan. The resulting discount rates ranged from 5.00% to 6.10% for the pension plans and for other benefit plans ranged from 4.65% to 5.20%.

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

In millions	**2010**	2009
Projected benefit obligation	**$ 37.1**	$33.3
Accumulated benefit obligation	**32.0**	29.2
Fair value of plan assets		

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

	Year Ended December 31		
In millions	**2010**	2009	2008
Pension Benefits			
Service cost	**$ 9.5**	$ 8.6	$ 8.3
Interest cost	**23.9**	23.4	23.1
Expected return on plan assets	**(40.3)**	(39.8)	(50.1)
Amortization of prior service cost	**2.5**	2.2	2.3
Amortization of actuarial loss	**13.6**	12.6	0.3
Total net periodic benefit cost (income)	**$ 9.2**	$ 7.0	$ (16.1)

Other Benefits			
Service cost	**$ 2.9**	$ 2.6	$ 2.1
Interest cost	**3.4**	3.5	3.2
Expected return on plan assets	**(0.5)**	(0.5)	(0.8)
Amortization of prior service cost/(credit)	**(1.2)**	(1.2)	(1.3)
Amortization of actuarial loss	**1.5**	2.1	1.3
Total net periodic benefit cost	**$ 6.1**	$ 6.5	$ 4.5

The actuarial net (gain) loss and prior service cost for our defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $14.1 million and $2.4 million, respectively. The comparable amounts of expected amortization for other benefit plans are $1.1 million and a credit of $(1.2) million, respectively.

Table of Contents

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

In millions	Year Ended December 31 **2010**	2009
Pension Benefits		
Actuarial (gain) loss	**$ (4.5)**	$ (57.7)
Prior service cost	**1.2**	1.9
Amortization of prior service cost	**(2.5)**	(2.2)
Amortization of actuarial losses	**(13.6)**	(12.6)
Total recognized in other comprehensive (income) loss	**(19.4)**	(70.6)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	**$ (10.2)**	$ (63.6)
Other Benefits		
Actuarial (gain) loss	**$ (6.0)**	$ 0.2
Amortization of prior service cost	**1.2**	1.2
Amortization of actuarial losses	**(1.5)**	(2.1)
Total recognized in other comprehensive (income) loss	**(6.3)**	(0.7)
Total recognized in net periodic benefit cost and other comprehensive loss	**$ (0.2)**	$ 5.8

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

In millions	Year Ended December 31 **2010**	2009	2008
Pension Benefits			
Discount rate benefit expense	**6.10%**	6.25%	6.25%
Future compensation growth rate	**4.0**	4.0	4.0
Expected long-term rate of return on plan assets	**8.5**	8.5	8.5
Other Benefits			
Discount rate benefit expense	**5.90**	6.25%	6.25%
Expected long-term rate of return on plan assets	**8.5**	8.5	8.5

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

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

	2010	2009
Health care cost trend rate assumed for next year	**8.10%**	8.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.5**	4.5
Year that the rate reaches the ultimate rate	**2021**	2021

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

	One Percentage Point	
In millions	**increase**	**decrease**
Effect on:		
Post-retirement benefit obligation	$ 3.9	$ (3.5)
Total of service and interest cost components	0.5	(0.5)

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

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

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

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

Diversification is achieved by:

i. placing restrictions on the percentage of equity investments in any one company, percentage of investment in any one industry, limiting the amount of assets placed with any one manager; and

ii. setting targets for duration of fixed income securities, maintaining a certain level of credit quality, and limiting the amount of investment in non-investment grade paper.

A formal asset allocation review is done periodically to ensure that the Plan has an appropriate asset allocation based on the Plan s projected benefit obligations. The target return for each equity and fixed income manager will be one that places the manager s performance in the top 40% of its peers and on a gross basis, exceeds that of the manager s respective benchmark index. The target return for cash and cash equivalents is a return that at least equals that of the 90-day T-bills.

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

Table of Contents

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

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

	Fair Value Measurements at December 31, 2009			
in millions	Total	Level 1	Level 2	Level 3
Domestic Equity				
Large cap	**$ 176.0**	$ 175.6	**$ 0.4**	$
Small and mid cap	**77.6**	77.6		
International equity	**64.2**	33.1	**31.1**	
REIT	**25.7**	25.7		
Fixed income	**134.5**	71.0	**63.5**	
Cash and equivalents	**14.0**	14.0		
Total	**$ 492.0**	$ 397.0	**$ 95.0**	$

Cash Flow We did not make contributions to our qualified pension plans in 2010. Benefit payments expected to be made in 2011 under our non-qualified pension plans and other benefit plans are summarized below:

In thousands	
Nonqualified pension plans	**$ 8,573**
Other benefit plans	**4,917**

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

In thousands	**Pension Benefits**	**Other Benefits**
2011	**$ 37,148**	$ 4,917

2012	**30,119**	4,971
2013	**30,459**	4,986
2014	**30,927**	5,382
2015	**31,522**	5,500
2016 through 2020	**162,117**	30,339

Defined Contribution Plans We maintain 401(k) plans for certain hourly and salaried employees. Employees may contribute up to 15% of their salary to these plans, subject to certain restrictions. We will match a portion of the employee s contribution, subject to certain limitations, in the form of shares of Glatfelter common stock. The expense associated with our 401(k) match was $1.0 million, $0.9 million and $0.9 million in 2010, 2009 and 2008, respectively.

