

GLATFELTER P H CO  
Form 10-K  
March 13, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

- Annual report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the fiscal year ended **December 31, 2007**
- or
- Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the transition period from        to

**Commission file number 1-03560**

**P. H. Glatfelter Company**  
(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**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)

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

Title of Class  
**Common Stock, par value \$.01 per share**

Name of Exchange on which registered  
**New York Stock Exchange**

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

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

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

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

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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       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a smaller reporting company)

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

Based on the closing price as of June 30, 2007, the aggregate market value of Common Stock of the Registrant held by non-affiliates was \$539.8 million.

**Common Stock outstanding on March 6, 2008 totaled 45,167,030 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 21, 2008 (Part III).

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

**DECEMBER 31, 2007**

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## **ITEM 1. BUSINESS**

**Overview** Glatfelter began operations in 1864 and today we believe we are one of the world's leading manufacturers of specialty papers and engineered products. Headquartered in York, Pennsylvania, we own and operate paper mills located in Pennsylvania, Ohio, Germany, the United Kingdom and France, as well as an abaca pulp mill in the Philippines.

We serve customers in numerous markets, including book publishing, carbonless and forms, envelope and converting, engineered products, food and beverage, composite laminates and other highly technical niche markets. Many of the markets in which we operate are characterized by higher-value-added products and, in some cases, by higher growth prospects and lower cyclicity than commodity paper markets. Examples of some of our key product offerings include papers for:

- trade book publishing;
- carbonless products;
- tea bags and coffee filters;
- specialized envelopes;
- playing cards;
- pressure-sensitive postage stamps;
- metallized papers for labels and packaging; and
- digital imaging applications.

**Recent Developments** On November 30, 2007, we completed the acquisition of Metallised Products Limited (MPL), a privately owned company that manufactures a variety of metallized paper products for consumer and industrial applications. MPL is based in Caerphilly, Wales.

Under terms of the agreement, we purchased the stock of MPL for \$7.2 million cash and extinguished \$5.8 million of MPL debt at the closing. The purchase price is subject to adjustments based on working capital and other factors.

This facility employs about 165 people and had 2007 revenues of approximately \$53.4 million.

During 2006, the following events occurred that affected the operations of our business units:

### *Specialty Papers*

On April 3, 2006, we completed the acquisition of the carbonless business operations of NewPage Corporation, located in Chillicothe, Ohio, for \$83.3 million in cash. At the time of the acquisition, this business had annual revenue of approximately \$440 million.

As part of our integration plan for Chillicothe, we transferred the production of products manufactured at our former Neenah, WI facility to Chillicothe and permanently shut down our Neenah facility on June 30, 2006.

### *Composite Fibers*

On March 13, 2006, we acquired JR Crompton's Lydney mill, located in Gloucestershire (Lydney), England, for approximately \$65 million. At the time of the acquisition, the mill had annual revenue of approximately \$75 million. The Lydney mill produces a broad portfolio of wet laid non-woven products, including tea bags and coffee filter papers, double-sided adhesive tape substrates and battery grid pasting tissue.

**Our Business Units** We manage our business as two distinct units: the North America-based Specialty Papers business unit and the Europe-based Composite Fibers business unit. The following table summarizes consolidated net sales and the relative net sales contribution of each of our business units for the past three years:

<i>Dollars in thousands</i>	<b>2007</b>	2006	2005
Net sales	<b>\$ 1,148,323</b>	\$ 986,411	\$ 579,121
<i>Business unit composition</i>			
Specialty Papers	<b>69.9%</b>	70.3%	65.8%
Composite Fibers	<b>30.1</b>	29.7	34.2
Total	<b>100.0%</b>	100.0%	100.0%

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

	<b>2007</b>	2006	2005
Specialty Papers	<b>726,657</b>	653,734	450,900
Composite Fibers	<b>72,855</b>	68,148	47,669
Other		10	24
Total	<b>799,512</b>	721,892	498,593

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

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

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

**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 and other niche specialty applications.

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

<i>In thousands</i>	<b>2007</b>	2006	2005
Book publishing	<b>\$ 185,343</b>	\$ 166,605	\$ 157,269
Carbonless & forms	<b>345,785</b>	266,647	
Envelope & converting	<b>116,797</b>	103,042	91,751
Engineered products	<b>136,785</b>	137,007	129,936
Other	<b>17,583</b>	20,359	1,967
Total	<b>\$ 802,293</b>	\$ 693,660	\$ 380,923

We believe we are one of the leading suppliers of book publishing papers in the United States and the second leading carbonless paper producer. Specialty Papers also produces paper that is converted into specialized envelopes in a wide array of colors, finishes and capabilities. These markets are generally more mature and, therefore, opportunities are generally market-share based. The market for carbonless papers is declining approximately 8% to 10% per year. However, we have been successful in executing our strategy to replace this lost volume with book publishing, forms and other products with more stable or growing demand.

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, 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 high 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 values and generally exhibit greater pricing stability relative to commodity grade paper products.

**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 coffee pods/pads and filters;

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



**Metallized** products used in the labeling of beer bottles, innerliners and other consumer products applications; and

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

Composite Fibers revenue composition by market consisted of the following for the years indicated:

<i>In thousands</i>	<b>2007</b>	2006	2005
Food & beverage	<b>\$ 218,961</b>	\$ 180,258	\$ 103,070
Composite laminates	<b>52,972</b>	50,734	42,948
Metallized	<b>45,426</b>	40,078	35,541
Technical specialties and other	<b>28,671</b>	21,681	16,578
Total	<b>\$ 346,030</b>	\$ 292,751	\$ 198,137

Our focus on products made from abaca pulp has made us the world's largest producer of tea bag and coffee pods/pads and filter papers. The balance of this unit's sales are comprised of overlay and technical specialty products, which include flooring and furniture overlay papers, metallized products, and papers for adhesive tapes, vacuum bags, holographic labels and gift wrap. Many of this unit's papers are technically sophisticated. The acquisition of MPL is designed to leverage our technical capabilities to serve the attractive metallized products market. All 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.

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, Note 21.

**Our Competitive Strengths** Since commencing operations over 140 years ago, we believe that Glatfelter has developed into one of the world's leading manufacturers of specialty papers and engineered products. We believe that the following competitive strengths have contributed to our success:

*Leading market positions in higher-value, niche segments.* We have focused our resources to achieve market-leading positions in certain higher-value, niche segments. Our products include various highly specialized paper products designed for technically demanding end uses. Consequently, many of our products achieve premium pricing relative to that of commodity paper grades. In 2007, approximately 81%

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of our sales were derived from these higher-value, niche products as compared to 82% in 2006. The specialized nature of these products generally provides greater pricing stability relative to commodity paper products.

*Customer-centric business focus.* We offer a unique and diverse product line that can be customized to serve the individual needs of our customers. Our customer focus allows us to develop close relationships with our key customers and to be adaptable in our product development, manufacturing, sales and marketing practices. We believe that this approach has led to the development of excellent customer relationships, defensible market positions, and increased pricing stability relative to commodity paper producers. Additionally, our customer-centric focus has been a key driver to our success in new product development.

*Significant investment in product development.* In order to keep up with our customers' ever-changing needs, we continually enhance our product offerings through significant investment in product development. During 2007, 2006 and 2005, we invested approximately \$8.7 million, \$8.0 million and \$4.9 million, respectively, in product development activities. We derive a significant portion of our revenue from products developed, enhanced or improved as a result of these activities. Revenue generated from products developed, enhanced or improved within the five previous years as a result of these activities represented approximately 53% of net sales in each of the past three years ended December 31, 2007.

*Integrated production.* As a nearly fully integrated producer, we are able to mitigate changes in the costs of certain raw materials and energy. In Specialty Papers, our Spring Grove and Chillicothe facilities are vertically integrated operations producing in excess of 85% of the annual pulp required for their paper production. The principal raw material used to produce this pulp is pulpwood, consisting of both hardwoods and softwoods. Our Spring Grove and Chillicothe facilities also generate 100% of the steam and substantially all of the electricity required for their operations. In Composite Fibers, our Philippine mill processes abaca fiber to produce abaca pulp, a key raw material used by this business unit. The Philippine mill produces approximately 70% of the annual abaca pulp required for Composite Fibers' production.

**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 strategies to strengthen our business and position it for the future. Execution of these strategies is intended to capitalize on our customer relationships, technology and people, as well as our leadership positions in certain product lines. Components include:

*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:

- employing a low-cost approach to our manufacturing activities and implementing cost reduction initiatives including the Chillicothe profit improvement initiatives;

- improving business processes and deploying continuous improvement capabilities to maintain market leadership positions in customer service; and

- optimizing our products mix by growing book publishing, envelope, forms and engineered products and utilizing new product development capabilities to replace declining carbonless volumes.

*Composite Fibers* A core component of this business unit's long-term strategy is to capture world-wide growth in its core markets of food & beverage, composite laminates and metallized papers. Composite Fibers strategy also includes enhancing product mix across all of its markets by utilizing new product development capabilities. In addition, the

Composite Fibers business unit is focused on cost reduction initiatives including, among others, work-force efficiencies and supply chain management.

**Balance Sheet** We are focused on prudent financial management and the maintenance of a conservative capital structure. We are committed to maintaining a strong balance sheet and preserving our flexibility so that we may pursue strategic opportunities, including strategic acquisitions that will benefit our shareholders.

**Timberland Strategy** In 2006, we initiated a strategy to sell substantially all of our timberlands. At the time the strategy was announced, we expected proceeds from the sales to generate approximately \$150 million to \$200 million by the end of 2010. Through the end of 2007, we have sold approximately 43,400 acres of timberland for an aggregate price of

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\$104.4 million. Although proceeds have been used to reduce debt obligations, the sale of timberland will require us to replace company owned timberland as a source of fiber with more costly purchased woods. We believe the interest expense reduction and the financial flexibility for investment offer a greater return than the additional higher cost for raw fiber.

**Raw Material and Energy** The following table provides an overview of the estimated amount of principal raw materials ( PRM ) expected to be used in 2008 by each of our manufacturing facilities:

	<b>Estimated Annual Quantity (short tons)</b>	<b>Percent of PRM Purchased</b>
<i><b>Specialty Papers</b></i>		
Spring Grove		
Pulpwood	1,051,000	86
Wood and other pulps	37,000	100
Chillicothe		
Pulpwood	1,207,000	100
Wood and other pulps	58,000	100
<i><b>Composite Fibers</b></i>		
Wood and other pulps	37,600	100
Abaca pulp	18,000	30
Synthetic fiber	9,400	100
Metallized base stock	30,400	100
Abaca fiber	17,000	100

Our Spring Grove, Pennsylvania and Chillicothe, Ohio mills are vertically integrated operations producing in excess of 85% of the combined annual pulp required for paper production. The principal raw material used to produce this pulp is pulpwood, of which both hardwoods and softwoods are used. Hardwoods are available within a relatively short distance of our mills. Softwoods are obtained from a variety of locations in relatively close proximity to the location of the respective mill and includes 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.

