GLATFELTER P H CO
Form 10-Q
May 06, 2011

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

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

or

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

For the quarterly period ended March 31, 2011
Commission file number 1-3560
P. H. Glatfelter Company
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of April 30, 2011, P. H. Glatfelter Company had 46,039,000 shares of common stock outstanding.

P. H. GLATFELTER COMPANY AND SUBSIDIARIES
REPORT ON FORM 10-Q
For the QUARTERLY PERIOD ENDED
MARCH 31, 2011
Table of Contents

PART I
Item 1 Financial Statements

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

In thousands, except per share	**Three months ended March 31** **2011**	2010
Net sales	**$ 396,771**	$ 337,275
Energy and related sales net	**2,987**	3,607
Total revenues	**399,758**	340,882
Costs of products sold	**339,591**	296,666
Gross profit	**60,167**	44,216
Selling, general and administrative expenses	**31,770**	34,670
Gains on dispositions of plant, equipment and timberlands, net	**(3,175)**	
Operating income	**31,572**	9,546
Other non-operating income (expense)		
Interest expense	**(6,460)**	(5,663)
Interest income	**207**	170
Other net	**7**	(3,983)
Total other non-operating expense	**(6,246)**	(9,476)
Income before income taxes	**25,326**	70
Income tax provision	**7,900**	444
Net income (loss)	**$ 17,426**	$ (374)
Earnings (loss) per share		
Basic	**$ 0.38**	$ (0.01)
Diluted	**0.38**	(0.01)
Cash dividends declared per common share	**0.09**	0.09
Weighted average shares outstanding		
Basic	**46,070**	45,836
Diluted	**46,410**	45,836

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

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

In thousands	**March 31 2011**	December 31 2010
Assets		
Current assets		
Cash and cash equivalents	**$ 115,937**	$ 95,788
Accounts receivable net	**167,366**	141,208
Inventories	**209,288**	201,077
Prepaid expenses and other current assets	**46,288**	64,617
Total current assets	**538,879**	502,690
Plant, equipment and timberlands net	**616,223**	608,170
Other assets	**233,261**	230,887
Total assets	**$ 1,388,363**	$ 1,341,747
Liabilities and Shareholders Equity		
Current liabilities		
Short-term debt	**$ 690**	$ 798
Accounts payable	**111,511**	98,594
Dividends payable	**4,205**	4,190
Environmental liabilities	**250**	248
Other current liabilities	**101,123**	109,316
Total current liabilities	**217,779**	213,146
Long-term debt	**332,393**	332,224
Deferred income taxes	**103,415**	94,918
Other long-term liabilities	**150,717**	149,017
Total liabilities	**804,304**	789,305
Commitments and contingencies		
Shareholders equity		
Common stock	**544**	544
Capital in excess of par value	**48,989**	48,145
Retained earnings	**762,674**	749,453
Accumulated other comprehensive income (loss)	**(104,262)**	(121,247)

	707,945	676,895
Less cost of common stock in treasury	**(123,886)**	(124,453)
Total shareholders equity	**584,059**	552,442
Total liabilities and shareholders equity	**$ 1,388,363**	$ 1,341,747

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

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

In thousands	Three months ended March 31 **2011**	2010
Operating activities		
Net income(loss)	**$ 17,426**	$ (374)
Adjustments to reconcile to net cash provided by operating activities		
Depreciation, depletion and amortization	**16,877**	15,781
Amortization of debt issue costs and original issue discount	**664**	506
Pension expense, net of unfunded benefits paid	**2,242**	2,215
Deferred income tax provision (benefit)	**2,434**	(135)
Gains on dispositions of plant, equipment and timberlands, net	**(3,175)**	
Share-based compensation	**1,445**	1,514
Cellulosic biofuel and alternative fuel mixture credits	**17,833**	
Change in operating assets and liabilities		
Accounts receivable	**(24,636)**	(14,510)
Inventories	**(4,305)**	(1,889)
Prepaid and other current assets	**(885)**	(4,103)
Accounts payable	**10,266**	17,632
Environmental matters	**(13)**	37
Accruals and other current liabilities	**(9,028)**	353
Other	**468**	3,343
Net cash provided by operating activities	**27,613**	20,370
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	**(8,088)**	(6,136)
Proceeds from disposals of plant, equipment and timberlands, net	**3,405**	
Acquisition of Concert Industries Corp., net of cash acquired		(233,006)
Net cash used by investing activities	**(4,683)**	(239,142)
Financing activities		
Proceeds from $100 million 7 % note offering, net of original issue discount		95,000
Payments of note offering costs		(2,804)
Net borrowings of revolving credit facility		27,854
Net (repayments) borrowings of other short-term debt	**(107)**	1,082
Repayment of 2011 Term Loan		(4,000)
Payment of dividends	**(4,206)**	(4,165)
Proceeds from stock options exercised and other	**6**	107
Net cash provided (used) by financing activities	**(4,307)**	113,074
Effect of exchange rate changes on cash	**1,526**	(3,147)