11. INVENTORIES

Inventories, net of reserves were as follows:

In thousands	**2010**	2009
Raw materials	**$ 52,538**	$ 44,150
In-process and finished	**94,118**	78,340
Supplies	**54,421**	45,880
Total	**$ 201,077**	$ 168,370

We value all of our U.S. inventories on the LIFO method. If we had valued these inventories using the first-in, first-out method, inventories would have been $20.2 million and $16.9 million higher than reported at December 31, 2010 and 2009, respectively. During 2010 and 2009, we liquidated certain LIFO inventories, the effect of which did not have a significant impact on results of operations.

12. PLANT, EQUIPMENT AND TIMBERLANDS

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

In thousands	**2010**	2009
Land and buildings	**$ 185,469**	$ 136,260
Machinery and equipment	**1,080,065**	970,708
Furniture, fixtures, and other	**109,168**	101,327
Accumulated depreciation	**(807,441)**	(773,057)

	567,261	435,238
Construction in progress	**30,904**	23,947
Asset retirement Lagoons	**8,829**	10,300
Timberlands, less depletion	**1,176**	1,147
Total	**$ 608,170**	$ 470,632

13. GOODWILL AND INTANGIBLE ASSETS

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

	December 31	
In thousands	**2010**	2009
Goodwill Composite Fibers	**$ 16,483**	$ 17,331
Specialty Papers		
Customer relationships	**$ 6,155**	$ 6,155
Composite Fibers		
Technology and related	**4,194**	4,373
Customer relationships and related	**1,799**	1,867
Advanced Airlaid Materials		
Technology and related	**1,594**	
Customer relationships and related	**3,350**	
Total intangibles	**17,092**	12,395
Accumulated amortization	**(5,245)**	(3,525)
Net intangibles	**$ 11,847**	$ 8,870

The decrease in goodwill was due to foreign currency translation adjustments. Other than non-amortizable goodwill, intangible assets are amortized on a straight-line basis. Customer relationships are amortized

over periods ranging from 3 years to 14 years and technology and related intangible assets are amortized over period ranging from 14 years to 20 years. The following table sets forth information pertaining to amortization of intangible assets:

In thousands	**2010**	2009
Aggregate amortization expense:	**$ 1,763**	$ 981
Estimated amortization expense:		
2011	**$ 1,811**	
2012	**1,770**	
2013	**1,317**	
2014	**1,317**	
2015	**1,317**	

The remaining weighted average useful life of intangible assets was 10 years at December 31, 2010.

14. OTHER LONG-TERM ASSETS

Other long-term assets consist of the following:

	December 31	
In thousands	**2010**	2009
Pension	**$ 129,207**	$ 112,903
Installment note receivable	**43,183**	43,183
Goodwill and intangibles	**28,330**	26,201
Other	**30,167**	17,319
Total	**$ 230,887**	$ 199,606

15. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

In thousands	December 31 **2010**	2009
Accrued payroll and benefits	**$ 47,205**	$ 46,141
Other accrued compensation and retirement benefits	**13,491**	6,476
Income taxes payable	**2,192**	4,684
Accrued rebates	**16,086**	14,195
Other accrued expenses	**30,342**	28,753
Total	**$ 109,316**	$ 100,249

16. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	**December 31** **2010**	2009
Revolving credit facility, due April 2011	**n/a**	$
Revolving credit facility, due May 2014	**$**	n/a
Term Loan, due April 2011		14,000
71/8% Notes, due May 2016	**200,000**	200,000
71/8% Notes, due May 2016 net of original issue discount	**95,529**	
Term Loan, due January 2013	**36,695**	36,695
Total long-term debt	**332,224**	250,695
Less current portion		(13,759)
Long-term debt, excluding current portion	**$ 332,224**	$ 236,936

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 matures May 31, 2014 and replaced and terminated our old revolving credit agreement which was due to mature April 2011.

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, limits certain intercompany financing arrangements, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios, 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.

On April 28, 2006 we completed an offering of $200.0 million aggregate principal amount of our 71/8% Senior Notes due 2016 (71/8% Notes). Net proceeds from this offering totaled approximately $196.4 million, after deducting the commissions and other fees and expenses relating to the offering. The proceeds were primarily used to redeem $150.0 million aggregate principal amount of our then outstanding 67/8% 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 71/8% 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 after deducting offering fees and expenses, were used to fund, in part, the Concert acquisition. 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 71/8% per annum and is payable semiannually in arrears on May 1 and November 1.