In addition to integrated pulp making, both the Spring Grove and Chillicothe facilities generate 100% of the steam and 100% and 80%, respectively, of their electricity needs. Principal fuel sources vary by facility and include over 600,000 tons of coal, 870,000 MMBTUs of natural gas, as well as recycled pulping chemicals, bark, wood waste, and oil. Spring Grove's coal needs are met under a contract that expires at the end of 2009 and Chillicothe's contract expires in November 2008.

The Spring Grove facility produces more electricity than it requires. Excess electricity is sold to the local power company under a long-term co-generation contract expiring in 2010. Energy sales, net of costs to produce, were \$9.4 million in 2007, \$10.7 million in 2006 and \$10.1 million in 2005. The continuation of this revenue stream at these levels is dependent on our ability to negotiate a contract for periods beyond 2010.

The Gernsbach, Scaër and Lydney facilities generate all of the steam required for their operations. The Gernsbach facility generated approximately 19% of its 2007 electricity needs and purchased the balance. The Scaër and Lydney facilities purchased 100% of their 2007 electric power requirements. Natural gas was used to produce substantially all internally generated energy at the Gernsbach, Scaër and Lydney facilities during 2007.

Our Philippines mill processes abaca fiber to produce a specialized pulp. This abaca pulp production provides a unique advantage by supplying a key raw material used by our Composite Fibers business unit. The supply of abaca fiber has been constrained due to severe 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. 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 higher.

Based on information currently available, we believe that we will continue to have ready access, for the foreseeable future, to all principal raw materials used in the production of our products. However, as discussed in the preceding paragraph, the supply of abaca fiber has been constrained and has adversely impacted pricing. The cost of our raw materials is subject to change, including, but not limited to, costs of wood, pulp products and energy.

**Concentration of Customers** In past three years, no single customer represented more than 10% of our consolidated net sales.

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**Competition** Our industry is highly competitive. We compete on the basis of product quality, customer service, product development, price and distribution. We offer our products throughout the United States and globally in approximately 85 countries. Competition in the markets in which we participate comes from companies of various sizes, some of which have greater financial and other resources than we do.

There are a number of companies in the United States that manufacture printing and converting papers. We believe we are one of the leading producers of book publishing papers and compete in these markets with, among others, Domtar and Fraser. In the envelope sector we compete with, among others, International Paper, Domtar and Blue Ridge. In the carbonless paper and forms market, we compete with Appleton Papers and, to a lesser extent, Nekoosa Papers, Inc. In our Specialty Papers engineered products markets and for the Composite Fibers business unit's 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, Ahlstrom, International Paper, MeadWestvaco, Sappi and Stora Enso. 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.

**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. In 2008, we expect capital expenditures to total \$52 million to \$57 million, including a \$10 million investment to upgrade the capabilities of one of our inclined wire paper machines in Germany.

**Environmental Matters** We are subject to loss contingencies resulting from regulation by various federal, state, local and foreign governmental authorities with respect to the environmental impact of our mills. To comply with environmental laws and regulations, we have incurred substantial capital and operating expenditures in past years. For a discussion of environmental matters, see Item 8 Financial Statements and Supplementary Data Note 20.

**Employees** The following table summarizes our workforce as of December 31, 2007:

Location	Hourly	Salaried	Total	Union	Contract Period	
					Start	End
U.S.						
Corporate/Spring Grove	605	360	965	United Steelworkers of America (USW) & Office and Professional	February 2008	January 2011
Chillicothe/Fremont	1,293	410	1,703	Employees International Union	August 2006	August 2009

**International**

Gernsbach, Germany & Scaër	436	234	670	Various	May 2007	Sept 2008
Lydney	206	67	273	Unite	n/a	n/a
Caerphilly	127	32	159	General Maintenance & Boiler s		
Philippines	55	29	84	N/A	Dec 2002	Dec 2008
Total	2,722	1,132	3,854			

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

**Available Information** On our investor relations website at [www.glatfelter.com](http://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, 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 intend to 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.

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

### **Risks Related to Our Business**

*The cost of raw materials and energy used to manufacture our products could increase and the availability of certain raw materials could become more 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 in excess of 85% of their annual pulp requirements. However, as a result of selling timberlands over the past two years, purchased timber will represent a larger source of the total pulpwood used in our operations.

Our Philippine mill purchases abaca fiber to make pulp, which we use to manufacture our composite fiber products at our Gernsbach, Scaër and Lydney facilities. However, the supply of abaca fiber has been constrained due to severe 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. As a result of supply constraints, pricing pressure persists.

The cost of many of our production materials and costs, including petroleum based chemicals and freight charges, are influenced by the cost of oil. In addition, coal is a principal source fuel for both the Spring Grove and Chillicothe facilities. Natural gas is the principal source of fuel for our Chillicothe and Composite Fibers business unit facilities. Natural gas prices have increased significantly in the United States since 2000.

We may not be able to pass increased raw materials or energy costs on to our 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 business and financial performance may be adversely affected by downturns in the target markets that we serve.*

Demand for our products in the markets we serve is primarily driven by consumption of the products we produce, which is most often affected by general economic conditions. Downturns in our target markets could result in decreased demand for our products. In particular, our business may be adversely affected during periods of economic weakness by the general softness in these target markets. Our results could be adversely affected if economic conditions weaken or fail to improve. Also, there may be periods during which demand for our products is insufficient to enable us to operate our production facilities in an economical manner. 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 paper products are also significantly affected by changes in industry capacity and output levels. There have been periods of supply/demand imbalance in the pulp and paper industry, which have caused pulp and paper prices to be volatile. The timing and magnitude of price increases or decreases in the pulp and paper market have generally varied by region and by product type. A sustained period of weak demand or excess supply would likely adversely affect pulp and paper prices. This could have a material adverse affect on our operating and financial results.

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

In recent years, the global paper industry in which we compete has been adversely affected by paper producing capacity exceeding the demand for products. As a result, the uncoated free sheet industry has taken steps 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 paper producers to enter our specialty markets when they are unable to compete or when demand softens in their traditional markets;

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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;

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 in the world marketplace 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.

We are liable for remediation on costs related to the presence of polychlorinated biphenyls, or PCBs, in the lower Fox River on which our former Neenah, Wisconsin mill was located. We have financial reserves for environmental matters 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, Note 20

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

We own and operate a pulp mill in the Philippines where the operating environment is unstable and subject to political unrest. Our Philippine pulp mill produces abaca pulp, a significant raw material used by our Composite Fibers business unit. Our Philippine pulp mill 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

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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 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 paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The local currency in Germany and France is the Euro, in the UK the British Pound Sterling, and in the Philippines the Peso. During 2007, Euro functional currency operations generated approximately 19.9% of our sales and 18.8% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.8% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

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.

***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 2. PROPERTIES***

Our leased corporate offices are located in York, Pennsylvania. We own and operate paper mills located in Pennsylvania; Ohio; the United Kingdom; Germany; and France. Our metallized paper production facility located in Caerphilly, Wales leases the building and land associated with its operations. We also own and operate a pulp mill in the Philippines. Substantially all of the equipment used in our papermaking and related operations, is also owned. 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.

The following table summarizes the estimated production capacity of each of our facilities:

	Estimated Annual Production Capacity (short tons)	
<b>Specialty Papers</b>		
Spring Grove	332,000	Uncoated
	68,000	Coated
Chillicothe	400,000	Uncoated
	7,500	Coated
<b>Composite Fibers</b>		
Gernsbach	38,000	Lightweight
	12,500	Metallized
Scaër	6,000	Lightweight
Lydney	16,700	Lightweight
Caerphilly	15,000	Metallized
Philippines	11,000	Abaca pulp

The Spring Grove facility includes five uncoated paper machines that have been rebuilt and modernized from time to time with the capacity to produce 332,000 tons. 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 more profitable 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. We have a precipitated calcium carbonate ( PCC ) plant at our Spring Grove facility that produces PCC at a lower cost than could be purchased from others and lowers the need for higher-priced raw material typically used for increasing the opacity and brightness of certain papers.

The Chillicothe facility operates four paper machines which together yield a potential annual production capacity of uncoated and carbonless paper of approximately 400,000 tons. In addition, this location produces 7,500 tons per year of other coated paper. This facility also includes a pulpmill that has a production capacity of approximately 955 tons of bleached pulp per day.

The Composite Fibers business unit s four facilities operate a combined ten papermaking machines with the capacity to produce approximately 60,700 tons of lightweight paper on an annual basis. In addition, the business unit has the capacity to produce an aggregate of 27,500 tons of metallized papers from its lacquering and metallizing operations in Gernsbach, Germany and Caerphilly, Wales.

Our Philippines facility consists of a pulpmill that supplies a majority of the abaca pulp requirements of the Composite Fibers paper mills.

**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.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

Not Applicable no matters were submitted to a vote of security holders during the fourth quarter of 2007.

**EXECUTIVE OFFICERS**

The following table sets forth certain information with respect to our executive officers as of March 1, 2008.

Name	Age	Office with the Company
George H. Glatfelter II	56	Chairman and Chief Executive Officer
Dante C. Parrini	43	Executive Vice President and Chief Operating Officer
John P. Jacunski	42	Senior Vice President and Chief Financial Officer
Timothy R. Hess	41	Vice President and General Manager, Specialty Papers Business Unit
Jeffrey J. Norton	49	Vice President, General Counsel and Secretary

Martin Rapp	48	Vice President and General Manager, Composite Fibers Business Unit
Mark A. Sullivan	53	Vice President Global Supply Chain
William T. Yanavitch II	47	Vice President Human Resources and Administration
David C. Elder	39	Corporate Controller and Chief Accounting Officer

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.

**George H. Glatfelter II** is our Chairman and Chief Executive Officer. From April 2000 to February 2001, Mr. Glatfelter was Chairman, President and Chief Executive Officer. From June 1998 to April 2000, he was Chief Executive Officer and President.

Mr. Glatfelter serves as a director of Met-Pro Corporation.

**Dante C. Parrini** became Executive Vice President and Chief Operating Officer in February 2005. Prior to this, Mr. Parrini was Senior Vice President and General Manager, a position he held since January 2003. From December 2000 until January 2003, Mr. Parrini was Vice President Sales and Marketing. From July 2000 to December 2000, he was Vice President Sales and Marketing, Glatfelter Division and Corporate Strategic Marketing.

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

**Timothy R. Hess** has been Vice President and General Manager Specialty Papers Business Unit since February 2006. Prior to this he was the Company's Director of Specialty Papers Business Unit, a position he held since January 2004. From 1994

until January 2004, Mr. Hess held various technical, manufacturing, sales and business development positions with Glatfelter.

**Jeffrey J. Norton** joined us in May 2005 and serves as Vice President, General Counsel and Secretary. Prior to joining Glatfelter, Mr. Norton was with Exelon Corporation, for 14 years where he was Assistant General Counsel.

**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. From May 2000 until July 2002 Mr. Rapp was Partner and Managing Director of BonnConsult.