Net increase (decrease) in cash and cash equivalents	**20,149**	(108,845)
Cash and cash equivalents at the beginning of period	**95,788**	135,420
Cash and cash equivalents at the end of period	**$ 115,937**	$ 26,575
Supplemental cash flow information		
Cash paid (received) for		
Interest	**$ 285**	$ 259
Income taxes	**(15,267)**	(2,533)

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

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

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter) is a manufacturer of specialty papers and 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 merchants, brokers and agents or directly to customers.

2. ACCOUNTING POLICIES

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

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2010 Annual Report on Form 10-K (2010 Form 10-K).

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

3. ACQUISITION

On February 12, 2010, we completed the acquisition of all 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.

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

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

In thousands	As originally presented	Cumulative Adjustments	Final
Assets			
Cash	**$ 2,792**	**$**	**$ 2,792**
Accounts receivable	**24,703**	**(583)**	**24,120**
Inventory	**28,034**		**28,034**
Prepaid and other current assets	**5,941**	**(1,316)**	**4,625**
Plant, equipment and timberlands	**177,253**	**9,101**	**186,354**
Intangible assets	**3,138**	**1,902**	**5,040**
Deferred tax assets and other assets	**20,738**	**(5,830)**	**14,908**
Total	**262,599**	**3,274**	**265,873**
Liabilities			
Accounts payable and accrued expenses	**25,322**	**611**	**25,933**
Deferred tax liabilities	**1,267**	**4,069**	**5,336**
Other long term liabilities	**212**	**3,310**	**3,522**
Total	**26,801**	**7,990**	**34,791**
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 and, therefore, were not retrospectively reflected in the condensed consolidated financial statements.

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

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 the first quarter of 2010, we incurred legal, professional and advisory costs directly related to the Concert acquisition totaling $7.0 million. All such costs are presented under the caption Selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three months ended March 31, 2010. Deferred financing fees incurred in connection with issuing debt related to the acquisition totaled $3.0 million. The unamortized fees are recorded in the accompanying consolidated balance sheet under the caption Other assets .

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

Our results of operations for the first three months of 2010 include the results of Concert prospectively from the February 12, 2010 date of acquisition. All such results are reported herein as the Advanced Airlaid Materials business unit, a new reportable segment. Revenue and operating income of Concert included in our consolidated results of operations totaled $61.1 million and $1.7 million, respectively, for the first quarter of 2011 and $28.1 million and $0.2 million, respectively, for the first quarter of 2010.

The table below summarizes unaudited pro forma financial information as if the acquisition and related financing transaction occurred as of January 1, 2010:

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

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

4. GAINS ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS, NET

During the first quarter of 2011 we completed sales of timberlands and other assets as summarized in the following table:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2011			
Timberlands	717	$ 3,373	$ 3,158
Other	n/a	32	17
	717	$ 3,405	$ 3,175

There were no sales in the first quarter of 2010.

5. EARNINGS PER SHARE

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

	Three months ended March 31	
In thousands, except per share	**2011**	2010
Net income (loss)	**$ 17,426**	$ (374)
Weighted average common shares outstanding used in basic EPS	**46,070**	45,836
Common shares issuable upon exercise of dilutive stock options and restricted stock awards	**340**	
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**46,410**	45,836
Earnings (loss) per share		
Basic	**$ 0.38**	$ (0.01)
Diluted	**0.38**	(0.01)

Approximately 1.7 million and 1.6 million of potential common shares have been excluded from the computation of diluted earnings per share for the three month period ended March 31, 2011 and 2010, respectively, due to their anti-dilutive nature.