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 December 31, 2010, we were not aware of any violations 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 year ended December 31, 2010, GPW Virginia received aggregate interest income of $1.0 million under the Glawson note receivable and the Company Note and, in turn, incurred interest expense of $0.7 million under the 2008 Term Loan.

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

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

In thousands	
2011	$
2012	
2013	36,695
2014	
2015	
Thereafter	300,000

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

As of December 31, 2010 and 2009, we had $5.4 million and $5.7 million, respectively, of letters of credit issued to us by certain financial institutions. Such letters of credit reduce amounts available under our revolving credit facility. The letters of credit outstanding as of December 31, 2010, primarily provide financial assurances for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program. We bear the credit

risk on this amount to the extent that we do not comply with the provisions of certain agreements. No amounts are outstanding under the letters of credit.

17. ASSET RETIREMENT OBLIGATION

During 2008, we recorded $11.5 million, net present value, of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, lagoons were used to dispose of residual waste material. Closure of the lagoons, which is expected to occur over the next six years, will be accomplished by filling the lagoons, installing a non-permeable liner which will be covered with soil to construct the required cap over the lagoons. The amount referred to above, in addition to 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 the reserve for asset retirement obligations for the periods indicated:

In thousands	**2010**	2009
Beginning balance	**$ (11,292)**	$ (11,606)
Upward revision		(600)
Payments	**2,179**	1,535
Accretion	**(604)**	(621)
Ending balance	**$ (9,717)**	$ (11,292)

Of the total liability at the end of 2010, $1.5 million is recorded in the accompanying consolidated balance sheet under the caption Other current liabilities and $8.2 million is recorded under the caption Other long-term liabilities. The comparable amounts as of December 31, 2009 were $2.4 million and $8.9 million, respectively.

Table of Contents

18. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL DERIVATIVES

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

	December 31, 2010		December 31, 2009	
In thousands	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate Bonds	**$ 295,529**	**$ 304,115**	$200,000	$196,750
Variable rate debt	**36,695**	**37,780**	50,695	51,209
Total	**$ 332,224**	**$ 341,895**	$250,695	$247,959

As of December 31, 2010 and 2009, we had $300.0 million and $200.0 million, respectively, of 71/8% fixed rate debt. The amount outstanding as of the end of 2010 includes $100.0 million that is recorded net of unamortized original issue discount. All of this fixed rate debt is publicly registered, but is thinly traded. Accordingly, the values set forth above are based on debt instruments with similar characteristics, or Level 2. The fair value of the remaining debt instrument was estimated using a discounted cash flow model based on independent sources, or Level 3.

As part of our overall risk management practices, we enter into foreign exchange forward contracts primarily designed to mitigate the impact that changes in currency exchange rates have on intercompany financing transactions and to hedge exposure to certain foreign currency denominated receivables and payables. None of these contracts are designated as hedges for financial accounting purposes and, accordingly, changes in value of the foreign exchange forward contract and the offsetting underlying intercompany transactions are reflected in the accompanying statement of operations under the caption Other net. For the year ended December 31, 2010, our results of operations included a $0.4 million net loss from forward foreign currency exchange contracts. This activity was substantially all offset by adjustments to translate the underlying intercompany financing transactions.

The fair values of the foreign exchange forward contracts are considered to be Level 2. The following table sets forth the notional values of outstanding foreign exchange forward contracts together with the unrealized fair value as of December 31, 2010:

December 31, 2010	Notional Amount (millions)	Fair Value (thousands)	Balance Sheet Location
Sell euro for US$	57.0	$ (563.0)	Other current liabilities
Buy euro for British pound	3.0	(14.0)	Other current liabilities
Sell Philippine peso for US$	PHP 247.0	(4.0)	Other current liabilities

Each of the contracts set forth above have a maturity of one month from the date the respective contract was entered into.

We are exposed to credit risk related to this activity arising in the event of the inability of a counterparty to meet its obligations to us under the terms of these contracts. This exposure is generally limited to the amounts, if any, by which the counterparty s obligations exceed our obligation to them. Our policy is to enter into such financial instruments with financial institutions which meet certain minimum debt ratings.

19. SHAREHOLDERS EQUITY

The following table summarizes outstanding shares of common stock:

	Year Ended December 31,		
In thousands	**2010**	2009	2008
Shares outstanding at beginning of year	**45,706**	45,434	45,143
Treasury shares issued for:			
Restricted stock awards	**112**	86	94
401(k) plan	**132**	169	119
Director compensation	**12**	17	14
Employee stock options exercised	**14**		64
Shares outstanding at end of year	**45,976**	45,706	45,434

20. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

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

In thousands	**Leases**	**Other**
2011	**$ 7,975**	$ 87,946
2012	**4,629**	52,817
2013	**3,207**	30,474
2014	**1,676**	2,777
2015	**1,332**	2,602
Thereafter	**7,171**	9,149