**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. He served with T-Mobile USA as an independent contractor during 2003, and Concur Technologies from 1999 until 2002.

**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.

**David C. Elder** became Corporate Controller and Chief Accounting Officer in July 2006 after joining the company in January 2006. Prior to joining the company, 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.

## PART II

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND 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.

<b>Quarter</b>	<b>High</b>	<b>Low</b>	<b>Dividend</b>
<b>2007</b>			
Fourth	\$ 17.23	\$ 14.00	\$ 0.09
Third	15.59	12.47	0.09
Second	16.30	12.92	0.09
First	18.05	14.86	0.09
<b>2006</b>			
Fourth	\$ 15.95	\$ 13.26	\$ 0.09
Third	16.23	12.98	0.09



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Second	19.84	14.45	0.09
First	18.65	13.12	0.09

As of March 6, 2008, we had 1,627 shareholders of record. A number of the shareholders of record are nominees.

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## **STOCK PERFORMANCE GRAPH**

The graph below 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. In 2007, we changed the comparative peer group and the broad market index. In previous years, the peer group consisted of Bowater, Inc. (which merged with Abitibi-Consolidated to form AbitibiBowater Inc), Chesapeake Corp., MeadWestvaco Corp., Pope & Talbot, Potlatch Corp., Schweitzer-Mauduit International and Wausau Paper Corp. For the 2007 peer group comparison, we modified the companies included to reflect changes in the industry in which we compete, to give effect to mergers and/or divestitures and other considerations. The new peer group retains AbitibiBowater Inc, Schweitzer-Mauduit International and Wausau Paper Corp., and now includes Neenah Paper Inc.

Prior to 2007, Glatfelter common stock was included in the S&P MidCap 400. During 2007, our stock is no longer a part of this index. Accordingly, we are comparing our stock to the Russell 2000, which we believe is an appropriate comparable for stocks such as Glatfelter.

The graph assumes that the value of the investment in our common stock, in each index, and in each of the peer groups (including reinvestment of dividends) was \$100 on December 31, 2002 and charts it through December 31, 2007.

### **COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN** Among Glatfelter, The S&P Midcap 400 Index, The Russell 2000 Index, A New Peer Group and an Old Peer Group

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[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)

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**ITEM 6. SELECTED FINANCIAL DATA**

## Summary of Selected Consolidated Financial Data

As of or for the year ended December 31

<i>In thousands, except per share</i>	<b>2007</b>	2006	2005	2004	2003
Net sales	<b>\$ 1,148,323</b>	\$ 986,411	\$ 579,121	\$ 543,524	\$ 533,193
Energy sales, net	<b>9,445</b>	10,726	10,078	9,953	10,040
Total revenue	<b>1,157,768</b>	997,137	589,199	553,477	543,233
Shutdown and restructuring charges and unusual items	<b>(35)</b>	(30,318)	(1,564)	(20,375)	(24,995)
Gains on dispositions of plant, equipment and timberlands	<b>78,685</b>	17,394	22,053	58,509	32,334
Gains from insurance recoveries		205	20,151	32,785	
Income (loss) from continuing operations	<b>63,472</b>	(12,236)	38,609	56,102	12,986
Income (loss) per share from continuing operations					
Basic	<b>1.41</b>	(0.27)	0.88	1.28	0.30
Diluted	<b>1.40</b>	(0.27)	0.87	1.27	0.30
Total assets	<b>1,287,067</b>	1,225,643	1,044,977	1,052,270	1,027,019
Total debt	<b>313,185</b>	397,613	207,073	211,227	254,275
Shareholders' equity	<b>476,068</b>	388,368	432,312	420,370	371,431
Cash dividends declared per common share	<b>0.36</b>	0.36	0.36	0.36	0.53
Shares outstanding	<b>45,141</b>	44,821	44,132	43,950	43,782
Capital expenditures	<b>28,960</b>	44,460	31,024	18,587	66,758
Depreciation and amortization	<b>56,001</b>	50,021	50,647	51,598	56,029
Tons sold	<b>799,512</b>	721,892	498,593	470,422	495,566
Number of employees	<b>3,854</b>	3,704	1,958	1,988	2,331

The above Summary of Selected Consolidated Financial Data, and the comparability thereof, includes the impact of certain charges and gains from asset dispositions and insurance recoveries. For a discussion of these items that affect the comparability of this information, see Item 8 Financial Statements and Supplemental Data Notes 4 to 7.

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

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

- i. changes in the cost or availability of raw materials we use, in particular pulpwood, market pulp, pulp substitutes, and abaca fiber;
- ii. changes in energy-related costs and commodity raw materials with an energy component;
- iii. variations in demand for, or pricing of, our products;
- iv. our ability to develop new, high value-added Specialty Papers and Composite Fibers products;
- v. the impact of competition, changes in industry paper production capacity, including the construction of new mills, the closing of mills and incremental changes due to capital expenditures or productivity increases;
- vi. the gain or loss of significant customers and/or on-going viability of such customers;
- vii. 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;
- viii. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;
- ix. geopolitical events, including war and terrorism;
- x. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation;
- xi. adverse results in litigation;
- xii. our ability to successfully execute our timberland strategy to realize the value of our timberlands; and
- xiii. our ability to finance, consummate and integrate future acquisitions.

**Introduction** We manufacture, both domestically and internationally, a wide array of specialty papers and engineered products. Substantially all of our revenue is earned from the sale of our products to customers in numerous markets, including book publishing, envelope & converting, carbonless papers and forms, food and beverage, decorative laminates for furniture and flooring, and other highly technical niche markets.

**Overview** Our results of operations in 2007, when compared to 2006, reflect stronger performance from each of our business units. Domestically, the Specialty Papers business unit's results are positively influenced by the improved productivity of the Chillicothe and Spring Grove facilities and by additional volumes associated with the April 2006 Chillicothe acquisition. This business unit's margins were adversely impacted by increases in input costs that outpaced the rate of increases in selling prices.

Our Composite Fibers business unit's results in 2007 was positively influenced by additional volumes associated with the Lydney acquisition that was completed in March 2006, as well as improved mix. Average selling prices on a constant currency basis improved in the comparison.

The comparison of year-to-date results are affected by the completion of the business acquisitions referenced earlier which includes: i) the \$65 million acquisition of J R Crompton's Lydney mill on March 13, 2006; and ii) the \$83.3 million acquisition

of Chillicothe, on April 3, 2006, the carbonless paper operation of NewPage Corporation. In 2006, we incurred acquisition integration costs totaling \$13.6 million in connection with the Chillicothe and Lydney acquisitions.

In connection with the Chillicothe acquisition, we ceased production at our Neenah, WI facility effective June 30, 2006 and transferred production, including the production of book paper, to Chillicothe. In 2006, we recorded shutdown related charges totaling \$54.4 million.

The results of operations in 2007 include \$26 million of pre-tax charges related to our estimated costs associated with the Fox River environmental matter. The results also include approximately \$5.7 million of income tax benefits recorded as a result of a change in the German corporate income tax rate.

During 2007 and 2006, we sold \$87.3 million and \$17.1 million of timberlands, respectively, as part of our timberland strategy.

As a result of significantly improved cash flows from operations and from the use of timberland sales proceeds, net debt declined \$92.3 million, or 25%, since the end of 2006.

In April 2006, we refinanced our bank credit facility with a \$100 million term loan and a \$200 million revolving credit facility in addition to the issuance of \$200 million 71/8% bonds to replace our \$150 million 67/8% notes due July 2007.

## **RESULTS OF OPERATIONS**

### **2007 versus 2006**

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	Year Ended December 31	
	<b>2007</b>	2006
Net sales	\$ <b>1,148,323</b>	\$ 986,411
Gross profit	<b>156,312</b>	105,294
Operating income	<b>118,818</b>	94
Net income (loss)	<b>63,472</b>	(12,236)
Earnings (loss) per diluted share	<b>1.40</b>	(0.27)

The consolidated results of operations for the years ended December 31, 2007 and 2006 include the following significant items:

<i>In thousands, except per share</i>	After-tax Income (loss)	Diluted EPS
<b>2007</b>		
Gains on sale of timberlands	\$ <b>44,052</b>	\$ <b>0.97</b>

Environmental remediation	(15,979)	(0.35)
Acquisition integration costs	(1,569)	(0.03)
<b>2006</b>		
Gains on sale of timberlands	8,812	0.20
Shutdown and restructuring charges	(35,212)	(0.79)
Acquisition integration costs	(8,647)	(0.19)
Debt redemption premium	(1,820)	(0.04)
Insurance recoveries	130	

These items increased earnings by \$26.5 million, or \$0.59 per diluted share in 2007. Comparatively, the items identified above decreased earnings in 2006 by \$36.7 million, or \$0.82 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 table above.

Management evaluates results of operations of the business units before non-cash pension income, charges related to the Fox River environmental reserves, restructuring related charges, unusual items, certain corporate level costs, effects of asset dispositions and insurance recoveries because it believes 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 core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is closely 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.

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Unit Performance (in thousands, except tons)	Year Ended December 31							Total
	Specialty Papers		Composite Fibers		Other and Unallocated		2007	
	2007	2006	2007	2006	2007	2006		
Net sales	\$802,293	\$693,660	\$346,030	\$292,751	\$	\$	\$1,148,323	\$986,411
Cost of goods sold	9,445	10,726					9,445	10,726
Depreciation and amortization	811,738	704,386	346,030	292,751			1,157,768	999,137
Gain on sale of assets	721,216	635,143	287,606	246,797	(7,366)	9,903	1,001,456	899,330
Goodwill impairment (loss)	90,522	69,243	58,424	45,954	7,366	(9,903)	156,312	103,294
Restructuring costs	56,561	50,285	32,541	28,458	27,042	13,738	116,144	99,993
Gain on disposal of plant, equipment and timberlands					35	30,318	35	30,353
Insurance recoveries					(78,685)	(17,394)	(78,685)	(106,079)
Operating income (loss)	33,961	18,958	25,883	17,496	58,974	(36,360)	118,818	103,294
Other income					(24,884)	(22,322)	(24,884)	(27,106)
Income before income taxes	\$33,961	\$18,958	\$25,883	\$17,496	\$34,090	\$(58,682)	\$93,934	\$76,188
Provision for income taxes								
Net income	726,657	653,734	72,855	68,148		10	799,512	722,082
Other non-recurring items	\$34,882	\$32,824	\$21,119	\$17,197	\$	\$	\$56,001	\$50,885

### Sales and Costs of Products Sold

In thousands	Year Ended December 31		
	2007	2006	Change
Net sales	\$1,148,323	\$986,411	\$161,912
Energy sales net	9,445	10,726	(1,281)



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Total revenues	<b>1,157,768</b>	997,137	160,631
Costs of products sold	<b>1,001,456</b>	891,843	109,613
Gross profit	<b>\$156,312</b>	\$105,294	\$51,018
Gross profit as a percent of Net sales	<b>13.6%</b>	10.7%	

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

<b>Business Unit</b>	Percent of total	
	<b>2007</b>	2006
Specialty Papers	<b>69.9%</b>	70.3%
Composite Fibers	<b>30.1</b>	29.7
Total	<b>100.0%</b>	100.0%

Net sales totaled \$1.1 billion in 2007, an increase of \$161.9 million, or 16.4%, compared to the previous year.