6. INCOME TAXES

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

As of March 31, 2011 and December 31, 2010, we had $38.9 million and $38.7 million, respectively, of gross unrecognized tax benefits. As of March 31, 2011, if such benefits were to be recognized, approximately $35.2 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

Open Tax Years

Jurisdiction	**Examinations not yet initiated**	**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	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. Interest expense recognized in the first quarter of 2011 totaled $0.3 million and $0.2 million in the first quarter of 2010. As of March 31, 2011, accrued interest payable was $4.1 million, and as of December 31, 2010, accrued interest payable was $3.8 million. We did not record any penalties associated with uncertain tax positions during the first quarters of 2011 or 2010.

7. STOCK-BASED COMPENSATION

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

Restricted Stock Units (RSU) and Performance Share Awards (PSAs) Awards of RSU and PSA are made under our LTIP. The RSUs vest based solely on the passage of time, generally on a graded scale over a three, four, and five-year period. PSAs were issued in March 2011 to members of senior management and cliff vest December 31, 2013, and upon the achievement of predetermined, three-year cumulative performance targets. The performance measures include a minimum, target and maximum performance level providing the grantees an opportunity to receive more or less shares than target depending on actual financial performance. For both RSUs and PSAs, the grant date fair value of the awards is used to determine the amount of expense to be recognized over the applicable service period. Settlement of RSUs and PSAs will be made in shares of our common stock. The following table summarizes RSU and PSA activity during the first three months of 2011 and 2010:

Units	**2011**	2010
Beginning balance	**579,801**	564,037
Granted	**227,860**	126,450
Forfeited	**(6,073)**	(8,820)
Restriction lapsed/shares delivered		(16,252)
Ending balance	**801,588**	665,415

The amount granted in 2011 includes 96,410 PSAs. The following table sets forth aggregate RSU and PSA compensation expense for the periods indicated:

	March 31	
In thousands	**2011**	2010
Three months ended	**$466**	$405

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

The following table sets forth information related to outstanding SOSARS.

	2011		2010	
SOSARS	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	**2,061,877**	**$ 12.28**	1,762,020	$ 11.84
Granted	**345,290**	**12.56**	423,450	13.95
Exercised				
Canceled	**(42,146)**	**11.22**	(50,383)	10.92
Outstanding at Mar 31,	**2,365,021**	**$ 12.34**	2,135,087	$ 12.27

SOSAR Grants		
Weighted average grant date fair value per share	**$ 4.09**	$ 4.72
Aggregate grant date fair value *(in thousands)*	**$ 1,412**	$ 1,998
Black-Scholes Assumptions		
Dividend yield	**2.87%**	2.58%
Risk free rate of return	**2.55%**	2.54%
Volatility	**41.91%**	42.31%
Expected life	**6 yrs**	6 yrs

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

	March 31	
In thousands	**2011**	2010
Three months ended	**$ 469**	$ 610

8. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

	Three months ended March 31	
In thousands	**2011**	2010
Pension Benefits		
Service cost	**$ 2,605**	$ 2,422
Interest cost	**6,064**	6,008
Expected return on plan assets	**(10,465)**	(10,060)
Amortization of prior service cost	**646**	617
Amortization of unrecognized loss	**3,544**	3,399
Net periodic benefit cost	**$ 2,394**	$ 2,386
Other Benefits		
Service cost	**$ 760**	$ 761
Interest cost	**717**	880
Expected return on plan assets	**(130)**	(135)
Amortization of prior service cost	**(305)**	(306)
Amortization of unrecognized loss	**258**	453
Net periodic benefit cost	**$ 1,300**	$ 1,653

In millions	**March 31, 2011**	Dec. 31, 2010
Pension Plan Assets		
Fair value of plan assets at end of period	**$ 544.2**	$ 526.4

9. COMPREHENSIVE INCOME

The following table sets forth comprehensive income and its components:

	Three months ended March 31	
In thousands	**2011**	2010
Net income (loss)	**$17,426**	$ (374)
Foreign currency translation adjustments	**14,477**	(19,533)
Amortization of unrecognized retirement obligations, net of tax	**2,508**	2,599
Comprehensive income (loss)	**$34,411**	$(17,308)

10. INVENTORIES

Inventories, net of reserves, were as follows:

In thousands	**March 31, 2011**	Dec. 31, 2010
Raw materials	**$ 53,017**	$ 52,538
In-process and finished	**100,175**	94,118
Supplies	**56,096**	54,421
Total	**$ 209,288**	$ 201,077

11. LONG-TERM DEBT

Long-term debt is summarized as follows:

In thousands	**March 31, 2011**	Dec. 31, 2010
Revolving credit facility, due May 2014	**$**	$
7 % Notes, due May 2016	**200,000**	200,000
7 % Notes, due May 2016 - net of original issue discount	**95,698**	95,529
Term Loan, due January 2013	**36,695**	36,695
Total long-term debt	**332,393**	332,224
Less current portion		
Long-term debt, net of current portion	**$ 332,393**	$ 332,224

On April 29, 2010, we entered into a four-year, $225 million, multi-currency, revolving credit agreement with a consortium of banks. The 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, enter into 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 7 % Senior Notes due 2016 (7 % Notes). Net proceeds from this offering totaled approximately $196.4 million, after deducting the commissions and other fees and expenses relating to the offering. The proceeds were primarily used to redeem $150.0 million aggregate principal amount of our then outstanding 6 % notes due July 2007, plus the payment of applicable redemption premium and accrued interest.

On February 5, 2010, we issued an additional $100 million in aggregate principal amount of 7 % Notes due 2016 (together with the April 28, 2006 offering, the Senior Notes). The notes were issued at 95.0% of the principal amount. Net proceeds from this offering 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 7 % 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 March 31, 2011, 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 quarter ended March 31, 2011, GPW Virginia received aggregate interest income of $0.3 million under the Glawson note receivable and the Company Note and, in turn, incurred interest expense of $0.2 million under the 2008 Term Loan.

Under terms of the above transaction, minimum credit ratings must be maintained by the bank issuing the letter of credit. If not, 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) 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 March 31, 2011 and December 31, 2010, we had $5.4 million of letters of credit issued to us by certain financial institutions. Such letters of credit reduce amounts available under our revolving credit facility. The letters of credit 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.

12. ASSET RETIREMENT OBLIGATION

During 2008, we recorded $11.5 million representing the estimated fair value of asset retirement obligations related to the legal requirement to close several lagoons at the Spring Grove, PA facility. Historically, the lagoons were used to dispose of residual waste material. Closure of the lagoons will be accomplished by filling the lagoons, and 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 over the expected closure period. Following is a summary of activity recorded during the first quarters of 2011 and 2010:

In thousands	**2011**	2010

Balance at January 1	**$ 9,717**	$ 11,293
Accretion	**132**	155
Payments	**(149)**	(394)
Balance at March 31	**$ 9,700**	$ 11,054

Of the total liability at March 31, 2011, $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.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2011		December 31, 2010	
In thousands	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-rate bonds	**$ 295,698**	**$ 309,642**	$ 295,529	$ 304,115
Variable rate debt	**36,695**	**37,500**	36,695	37,780
Total	**$ 332,393**	**$ 347.142**	$ 332,224	$ 341,895

As of March 31, 2011, and December 31, 2010, we had $300.0 million of 7 % fixed rate debt, $100.0 million of which was recorded net of unamortized original issue discount. These bonds are publicly registered, but thinly traded. Accordingly, the values set forth above are based on debt instruments with similar characteristics. The fair value of the remaining debt instrument was estimated using a discounted cash flow model based on independent sources.

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 in the offsetting underlying intercompany transactions are reflected in the accompanying statement of operations under the caption Other net. For the three months ended March 31, 2011, our results of operations included a $4.3 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 March 31, 2011 and December 31, 2010:

March 31, 2011	Notional Amount (millions)	Fair Value (thousands)	Balance Sheet Location
Sell euro for US$	**50.0**	**$ (568.0)**	Other current liabilities
Buy euro for British pound	**2.0**	$ **2.0**	Other current assets
Sell Philippine peso for US$	**PHP247.0**	**(24.0)**	Other current liabilities

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$	PHP247.0	(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.

14. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Fox River Neenah, Wisconsin

Background We have significant uncertainties associated with environmental claims arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay Wisconsin (Site). As part of our 1979 acquisition of the Bergstrom Paper Company, we acquired a facility located at the Site (the Neenah Facility). The Neenah Facility used wastepaper as a source of fiber. Discharges to the lower Fox River from the Neenah Facility that may have contained PCBs from wastepaper may have occurred from 1954 to the late 1970s. We believe that any PCBs that the Neenah Facility may have discharged into the lower Fox River resulted from the presence of PCBs in NCR®-brand carbonless copy paper in the wastepaper that was recycled at the Neenah Facility. We closed the Neenah Facility in June 2006.

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

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

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

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

The Governments have sought to recover response actions, response costs, and NRDs from us through three principal enforcement actions.