In the Specialty Papers business unit, net sales increased \$108.6 million to \$802.3 million and operating income totaled \$34.0 million, an increase of \$15.0 million over the previous year. The increase in net sales is attributable to the Chillicothe acquisition that was completed April 3, 2006 and an overall favorable pricing environment that contributed a \$16.1 million benefit in 2007 with prices increasing in all product markets. Shipping volumes increased 11% in the comparison. Specialty Papers production costs increased in the comparison primarily due to higher shipping volumes. Higher raw material prices largely driven by energy, pulp and wood material usage adversely impacted production costs by \$19.2 million. These adverse factors were partially offset by improved material usage and machine yields.

In Composite Fibers, net sales were \$346.0 million in 2007, an increase of \$53.3 million from the prior year and operating income totaled \$25.9 million, an increase of \$8.4 million in the comparison. The completion of the March 13, 2006 Lydney acquisition accounted for approximately \$17.5 million of the increase in net sales and the translation of foreign currencies benefitted net sales by \$19.6 million. On a constant currency basis, average selling prices increased on average 0.3% and volumes increased approximately 7% with increases realized in food and beverage, technical specialties and metallized product markets. Energy and raw material costs in this business unit were \$3.2 million higher than a year ago.

The reported amounts of costs of products sold in 2006 included a \$25.4 million charge for inventory write-downs and accelerated depreciation on property and equipment abandoned in connection with the Neenah facility shutdown. In the preceding Business Unit Performance table, this amount is included in the Other and Unallocated column.

**Non-Cash Pension Income** Non-cash pension income results from the net over-funded status of our pension plans. The amount of pension 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 following summarizes non-cash pension income, before the curtailment charges recorded in connection with the Neenah shutdown during 2006:

<i>In thousands</i>	Year Ended December 31		Change
	2007	2006	
<i>Recorded as:</i>			
Costs of products sold	<b>\$8,846</b>	\$15,480	\$(6,634)
SG&A expense	<b>4,050</b>	1,513	2,537
Total	<b>\$12,896</b>	\$16,993	\$(4,097)

**Selling, general and administrative ( SG&A )** expenses increased \$23.7 million in the year-to-year comparison and totaled \$116.1 million in 2007 compared to \$92.5 million a year ago. The increase

was due to a \$26.0 million charge for the Fox River environmental matter and the inclusion of a full year's results for the Chillicothe and Lydney acquisitions in the current period's results. These unfavorable factors were partially offset in the comparison by \$12.2 million of lower acquisition integration costs.

**Gain on Sales of Plant, Equipment and Timberlands** During 2007, 2006 and 2005, we completed sales of timberlands. The following table summarizes these transactions.

<i>Dollars in thousands</i>	<b>Acres</b>	<b>Proceeds</b>	<b>Gain</b>
<b>2007</b>			
Timberlands	<b>37,448</b>	<b>\$ 84,409</b>	<b>\$ 78,958</b>
Other	n/a	<b>377</b>	<b>(273)</b>
<b>Total</b>		<b>\$ 84,786</b>	<b>\$ 78,685</b>
<b>2006</b>			
Timberlands	5,923	\$ 17,130	\$ 15,677
Other	n/a	3,941	1,717
<b>Total</b>		<b>\$ 21,071</b>	<b>\$ 17,394</b>

In connection with each of the asset sales set forth above, we received cash proceeds with the exception of the sale of approximately 26,000 acres of timberland completed in November 2007. As consideration for the timberland sold in this transaction we received a \$43.2 million, 20-year interest-bearing note due from the buyer, Glawson Investments Corp. (Glawson), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc. Subsequent to the end of 2007, we monetized this note receivable by pledging it as collateral for a new \$36.7 million term note payable.

**Shutdown and Restructuring Charges - Neenah Facility Shutdown** In connection with our agreement to acquire the Chillicothe operations, we permanently closed the Neenah, WI facility. Production at this facility ceased effective June 30, 2006 and certain products previously manufactured at the Neenah facility have been transferred to Chillicothe. Results of operations in 2006 included charges totaling \$54.4 million including the \$25.4 million charge to cost of goods discussed previously.

The remaining reserve as of December 31, 2006 associated with this restructuring initiative totaled \$2.8 million. During 2007, we made payments totaling \$1.7 million; thus, the remaining reserve balance was \$1.1 million at December 31, 2007.

**Non-operating income (expense)** During April 2006, we completed the placement of a \$200 million bond offering, the proceeds of which were used to redeem the then outstanding \$150 million notes scheduled to mature in July 2007. In connection with the early redemption, a charge of \$2.9 million, related to a redemption premium and the write-off

of unamortized debt issuance costs, was recorded in Consolidated Statement of Income as Non-operating expense under the caption Other-net.

**Income taxes** During 2007, we recorded income tax expense totaling \$30.5 million on pre tax income of \$93.9 million. The comparable amounts in 2006 were income tax benefits of \$10.0 million on a pre-tax loss of \$22.2 million. For 2007, income tax expense is net of a \$5.7 million deferred income tax benefit related to the reduction of German corporate income tax rates passed into law July 2007.

**Foreign Currency** We own and operate 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 is the Peso. During 2007, Euro functional currency operations generated approximately 19.9% of our sales and 18.8% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.8% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates. The table below summarizes the impact on reported results that changes in currency exchange rates in the current year period compared with the prior year period had on our non-U.S. based operations from the conversion of these operations non-U.S. dollar denominated revenues and expenses into U.S. dollars.

<i>In thousands</i>	Year Ended December 31
	<b>Favorable (unfavorable)</b>
Net sales	\$19,563
Costs of products sold	<b>(17,952)</b>
SG&A expenses	<b>(1,927)</b>
Income taxes and other	<b>79</b>
 Net loss	 <b>\$(237)</b>

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**

### **2006 versus 2005**

The following table sets forth summarized results of operations:

<i>In thousands, except per share</i>	Year Ended December 31	
	2006	2005
Net sales	\$ 986,411	\$ 579,121
Gross profit	105,294	97,176
Operating income	94	70,183
Net income	(12,236)	38,609
Earnings per diluted share	(0.27)	0.87

The consolidated results of operations for the years ended December 31, 2006 and 2005 include the following significant items:

<i>In thousands, except per share</i>	After-tax Income (loss)	Diluted EPS
2006		
Gains on sale of timberlands	\$8,812	\$0.20
Shutdown and restructuring charges	(35,212)	(0.79)
Acquisition integration costs	(8,647)	(0.19)
Debt redemption premium	(1,820)	(0.04)
Insurance recoveries	130	
2005		
Gains on sale of timberlands	\$11,258	\$0.26
Insurance recoveries	12,719	0.29
Restructuring charges	(1,017)	(0.02)

The above items increased earnings from continuing operations by \$36.7 million, or \$0.82 per diluted share in 2006, and by \$23.0 million, or \$0.53 per diluted share in 2005.

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**Business Units** The following table sets forth profitability information by business unit and the composition of consolidated income from continuing operations before income taxes:

Year Ended December 31	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Net sales, net	\$693,660	\$380,923	\$292,751	\$198,137	\$	\$61	\$986,411	\$579,121
	10,726	10,078					10,726	10,078
Cost of products sold	704,386	391,001	292,751	198,137		61	997,137	589,336
	635,143	340,629	246,797	166,153	9,903	(14,759)	891,843	492,005
Manufacturing charges	69,243	50,372	45,954	31,984	(9,903)	14,820	105,294	97,291
Dispositions of equipment and	50,285	39,876	28,458	21,282	13,738	6,475	92,481	67,835
Insurance recoveries					(17,394)	(22,053)	(17,394)	(22,053)
					(205)	(20,151)	(205)	(20,151)
Operating income (loss)	18,958	10,496	17,496	10,702	(36,360)	48,985	94	70,291
Operating income					(22,322)	(10,043)	(22,322)	(10,043)
Income (loss) from operations before taxes	\$18,958	\$10,496	\$17,496	\$10,702	\$(58,682)	\$38,942	\$(22,228)	\$60,291
Operating Data								
Cost of goods sold	653,734	450,900	68,148	47,669	10	24	721,892	498,639
Manufacturing expense	\$32,824	\$35,781	\$17,197	\$14,866	\$	\$	\$50,021	\$50,648

**Sales and Costs of Products Sold**

<i>In thousands</i>	Year Ended December 31		Change
	2006	2005	
Net sales	\$ 986,411	\$ 579,121	\$ 407,290
Energy sales net	10,726	10,078	648

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Total revenues	997,137	589,199	407,938
Costs of products sold	891,843	492,023	399,820
Gross profit	105,294	\$ 97,176	\$ 8,118
Gross profit as a percent of Net sales	10.7%	16.8%	

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

Business Unit	Year Ended December 31	
	2006	2005
Specialty Papers	70.3%	65.8%
Composite Fibers	29.7	34.2
Total	100.0%	100.0%

Net sales totaled \$986.4 million for the year ended December 31, 2006, an increase of \$407.3 million, or 70.3%, compared to the same period a year ago. Net sales from the acquisition of Chillicothe's carbonless and forms business and the Lydney mill totaled \$329.9 million. These acquisitions are reported in the Specialty Papers and Composite Fibers business units, respectively. Organic growth in Specialty Papers was driven by a 4.0% increase in volume and \$21.3 million from higher average selling prices in the Specialty Papers business unit. Excluding results of the Lydney mill, Composite Fibers' volumes shipped increased 15.6%. The translation of foreign currencies unfavorably impacted this business unit's net sales by \$2.5 million and average selling prices declined \$3.5 million compared to the same period a year ago.

In connection with the Chillicothe acquisition, we permanently shutdown our Neenah, WI facility. Products previously manufactured at the Neenah facility have been transferred to Chillicothe. The

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results of operations for 2006 include related pre-tax charges of \$54.4 million, of which \$25.4 million is reflected in the consolidated income statement as components of cost of products sold and \$29.0 million is reflected as Shutdown and restructuring charges.

Costs of products sold totaled \$891.8 million for 2006, an increase of \$399.8 million compared with the previous year. As discussed above, the 2006 costs of products sold includes a \$25.4 million charge for inventory write-downs and accelerated depreciation on property and equipment abandoned in connection with the Neenah shutdown.

In addition to the shutdown charges, the increase in costs of products sold was primarily due to the inclusion of the Chillicothe and Lydney acquisitions and the effect of increased shipping volumes. In addition, higher raw material and energy prices increased costs of products sold by approximately \$12.1 million.