<u>OU1 CD</u>. On October 1, 2003, the United States and the State of Wisconsin commenced an action captioned *United States v. P.H. Glatfelter Co.* against us and WTM I Co. in the United States District Court for the Eastern District of Wisconsin and simultaneously lodged a consent decree (OU1 CD) that the court entered on April 12, 2004. Under that OU1 CD, and an amendment
dated August 2008, we and WTM I, with a limited fixed contribution from Menasha Corp. and funds provided by the United States from an agreement with others, have implemented the remedy for OU1. We have also resolved claims for all Governmental response costs in OU1 after July 2003 and made a payment on NRDs. That remedy is complete. We have continuing operation and maintenance obligations that we expect to fund from contributions we and WTM I have already made to an escrow account for OU1 under the OU1 CD.

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

<u>Government Action</u>. On October 14, 2010, the United States and the State of Wisconsin filed an action in the United States District Court for the Eastern District of Wisconsin captioned *United States v. NCR Corp.* (the Government Action) against 12 parties, including us. The Government Action seeks to recover from each of the defendants, jointly and severally, all of the governments past costs of response, which approximates $17 million to date, a declaration as to liability for all of the governments future costs of response, and compensation for natural resource damages, as well as a declaration as to liability for compliance with the UAO for OU2-5. On March 29, 2011, the United States filed a motion for a preliminary injunction against NCR and API to require NCR and API to implement work in 2011 at a rate described as full-scale sediment remediation.

We are engaged in litigation to allocate costs and NRDs among the parties responsible for this site.

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

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

Settlements. Certain parties have resolved their liability to the United States affording them contribution protection. These settlements are embodied in consent decrees. Notably, we entered into the OU1 CD. Also, in a case captioned *United States v. George A. Whiting Paper Co.*, the district court entered two consent decrees under which 13 *de minimis* defendants in the Whiting Litigation settled with the United States and Wisconsin. NCR and API appealed and await disposition by the Court of Appeals for the Seventh Circuit. Further, Georgia-Pacific Consumer Products LP, has entered into a consent decree resolving its liability for NRDs and a separate consent decree in the Government Action that resolves all of its liabilities except for the downstream portion of the OU4 remedy. Finally, the United States has lodged a consent decree that would resolve the liability of itself and two municipalities. We oppose entry of that consent decree.

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

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

Past Cost Demand. We are also disputing a demand by EPA that we and six other parties reimburse EPA for approximately $17 million in costs that EPA claims it incurred.

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

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

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

On December 16, 2009, the court granted motions for summary judgment in our favor in the Whiting Litigation holding that neither NCR nor API may seek contribution from us or other recyclers under CERCLA. The Court made no ruling as to any other allocation, the liability of NCR or API to us for costs we have incurred, or our liability to the Governments or Trustees. NCR and API have stated their intention to appeal, but an appeal is not yet timely because the court has not entered a final judgment.

We also filed counterclaims against NCR and API to recover the costs we have incurred and may later incur and the damages we have paid and may later pay in connection with the Site. Other defendants have similar claims. On February 28, 2011, the district court granted our summary judgment motions on those counterclaims in part and denied them in part. The court granted a declaration that NCR and API are liable to us (and to others) in contribution for 100% of any costs of response (that is, clean up) that we may be required to pay for work in OU2-5 in the future. The court requires further proceedings to decide whether or to what extent NCR and API owe contribution to us and others for costs that we and others incurred in the past and costs that we and others incurred in connection with OU1. The parties disagree as to the court s ruling with respect to our claim that NCR and API owe contribution to us (and others) for NRDs or natural resource damage assessment costs that we have paid or may be required to pay in the future. On April 12, 2011, the court set the remaining issues on our pending counterclaims under the Superfund statute for trial beginning February 21, 2012.

Reserves for the Site. As of March 31, 2011, our reserve for our claimed liability at the Site, including our remediation and ongoing monitoring obligations at OU1, our claimed liability for the remediation of the rest of the Site, our claimed liability for NRDs associated with PCB contamination at the Site and all pending, threatened or asserted and unasserted claims against us relating to PCB contamination at the Site totaled $16.9 million. Of our total reserve for the Fox River, $0.3 million is recorded in the accompanying consolidated balance sheets under the caption Environmental liabilities and the remainder is recorded under the caption Other long term liabilities.