**Non-Cash Pension Income** Non-cash pension income results from the over-funded status of our pension plans. The amount of pension 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 following summarizes non-cash pension income, before the curtailment charges recorded in connection with the Neenah shutdown during 2006:

<i>In thousands</i>	Year Ended December 31		Change
	2006	2005	
<i>Recorded as:</i>			
Costs of products sold	\$15,480	\$14,844	\$636
SG&A expense	1,513	1,673	(160)
Total	\$16,993	\$16,517	\$476

**Selling, general and administrative ( SG&A )** expenses totaled \$92.5 million in 2006 compared to \$67.6 million a year ago. The increase was due to \$13.6 million of acquisition integration costs and \$16.2 million from the inclusion of the Chillicothe and Lydney acquisitions in the current period's results of operations. SG&A expenses in 2005 included a \$2.7 million charge for certain matters related to our former Ecusta division. In addition, the comparison was favorably affected by lower professional and legal fees in the period to period comparison.

**Gain on Sales of Plant, Equipment and Timberlands** The following table summarizes the assets sold in 2006 and 2005.

<i>Dollars in thousands</i>	Acres	Proceeds	Gain
2006			
Timberlands	5,923	\$ 17,130	\$ 15,677
Other	n/a	3,941	1,717



Total		\$ 21,071	\$ 17,394
2005			
Timberlands	2,488	\$ 21,000	\$ 20,327
Other	n/a	1,778	1,726
Total		\$ 22,778	\$ 22,053

**Insurance Recoveries** During the 2006 and 2005, we reached successful resolution of certain claims under insurance policies related to the Fox River environmental matter. Insurance recoveries included in the results of operations totaled \$0.2 million in 2006 and \$20.2 million in 2005. All recoveries were received in cash prior to the end of the applicable period.

**Shutdown and Restructuring Charges - Neenah Facility Shutdown** As of June 30, 2006 we permanently shutdown our Neenah facility. The charge incurred in connection with this action was recorded as follows:

<i>In thousands</i>		Year Ended December 31, 2006
<i>Recorded as:</i>		
Costs of products sold	\$	<b>25,371</b>
Shutdown and restructuring charge		<b>29,074</b>
Total	\$	<b>54,445</b>

The following table summarizes shutdown reserve activity during 2006:

<i>In thousands</i>	Beg. Balance	Amount Accrued	Less Non-Cash- Charges and Cash Payments	Balance
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<b>Non-cash charges</b>				
Accelerated depreciation	\$	\$22,466	\$(22,466)	\$
Inventory write-down		2,905	(2,905)	
Pension curtailments and other retirement benefit charges		7,675	(7,675)	
Total non cash charges		33,046	(33,046)	
<b>Cash charges</b>				
Severance and benefit continuation		7,653	(6,026)	1,627
Contract termination costs		11,367	(11,367)	
Other		2,379	(1,229)	1,150
Total cash charges		21,399	(18,622)	2,777
Total	\$	\$54,445	\$(51,668)	\$2,777

The Neenah facility supported our Specialty Papers business unit. Shutdown of this facility resulted in the elimination of approximately 200 positions.

As part of the Neenah shutdown, we terminated our long-term steam supply contract, as provided for within the agreement, resulting in a termination fee of approximately \$11.4 million.

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The results of operations for 2006 and 2005, also include \$1.2 million and \$1.6 million, respectively, of charges related to the European Restructuring and Optimization (EURO) Program.

**Non-operating income (expense)** During April 2006, we completed the placement of a \$200 million bond offering, the proceeds of which were used to redeem the then outstanding \$150 million notes scheduled to mature in July 2007. In connection with the early redemption, a charge of \$2.9 million, related to a redemption premium and the write-off of unamortized debt issuance costs, was recorded in Consolidated Statement of Income as Non-operating expense under the caption Other-net .

**Income taxes** In 2006 we recorded an income tax benefit at an effective rate of 45.0% compared to an income tax provision at an effective rate of 35.8% in 2005. The beneficial higher effective tax rate in 2006 was primarily due to the effect of state tax law changes and the effect of tax credits, partially offset by the resolution of certain tax matters.

**Foreign Currency** We own and operate paper and pulp mills in Germany, France, the United Kingdom and the Philippines. The local currency in Germany and France is the Euro, in the UK the British Pound Sterling, and in the Philippines the currency is the Peso. During 2006, Euro functional currency operations generated approximately 21.0% of our sales and 19.8% of operating expenses and British Pound Sterling operations represented 6.1% of net sales and 6.4% of operating expenses. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The table below summarizes the impact on reported results that changes in currency exchange rates in the current year compared with the prior year had on our non-U.S. based operations from the conversion of these operations non-U.S. dollar denominated revenues and expenses into U.S. dollars.

<i>In thousands</i>	Year Ended December 31
	<b>Favorable (unfavorable)</b>
Net sales	\$2,455
Costs of products sold	(4,045)
SG&A expenses	(258)
Income taxes and other	37
Net loss	\$(1,811)

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 and to support our business strategy and research and development efforts. 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:

<i>In thousands</i>	<b>Year Ended December 31</b>	
	<b>2007</b>	2006
Cash and cash equivalents at beginning of period	\$ 21,985	\$ 57,442
Cash provided by (used for)		
Operating activities	<b>100,332</b>	(28,427)
Investing activities	<b>4,733</b>	(181,831)
Financing activities	<b>(99,371)</b>	173,388
Effect of exchange rate changes on cash	<b>2,154</b>	1,413
 Net cash provided(used)	 <b>7,848</b>	 (35,457)
 Cash and cash equivalents at end of period	 <b>\$ 29,833</b>	 \$ 21,985

Operating cash flow improved by \$128.8 million in the comparison primarily due to improved working capital usage and improved operating results in 2007. The improvement in working capital reflects the use in 2006 of \$22.4 million associated with the Lydney acquisition. In addition, cash used for operations in 2006 included \$21.7 million to settle a cross currency rate swap, \$17.6 million of income tax payments and \$18.6 million of cash paid for restructuring charges.

The changes in investing cash flows primarily reflect the use of approximately \$158.4 million in 2006 to fund the Lydney and Chillicothe acquisitions. Capital expenditures in the comparison declined \$15.5 million in the current year and totaled \$29.0 million. In 2008, capital expenditures are expected to total \$52 million to \$57 million including a \$10 million investment to upgrade the capabilities of one of our inclined wire paper machines in Germany.

During 2007 and 2006, cash dividends paid on common stock totaled approximately \$16.4 million and \$16.0 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.

During 2007, net debt declined \$92.3 million as proceeds from operations and timberland sales were used to reduce debt outstanding. In the year earlier period borrowings of \$158.4 million were used to finance the Lydney and Chillicothe acquisitions.

The significant terms of the debt instruments are more fully discussed in Item 8- Financial Statements,

Note 18. During 2007, \$53 million of required principal payments were made under our Term Loan. In 2008, we are required to make \$11 million of quarterly principal repayments. In addition, on April 28, 2006, we completed a private placement offering of \$200 million aggregate principal amount of our 7 1/8% Senior Notes due 2016. We used the net proceeds to redeem \$150 million aggregate principal amount of our outstanding 6 7/8% notes due July 2007, plus the payment of the applicable redemption premium and accrued interest. The following table sets forth our outstanding long-term indebtedness:

<i>In thousands</i>	December 31	
	2007	2006
Revolving credit facility, due April 2011	\$35,049	\$64,795
Term loan, due April 2011	43,000	96,000
7 1/8% Notes, due May 2016	200,000	200,000
Note payable, due March 2013	34,000	34,000
Total long-term debt	312,049	394,795
Less current portion	(11,008)	(19,500)
Long-term debt, excluding current portion	\$301,041	\$375,295

Subsequent to December 31, 2007, we monetized a note received as consideration from the sale of timberlands. In this monetization, we entered into a new \$36.7 million term loan agreement (the 2008 Term Loan ) with a financial institution. The 2008 Term Loan matures in five years, bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.20% per annum and is secured by, among other assets, a \$43.2 million note received from the buyers of certain timberland sold in November 2007. For a more complete description of the 2008 Term Loan, refer to Note 24.

We are subject to loss contingencies resulting from regulation by various federal, state, local and foreign governmental authorities with respect to the environmental impact of mills we operate, or have operated. To comply with environmental laws and regulations, we have incurred substantial capital and operating expenditures in past years. We anticipate that environmental regulation of our operations will continue to be burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. In addition, we may incur obligations to remove or mitigate any adverse effects on the environment resulting from our operations, including the restoration of natural resources and liability for personal injury and for damages to property and natural resources. See Item 8 Financial Statements 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, our existing credit facility and other long-term debt. However, as discussed in Item 8 Financial Statements 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.

Our credit agreement, as amended, contains a number of customary compliance covenants. In addition, the 7 1/8% Notes contain a cross default provision that in the event of a default under the credit agreement, the

7 1/8% Notes would become currently due. As of December 31, 2007, we met all of the requirements of our debt covenants.

**Off-Balance-Sheet Arrangements** As of December 31, 2007 and 2006, 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.

**Contractual Obligations** The following table sets forth contractual obligations as of December 31, 2007.

<i>In millions</i>	Total	Payments Due During the Year Ended December 31,			
		2008	2009 to 2010	2011 to 2012	2013 and beyond
Long-term debt <sup>(1)</sup>	\$450	\$31	\$64	\$71	\$284
Operating leases <sup>(2)</sup>	16	3	4	2	7
Purchase obligations <sup>(3)</sup>	103	86	17		
Other long term obligations <sup>(4),(5)</sup>	94	23	17	15	39
Total	\$663	\$143	\$102	\$88	\$330

(1) Represents principal and interest payments due on long-term debt. We have \$200 million of debt maturing in May 2016 and bearing a fixed rate of interest at 7 1/8%, payable semiannually and \$34 million note maturing in March 2013 and bearing a fixed rate of interest of 3.82%. In addition, at December 31, 2007, \$35 million was outstanding under our revolving credit facility and \$43 million was outstanding under a term loan. Both the revolving credit facility and the term loan bear a variable interest rate (5.73% as of December 31, 2007) and mature in April 2011.

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

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- (3) Represents open purchase order commitments and other obligations, primarily for 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, 2007 or expectations based on historical experience and/or current market conditions.
- (4) Represents expected benefits to be paid pursuant to medical retirement plans and nonqualified pension plans over the next ten years.
- (5) Since we are not able 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 FASB Interpretation No. 48. As discussed in more detail in Item 8 Financial Statements, Note 10, Income Taxes, such amounts totaled \$27.2 million at December 31, 2007.

**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 market conditions are more or less favorable than those we have projected, we may need to increase or decrease our reserves for excess and obsolete inventories, which could affect our reported results of operations.

**Long-lived Assets** We evaluate the recoverability of our long-lived assets, including plant, equipment, timberlands and 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 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 make changes as conditions warrant. Changes to these assumptions will increase or decrease our reported income, 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

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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 RISKS**

<i>Dollars in thousands</i>	Year Ended December 31					At December 31, 2007	
	2008	2009	2010	2011	2012	Carrying Value	Fair Value
<b>Long-term debt</b>							
Average principal outstanding							
at fixed interest rates							
Bond	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$192,172
at fixed interest rates							
Note payable	34,000	34,000	34,000	34,000	34,000	34,000	31,081
at variable interest rates							
Notes	72,543	60,160	46,401	13,021		78,049	78,047
						\$312,049	\$301,300
Weighted-average interest rate							
Fixed interest rate							
Debt Bond	7.13%	7.13%	7.13%	7.13%	7.13%		
Fixed interest rate							
Debt Note payable	3.82	3.82	3.82	3.82	3.82		
Variable interest rate							
Debt	5.83	5.85	5.88	5.89			

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

Our market risk exposure primarily results from changes in interest rates and currency exchange rates. At December 31, 2007, we had long-term debt outstanding of \$312.0 million, of which \$78.0 million or 25% was at variable interest rates. Variable-rate debt outstanding represents borrowings under our credit facility that incur interest based on the domestic prime rate or a Eurocurrency rate, at our option, plus a margin. At December 31, 2007, the interest rate paid was 5.73%. A hypothetical 100 basis point increase or decrease in the interest rate on variable rate debt would increase or decrease annual interest expense by \$0.8 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 2007, Euro functional currency operations generated approximately 19.9% of our sales and 18.8% of operating expenses and British Pound Sterling operations represented 7.6% of net sales and 7.8% 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, 2007, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has determined that the Company's internal control over financial reporting as of December 31, 2007 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.

Our 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, 2007, 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, 2007.

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

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of P.H. Glatfelter and subsidiaries (the Company) as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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, 2007, of the Company and our report dated March 12, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an Interpretation of FASB No. 109 as of

January 1, 2007.

Deloitte & Touche LLP

Philadelphia, Pennsylvania

March 12, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of P. H. Glatfelter Company and subsidiaries (the Company ) as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, 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.

As discussed in Note 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R), as of December 31, 2006.

As discussed in Note 3 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB No. 109 as of January 1, 2007.

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, 2007, 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 12, 2008, expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Philadelphia, Pennsylvania  
March 12, 2008

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

<i>In thousands, except per share</i>	<b>Year Ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net sales	<b>\$1,148,323</b>	\$986,411	\$579,121
Energy sales net	<b>9,445</b>	10,726	10,078
Total revenues	<b>1,157,768</b>	997,137	589,199
Costs of products sold	<b>1,001,456</b>	891,843	492,023
Gross profit	<b>156,312</b>	105,294	97,176
Selling, general and administrative expenses	<b>116,144</b>	92,481	67,633
Shutdown and restructuring charges	<b>35</b>	30,318	1,564
Gains on disposition of plant, equipment and timberlands, net	<b>(78,685)</b>	(17,394)	(22,053)
Insurance recoveries		(205)	(20,151)
Operating income	<b>118,818</b>	94	70,183
Other nonoperating income (expense)			
Interest expense	<b>(29,022)</b>	(24,453)	(13,083)
Interest income	<b>3,933</b>	3,132	2,012
Other net	<b>205</b>	(1,001)	1,028
Total other nonoperating expense	<b>(24,884)</b>	(22,322)	(10,043)
Income (loss) before income taxes	<b>93,934</b>	(22,228)	60,140
Income tax provision (benefit)	<b>30,462</b>	(9,992)	21,531
Net income (loss)	<b>\$63,472</b>	\$(12,236)	\$38,609
<b>Weighted average shares outstanding</b>			
Basic	<b>45,035</b>	44,584	44,013
Diluted	<b>45,422</b>	44,584	44,343
<b>Earnings (loss) per share</b>			

Basic	<b>\$1.41</b>	\$(0.27)	\$0.88
Diluted	<b>1.40</b>	(0.27)	0.87

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

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**P. H. GLATFELTER COMPANY and SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

<i>Dollars in thousands, except par values</i>	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	<b>\$29,833</b>	\$21,985
Accounts receivable (less allowance for doubtful accounts: 2007 \$3,117; 2006 \$3,613)	<b>122,980</b>	128,255
Inventories	<b>193,042</b>	192,281
Prepaid expenses and other current assets	<b>27,557</b>	32,517
Total current assets	<b>373,412</b>	375,038
<b>Plant, equipment and timberlands net</b>	<b>519,866</b>	528,867
<b>Other assets</b>	<b>393,789</b>	321,738
Total assets	<b>\$1,287,067</b>	\$1,225,643
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	<b>\$11,008</b>	\$19,500
Short-term debt	<b>1,136</b>	2,818
Accounts payable	<b>73,195</b>	70,966
Dividends payable	<b>4,063</b>	4,035
Environmental liabilities	<b>7,038</b>	5,489
Other current liabilities	<b>101,116</b>	90,482
Total current liabilities	<b>197,556</b>	193,290
<b>Long-term debt</b>	<b>301,041</b>	375,295
<b>Deferred income taxes</b>	<b>189,156</b>	182,659
<b>Other long-term liabilities</b>	<b>123,246</b>	86,031
Total liabilities	<b>810,999</b>	837,275
<b>Commitments and contingencies</b>		

**Shareholders equity**

Common stock, \$.01 par value; authorized 120,000,000 shares; issued 54,361,980 shares (including shares in treasury: 2007 9,220,726; 2006 9,540,770)	<b>544</b>	544
Capital in excess of par value	<b>44,697</b>	42,288
Retained earnings	<b>563,608</b>	519,489
Accumulated other comprehensive income (loss)	<b>4,061</b>	(32,337)
	<b>612,910</b>	529,984
Less cost of common stock in treasury	<b>(136,842)</b>	(141,616)
	<b>476,068</b>	388,368
	<b>476,068</b>	388,368
Total shareholders equity	<b>476,068</b>	388,368
	<b>476,068</b>	388,368
Total liabilities and shareholders equity	<b>\$1,287,067</b>	\$1,225,643

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

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

<i>In thousands</i>	<b>Year Ended December 31</b>		
	<b>2007</b>	2006	2005
<b>Operating activities</b>			
Net income (loss)	<b>\$63,472</b>	\$(12,236)	\$38,609
Adjustments to reconcile to net cash (used) provided by operations:			
Depreciation, depletion and amortization	<b>56,001</b>	50,021	50,647
Reserve for environmental matters	<b>26,000</b>		
Pension income	<b>(12,896)</b>	(16,993)	(16,517)
Restructuring charges	<b>35</b>	37,066	1,564
Deferred income taxes	<b>8,004</b>	(12,726)	3,020
Gains on dispositions of plant, equipment and timberlands, net	<b>(78,685)</b>	(17,394)	(22,053)
Share-based compensation	<b>3,850</b>	2,335	630
Change in operating assets and liabilities			
Accounts receivable	<b>16,662</b>	(17,622)	(5,876)
Inventories	<b>8,493</b>	(8,869)	(6,195)
Prepaid and other assets	<b>(2,461)</b>	4,413	3,995
Liabilities	<b>11,857</b>	(36,422)	(4,956)
Net cash (used) provided by operations	<b>100,332</b>	(28,427)	42,868
<b>Investing activities</b>			
Expenditures for purchases of plant, equipment and timberlands	<b>(28,960)</b>	(44,460)	(31,024)
Proceeds from disposal of plant, equipment and timberlands	<b>41,616</b>	21,071	22,450
Proceeds from sale of subsidiary, net of cash divested			545
Acquisitions, net of cash acquired	<b>(7,923)</b>	(158,442)	
Net cash provided (used) by investing activities	<b>4,733</b>	(181,831)	(8,029)
<b>Financing activities</b>			
Net (repayments of) proceeds from revolving credit facility	<b>(30,656)</b>	43,522	(1,117)
Net (repayments of) proceeds from other short-term debt	<b>(6,916)</b>	(995)	384
Net (repayments of) net proceeds from \$100 million term loan facility	<b>(53,000)</b>	94,829	
Payment of dividends	<b>(16,350)</b>	(16,023)	(15,839)
Net proceeds from \$200 million 7 1/8% note offering		196,440	
Repayment of \$150 million 6 7/8 notes		(152,675)	
Proceeds and tax benefits from stock options exercised and other	<b>7,551</b>	8,290	1,414
Net cash provided (used) by financing activities	<b>(99,371)</b>	173,388	(15,158)
Effect of exchange rate changes on cash	<b>2,154</b>	1,413	(2,190)

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Net increase (decrease) in cash and cash equivalents	<b>7,848</b>	(35,457)	17,491
Cash and cash equivalents at the beginning of period	<b>21,985</b>	57,442	39,951

Cash and cash equivalents at the end of period	<b>\$29,833</b>	\$21,985	\$57,442
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**Supplemental cash flow information**

Cash paid for			
Interest	<b>\$28,498</b>	\$26,218	\$12,378
Income taxes	<b>2,614</b>	17,579	17,443

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

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**P. H. GLATFELTER COMPANY and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
For the Years Ended December 31, 2007, 2006 and 2005

<i>In thousands, except shares outstanding</i>	Common Stock	Capital in Excess of Par Value	Retained Earnings	Deferred Compen- sation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at January 1, 2005	\$ 544	\$ 41,828	\$ 525,056	\$(1,275)	\$ 8,768	\$ (154,551)	\$ 420,370
Net income			38,609				38,609
Other comprehensive income							
Foreign currency translation adjustments					(9,619)		
Additional minimum pension liability, net of tax benefits of \$2,831					(4,492)		
Other comprehensive income					(14,111)		(14,111)
Comprehensive income							24,498
Tax effect on employee stock options exercised		76					76
Cash dividends declared			(15,855)				(15,855)
Issuance of restricted stock units, net		1,894		(1,020)			874
Delivery of treasury shares							
Restricted stock awards							
401(k) plans		(84)				917	833
Director compensation		(21)				123	102
Employee stock options exercised net		(243)				1,657	1,414
Balance at December 31, 2005	544	43,450	547,810	(2,295)	(5,343)	(151,854)	432,312
Net loss			(12,236)				(12,236)
Foreign currency translation adjustments					12,343		
Adjustment to minimum pension liability prior to adoption of SFAS No. 158					583		
Other comprehensive income					12,926		12,926
Comprehensive income							690
Reversal of minimum pension liability under SFAS No. 158					3,909		3,909
Additional net pension liability, net of tax benefit of \$27,318					(43,829)		(43,829)
Adoption of SFAS No. 123(R)		(2,295)		2,295			792
		792					792

Tax effect on employee stock options exercised							
Cash dividends declared			(16,085)				(16,085)
Share-based compensation expense RSU	1,107						1,107
Delivery of treasury shares							
Performance Shares	7				200		207
401(k) plans	46				1,608		1,654
Director compensation	8				105		113
Employee stock options exercised net	(827)				8,325		7,498
Balance at December 31, 2006	544	42,288	519,489		(32,337)	(141,616)	388,368
Comprehensive income							
Net income			<b>63,472</b>				<b>63,472</b>
Foreign currency translation adjustments					<b>24,966</b>		
Change in benefit plans net funded status, net of tax benefit of \$7,167					<b>11,432</b>		
Other comprehensive income					<b>36,398</b>		<b>36,398</b>
Comprehensive income							<b>99,870</b>
Cumulative effect of adopting of FIN 48			<b>(2,974)</b>				<b>(2,974)</b>
Tax effect on employee stock options exercised			<b>89</b>				<b>89</b>
Cash dividends declared			<b>(16,379)</b>				<b>(16,379)</b>
Share-based compensation expense	<b>2,348</b>						<b>2,348</b>
Delivery of treasury shares							
401(k) plans	<b>85</b>				<b>3,049</b>		<b>3,134</b>
Director compensation	<b>1</b>				<b>162</b>		<b>163</b>
Employee stock options exercised net	<b>(114)</b>				<b>1,563</b>		<b>1,449</b>
Balance at December 31, 2007	<b>\$ 544</b>	<b>\$ 44,697</b>	<b>\$ 563,608</b>		<b>\$ 4,061</b>	<b>\$ (136,842)</b>	<b>\$ 476,068</b>

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

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**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 engineered products. Headquartered in York, Pennsylvania, our manufacturing facilities are located in Spring Grove, Pennsylvania; Chillicothe and Freemont, Ohio; Gloucestershire (Lydney), England; Caerphilly, Wales, Gernsbach, Germany; Scaër, France and the Philippines. Our products are marketed throughout the United States and in over 85 other countries, either through wholesale paper merchants, brokers and agents or directly to customers.