Although we believe that amounts already funded by us and WTM to implement the OU1 remedy are adequate and no payments have been required since January 2009, there can be no assurance that these amounts will in fact suffice. WTM has filed a bankruptcy petition in the Bankruptcy Court in Richmond; accordingly, there can be no assurance that WTM will be able to fulfill its obligation to pay half of any additional costs, if required.

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

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

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

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

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

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

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

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

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

15. SEGMENT INFORMATION

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

Three months ended March 31 *In millions*	Specialty Papers 2011	Specialty Papers 2010	Composite Fibers 2011	Composite Fibers 2010	Advanced Airlaid Materials 2011	Advanced Airlaid Materials 2010	Other and Unallocated 2011	Other and Unallocated 2010	Total 2011	Total 2010
Net sales	$ 220.5	$ 207.7	$ 115.2	$ 101.5	$ 61.1	$ 28.1	$	$	$ 396.8	$ 337.3
Energy and related sales, net	3.0	3.6							3.0	3.6
Total revenue	223.4	211.3	115.2	101.5	61.1	28.1			399.8	340.9
Cost of products sold	187.3	181.7	93.0	86.1	56.7	26.9	2.6	2.0	339.6	296.7
Gross profit	36.1	29.6	22.2	15.4	4.4	1.2	(2.6)	(2.0)	60.2	44.2
SG&A	13.9	13.7	9.8	9.1	2.7	1.0	5.4	10.9	31.8	34.7
Gains on dispositions of plant, equipment and timberlands, net							(3.2)		(3.2)	
Total operating income (loss)	22.2	15.9	12.4	6.3	1.7	0.2	(4.8)	(12.9)	31.6	9.5
Other non-operating income (expense)							(6.2)	(9.4)	(6.2)	(9.4)
Income (loss) before income taxes	$ 22.2	$ 15.9	$ 12.4	$ 6.3	$ 1.7	$ 0.2	$ (11.0)	$ (22.3)	$ 25.3	$ 0.1
Supplementary Data										
Net tons sold	198.8	193.2	22.9	21.3	21.5	11.1			243.2	225.6
Depreciation, depletion and amortization	$ 8.7	$ 8.6	$ 6.1	$ 6.1	$ 2.1	$ 1.1	$	$	$ 16.9	$ 15.8
Capital expenditures	3.9	3.0	3.8	1.5	0.4	1.6			8.1	6.1

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

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

Management evaluates results of operations of the business units before pension income or expense, alternative fuel mixture credits, charges related to the Fox River environmental reserves, acquisition and integration related costs, restructuring related charges, unusual items, certain corporate level costs, and the effects of asset dispositions. Management believes that this is a more meaningful representation of the operating performance of its core 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.

16. GUARANTOR FINANCIAL STATEMENTS

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

The following presents our condensed consolidating statements of income and cash flow, and our condensed consolidating balance sheets. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis. We have reclassified certain interest income amounts for the three months ended March 31, 2010 of $0.2 million in total from Other net , to Interest Expense, net , to conform to the 2011 presentation. This reclassification had no effect on the reported amounts of Interest Income, Interest Expense, or Other net for any period presented in our accompanying condensed consolidated statement of operations.

Condensed Consolidating Statement of Income for the three months ended March 31, 2011

In thousand	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	$ 220,453	$ 12,832	$ 176,318	$ (12,832)	$ 396,771
Energy and related sales net	2,987				2,987
Total revenues	223,440	12,832	176,318	(12,832)	399,758
Costs of products sold	191,299	11,471	149,766	(12,945)	339,591
Gross profit	32,141	1,361	26,552	113	60,167
Selling, general and administrative expenses	18,717	559	12,494		31,770
Gains on dispositions of plant, equipment and timberlands, net	(14)	(3,158)	(3)		(3,175)
Operating income	13,438	3,960	14,061	113	31,572
Other non-operating income (expense)					
Interest expense, net	(3,329)	1,881	(1,505)	(3,300)	(6,253)
Other income (expense) net	10,862	86	(416)	(10,525)	7
Total other non-operating income (expense)	7,533	1,967	(1,921)	(13,825)	(6,246)
Income (loss) before income taxes	20,971	5,927	12,140	(13,712)	25,326
Income tax provision (benefit)	3,545	2,456	3,093	(1,194)	7,900
Net income (loss)	$ 17,426	$ 3,471	$ 9,047	$ (12,518)	$ 17,426

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

Parent Non Adjustments/

In thousands	Company	Guarantors	Guarantors	Eliminations	Consolidated