**2. ACCOUNTING POLICIES**

**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 and 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 a method that approximates average cost.

**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. For income taxes purposes, depreciation is primarily calculated using accelerated methods over lives established by statute or U.S. Treasury Department procedures. Provision is made for deferred income taxes applicable to this difference.

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 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 for impairment on a discounted cash flow basis at least annually. Impairment losses, if any, are recognized for the amount by which the carrying value of the asset exceeds its fair value.

**Asset Retirement Obligations** In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations , as interpreted by Financial Accounting Standards Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143 ( FIN 47 ), we accrue asset retirement obligations, if any, in the period in which obligations relating to future asset retirements are incurred. 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. Asset retirement obligations with indeterminate settlement dates are not recorded until such dates can be reasonably estimated. At

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December 31, 2007, we do not have any obligations required to be accrued under FIN 47.

**Income Taxes** Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with SFAS No. 109. Under SFAS No. 109, tax expense includes US and international income taxes plus the provision for US 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 likely.

Income tax contingencies are accounted for in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 ( FIN 48 ). 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** Our subsidiaries outside the United States use their local currency as the functional currency. Accordingly, 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. We record revenue net of an allowance for customer returns and rebates.

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. Costs netted against energy sales totaled \$10.2 million, \$8.4 million and \$7.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. Our current contract to sell electricity generated in excess of our own use expires in the year 2010 and requires that the customer purchase all of our excess electricity up to a certain level. The price for the electricity is determined pursuant to a formula and varies depending upon the amount sold in any given year.

**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 consist of \$32.4 million of additional pension liability; net of tax, and \$36.5 million of gains from foreign currency translation adjustments.

**Stock-based Compensation** Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment utilizing the modified prospective method. This standard requires employee stock options and other stock-based compensation awards to be accounted for under the fair value method, and eliminates the ability to account for these

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instruments under the intrinsic value method prescribed by APB Opinion No. 25, and allowed under the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. The adoption of SFAS No. 123 (R) did not have a material effect on our consolidated results of operation or financial position no stock options were granted in 2006 and 2005.

**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** The amounts reported on the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, other assets, and short-term debt approximate fair value. The following table sets forth carrying value and fair value of long-term debt:

<i>In thousands</i>	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 312,049	\$ 301,300	\$ 394,795	\$ 398,689

### 3. RECENT PRONOUNCEMENTS

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48). The Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The cumulative effect adjustment of \$3.0 million was recognized as a reduction to retained earnings.

The following table provides a breakdown of the incremental effect of applying FIN 48 on individual line items in the consolidated balance sheet as of January 1, 2007:

<i>In thousands</i>	Before FIN 48	Effect of FIN 48	After adoption of FIN 48
Prepaid expenses and other current assets	\$ 32,517	\$ 193	\$32,710
Other current liabilities	90,482	(7,214)	83,268
Other long-term liabilities	86,031	21,690	107,721
Deferred income taxes	182,659	(11,309)	171,350
Retained earnings	519,489	(2,974)	516,515

Effective December 31, 2006 we adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment to FASB Statements No. 87, 88, 106, and 132(R), (SFAS No. 158) which requires entities to recognize the over funded or under funded status of pension plans and other post retirement benefit plans. In the year of adoption, the effect of recognizing additional liabilities is affected through a charge to accumulated other comprehensive income. Accordingly, the accompanying financial statements include an after tax charge of \$43.8 million in 2006 to adopt SFAS No. 158.

In September 2006, SFAS No. 157, *Fair Value Measurements*, was issued. SFAS No. 157, which defines fair value, establishes a framework for measurement and requires expanded disclosures about the fair value measurements, is effective for us beginning January 1, 2008. We do not expect the adoption of SFAS No. 157 to have a material impact on our consolidated financial position or results of operations.

In December 2007, SFAS No. 141(R), *Business Combinations* was issued. This statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. With respect to us, SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect SFAS No. 141(R) will have an impact on accounting for business combinations once

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adopted but the effect is dependent upon acquisitions at that time.

#### 4. ACQUISITIONS

**Metallised Products Limited** On November 30, 2007, through Glatfelter-UK Limited ( GLT-UK ), a wholly-owned subsidiary, we completed our acquisition of Metallised Products Limited ( MPL ), a privately owned company that manufactures a variety of metallized paper products for consumer and industrial applications. MPL is based in Caerphilly, Wales.

Under terms of the agreement, we agreed to purchase the stock of MPL for \$7.2 million cash and assumed \$5.8 million of debt in addition to \$1.4 million of transaction costs. The purchase price is subject to adjustments based on working capital and other factors. The acquisition was financed from our existing cash balance. This facility employs about 165 people and had 2007 revenues of approximately \$53.4 million.

The following table summarizes the preliminary allocation of the purchase price to assets acquired and liabilities assumed:

*In thousands*

**Assets acquired:**

Cash	\$730
Accounts receivable	7,685
Inventory	4,788
Property and equipment	10,036
Other assets	891
Goodwill	2,167
	26,297
Less acquisition related liabilities including accounts payable and accrued expenses	11,814
Long term debt	5,830
	17,644
Total	\$8,653

**Lydney** On March 8, 2006, we entered into a definitive agreement to acquire, through GLT-UK, certain assets and liabilities of J R Crompton Limited ( Crompton ), a global supplier of wet laid non-woven products based in Manchester, United Kingdom. On February 7, 2006, Crompton was placed into Administration, the U.K. equivalent of bankruptcy.

Effective March 13, 2006, we completed our purchase of Crompton s Lydney mill and related inventory, located in Gloucestershire, UK for \$65.0 million in cash in addition to \$4.2 million of transaction costs. The Lydney facility

employed about 240 people, produces a broad portfolio of wet laid non-woven products, including tea bags and coffee filter papers, double-sided adhesive tape substrates and battery grid pasting tissue, and had 2005 revenues of approximately \$75 million. The purchase price was financed with existing cash balances and borrowings under our credit facility.

The following table summarizes the allocation of the purchase price to assets acquired and liabilities assumed:

*In thousands*

**Assets acquired:**

Inventory	\$8,389
Property and equipment	56,885
Intangibles and other assets	9,325
	74,599
Less acquisition related liabilities	(5,374)
Total	\$69,225

**Chillicothe** On April 3, 2006, we completed our acquisition of Chillicothe, the carbonless business operations of NewPage Corporation, for \$83.3 million in cash, in addition to approximately \$5.9 million of transaction and other related costs. The Chillicothe assets consist of a paper making facility in Chillicothe, Ohio with annual production capacity approximating 400,000 tons-per-year and coating operations based in Fremont, Ohio with annual revenue of approximately \$440 million. The Chillicothe acquisition was financed with borrowings under our credit facility.

The following table summarizes the allocation of the purchase price to assets acquired and liabilities assumed:

*In thousands*

**Assets acquired:**

Accounts receivable	\$43,618
Inventory	91,580
Property and equipment	1,959
Prepaid pension and other assets	11,416
Intangibles customer relationships	6,074
	154,647
Less acquisition related liabilities including accounts payable and accrued expenses	(65,430)
Total	\$89,217

**Pro-Forma Financial Information** The information necessary to provide certain pro forma financial data for the Chillicothe acquisition relative to net income and earnings per share is not readily available due to the nature of the accounting and reporting structure of the acquired operation prior to the acquisition date. Pro forma consolidated net sales for 2006 and 2005 were approximately \$1.1 billion and \$1.0 billion, respectively, assuming the acquisition occurred at the beginning of the respective periods. For the full year 2005, on a pro forma basis, net income was \$40.9 million and diluted EPS was \$0.92.

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.

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## 5. NEENAH FACILITY SHUTDOWN

In connection with our agreement to acquire the Chillicothe operations, we committed to a plan to permanently close the Neenah, WI facility. Production at this facility ceased effective June 30, 2006 and certain products previously manufactured at the Neenah facility have been transferred to Chillicothe.

The remaining reserve as of December 31, 2006 associated with this restructuring initiative totaled \$2.8 million. During 2007, we made payments totaling \$1.7 million; thus, the remaining reserve balance was \$1.1 million at December 31, 2007.

The following table summarizes shutdown reserve activity during the year ended December 31, 2006:

<i>In thousands</i>	Beg. balance	Amount Accrued	Less non- cash charges and cash payments	Balance
<b>Non-cash charges</b>				
Accelerated depreciation	\$	\$ 22,466	\$ (22,466)	\$
Inventory write-down		2,905	(2,905)	
Pension curtailments and other retirement benefit charges		7,675	(7,675)	
<b>Total non cash charges</b>		<b>33,046</b>	<b>(33,046)</b>	
<b>Cash charges</b>				
Severance and benefit continuation		7,653	(6,026)	1,627
Contract termination costs		11,367	(11,367)	
Other		2,379	(1,229)	1,150
<b>Total cash charges</b>		<b>21,399</b>	<b>(18,622)</b>	<b>2,777</b>
<b>Total</b>	<b>\$</b>	<b>\$ 54,445</b>	<b>\$ (51,668)</b>	<b>\$2,777</b>

The Neenah shutdown resulted in the elimination of approximately 200 positions that had been supporting our Specialty Papers business unit. Approximately \$25.4 million of the Neenah shutdown related charges are recorded as part of costs of products sold in the accompanying statements of income. The amounts accrued for severance and benefit continuation are recorded as other current liabilities in the accompanying consolidated balance sheets. As part of the Neenah shutdown, we terminated our long-term steam supply contract, as provided for within the contract, resulting in a termination fee of approximately \$11.4 million as of the end of the second quarter 2006.

## 6. RESTRUCTURING CHARGES



**European Restructuring and Optimization Program ( EURO Program )** During the fourth quarter of 2005, we began to implement this restructuring program, a comprehensive series of initiatives designed to improve the performance of our Composite Fibers business unit. In 2006 and 2005, we recorded restructuring charges of \$1.2 million and \$1.6 million, respectively, associated with the related work force efficiency plans at the Gernsbach, Germany facility. This charge reflects severance, early retirement and related costs for the affected employees. Payments related to these restructuring charges will be made over a 2-3 year period.

## 7. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

During 2007, 2006 and 2005, we completed sales of timberlands. The following table summarizes these transactions.

<i>Dollars in thousands</i>	<b>Acres</b>	<b>Proceeds</b>	<b>Gain</b>
<b>2007</b>			
Timberlands	<b>37,448</b>	<b>\$ 84,409</b>	<b>\$ 78,958</b>
Other	n/a	<b>377</b>	<b>(273)</b>
Total		<b>\$ 84,786</b>	<b>\$ 78,685</b>
<b>2006</b>			
Timberlands	5,923	\$ 17,130	\$ 15,677
Other	n/a	3,941	1,717
Total		\$ 21,071	\$ 17,394
<b>2005</b>			
Timberlands	2,488	\$ 21,000	\$ 20,327
Other	n/a	1,778	1,726
Total		\$ 22,778	\$ 22,053

In connection with the asset sales set forth above we received cash proceeds with the exception of the sale of approximately 26,000 acres of timberland completed in November 2007. As consideration for the timberland sold in this transaction we received a \$43.2 million, 20-year interest-bearing note due from the buyer, Glawson Investments Corp. ( Glawson ), a Georgia corporation, and GIC Investments LLC, a Delaware limited liability company owned by Glawson. The note receivable is fully secured by a letter of credit issued by The Royal Bank of Scotland plc.

## 8. EARNINGS PER SHARE

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

<i>In thousands, except per share</i>	<b>2007</b>	2006	2005
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Net income (loss)	<b>\$63,472</b>	\$(12,236)	\$38,609
Weighted average common shares outstanding used in basic EPS	<b>45,035</b>	44,584	44,013
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	<b>387</b>		330
Weighted average common shares outstanding and common share equivalents used in diluted EPS	<b>45,422</b>	44,584	44,343
<b>Basic EPS</b>	<b>\$1.41</b>	\$(0.27)	\$0.88
<b>Diluted EPS</b>	<b>1.40</b>	(0.27)	0.87

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

<i>In thousands</i>	<b>2007</b>	2006	2005
Potential common shares	438	1,280	758

## 9. GAIN ON INSURANCE RECOVERIES

During 2006 and 2005, we reached successful resolution of certain claims under insurance policies related to the Fox River environmental matter. Insurance recoveries included in the results of operations totaled \$0.2 million and \$20.2 million in 2006 and 2005, respectively, and were received in cash.

## 10. 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.

Income taxes for 2007 include \$5.7 million of tax benefit adjustments related to the revaluation of deferred tax assets and liabilities due to tax legislation enacted in July 2007 by Germany that reduced the corporate income tax rate.

The provision for income taxes from operations consisted of the following:

<i>In thousands</i>	Year Ended December 31		
	2007	2006	2005
Current taxes			
Federal	<b>\$8,388</b>	\$1,009	\$14,881
State	<b>4,422</b>	1,013	3,145
Foreign	<b>6,397</b>	712	485
	<b>19,207</b>	2,734	18,511
Deferred taxes and other			
Federal	<b>11,766</b>	(11,903)	3,239
State	<b>2,674</b>	(2,970)	(1,905)
Foreign	<b>(3,185)</b>	2,147	1,686
	<b>11,255</b>	(12,726)	3,020
Income tax provision (benefit)	<b>\$30,462</b>	\$(9,992)	\$21,531

The amounts set forth above for total deferred taxes and other include deferred taxes of \$8.0 million, \$(12.7) million and \$3.0 million at December 31, 2007, 2006 and 2005, respectively. Other taxes totaled \$3.3 million at December 31, 2007 and related to uncertain tax positions expected to be taken in future tax filings.

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

	Year Ended December 31		
<i>In thousands</i>	2007	2006	2005
United States	\$70,051	\$(30,010)	\$55,865
Foreign	23,883	7,782	4,275
Total pretax income (loss)	\$93,934	\$(22,228)	\$60,140

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.

	Year Ended December 31		
	2007	2006	2005
Federal income tax provision at statutory rate	35.0%	(35.0)%	35.0%
State income taxes, net of federal income tax benefit	3.5	(6.7)	1.3
Foreign income tax rate differential	0.2	3.8	(0.2)
Change in statutory tax rates	(5.8)		
Tax credits	(2.8)	(8.1)	(3.1)
Provision for tax matters, net	4.0	3.8	2.2
Other	(1.7)	(2.8)	0.6
Total provision for income taxes	32.4%	(45.0)%	35.8%

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

	2007		2006	
<i>In thousands</i>	Current Asset (Liability)	Non current Asset (Liability)	Current Asset (Liability)	Non-current Asset (Liability)
Reserves	\$10,301	\$10,008	\$8,239	\$5,310
Compensation	3,369	2,819	4,460	2,199
Post-retirement benefits	1,409	16,104	1,983	20,266
Property	104	(109,858)		(112,686)
Pension	833	(98,445)	182	(88,719)
Installment sales		(25,492)		(10,701)
Inventories	366		2,453	

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Other	<b>501</b>	<b>(1,454)</b>	472	(5,293)
Tax carry forwards		<b>29,458</b>		29,459
Subtotal	<b>16,883</b>	<b>(176,860)</b>	17,789	(160,165)
Valuation allowance	<b>(3,280)</b>	<b>(12,296)</b>	(59)	(22,494)
Total	<b>\$ 13,603</b>	<b>\$ (189,156)</b>	\$ 17,730	\$ (182,659)

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

<i>In thousands</i>	Year Ended December 31	
	<b>2007</b>	2006
Prepaid expenses and other current assets	<b>\$16,982</b>	\$18,018
Other current liabilities	<b>3,379</b>	288
Deferred income taxes	<b>189,156</b>	182,659

At December 31, 2007, we had state and foreign tax net operating loss ( NOL ) carryforwards of \$103.6 million and \$2.4 million, respectively. These NOL carryforwards are available to offset future taxable income, if any. The state NOL carryforwards expire between 2008 and 2027; the foreign NOL carryforwards do not expire.

In addition, we had federal charitable contribution carryforwards of \$3.6 million, which expire in 2008 and 2011, federal foreign tax credit carryforwards of \$0.3 million, which expire in 2013, and various state tax credit carryforwards totaling \$0.4 million, which expire between 2008 and 2020.

We have established a valuation allowance of \$15.6 million against the net deferred tax assets, primarily due to the uncertainty regarding the ability to utilize state tax carryforwards and certain deferred foreign tax credits.

Tax credits and other incentives reduce tax expense in the year the credits are claimed. In 2007, we recorded tax credits of \$2.6 million related to Research and Development credits, fuels tax, and the

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electricity production tax credits. In 2006 and 2005 similar tax credits of \$1.8 million and \$1.8 million, respectively, were recorded.

At December 31, 2007 and 2006, unremitted earnings of subsidiaries outside the United States deemed to be permanently reinvested totaled \$92.5 million and \$69.9 million, respectively. Because the unremitted earnings of subsidiaries are deemed to be permanently reinvested as of December 31, 2007, no deferred tax liability has been recognized in our consolidated financial statements.

Effective January 1, 2007, we adopted FIN 48 at which time we had \$20.7 million of gross unrecognized tax benefits. If recognized, approximately \$17.0 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate. We accrue interest and penalties related to unrecognized tax benefits as income tax expense. As of January 1, 2007, we had accrued interest related to unrecognized tax benefits of \$1.0 million and we had no accrued penalty expenses associated with uncertain tax positions.

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

<i>In millions</i>	<b>2007</b>
Balance at January 1, 2007	<b>\$20.7</b>
Increases in tax positions for prior years	<b>0.3</b>
Decreases in tax positions for prior years	<b>(0.5)</b>
Increases in tax positions for current year	<b>6.1</b>
Lapse in statute of limitations	<b>(0.5)</b>
Balance at December 31, 2007	<b>\$26.1</b>

The current year increase was primarily due to tax positions taken or expected to be taken on certain state income tax returns associated with timberland sales.

The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$22.3 million at December 31, 2007.

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:

<b>Jurisdiction</b>	<b>Open Tax Year</b>	
	<b>Examination in progress</b>	<b>Examination not yet initiated</b>

United States		
Federal	2005-2006	2004 and 2007
State	2004	2003 2007
Germany <sup>(1)</sup>	2003-2006	2007
France	N/A	2006 2007
United Kingdom	N/A	2006 2007
Philippines	2004 2006	2007

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of Federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to \$0.8 million.

We recognize interest and penalties related to uncertain tax positions as income tax expense. Interest expense recognized in 2007 totaled \$1.8 million. We did not record any penalties associated with uncertain tax positions during 2007.

## 11. STOCK-BASED COMPENSATION

On April 25, 2005, shareholders approved the P. H. Glatfelter 2005 Long Term Incentive Plan ( 2005 Plan ) to authorize, among other things, the issuance of up to 1,500,000 shares of Glatfelter common stock to eligible participants. The 2005 Plan 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, 2007, 729,748 shares of common stock were available for future issuance under the 2005 Plan.

During the 2007 and 2006, we recognized stock-based compensation expense totaling \$3.8 million and \$2.3 million, respectively, inclusive of matching 401K contributions. Since the approval of the 2005 Plan we have issued to eligible participants restricted stock units and stock only stock appreciation rights.

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Information with respect to each of these forms of stock-based compensation follows:

**Restricted Stock Units ( RSU )** Awards of RSU are made under our 2005 Plan. Under terms of the awards, the RSUs vest based solely on the passage of time on a graded scale over a three, four, and five-year period. The following table summarizes RSU activity during the past three years.

<i>Units</i>	<b>2007</b>	2006	2005
Beginning balance	<b>411,154</b>	290,662	157,280
Granted	<b>127,423</b>	145,398	158,982
Forfeited	<b>(33,404)</b>	(24,906)	(25,600)
Ending balance	<b>505,173</b>	411,154	290,662
<i>In thousands</i>			
Compensation expense	<b>\$1,768</b>	\$1,107	\$919

The weighted average grant fair value per unit for awards in 2007, 2006 and 2005 was \$15.32, \$16.10 and \$13.98 respectively. As of December 31, 2007, unrecognized compensation expense for outstanding RSUs totaled \$2.8 million. The weighted average remaining period over which the expense will be recognized is 3.25 years.

**Non-Qualified Stock Options and Stock Only Stock Appreciation Rights (SOSARs)** The following tables summarize the activity with respect to non-qualified stock options and SOSARS:

	<b>2007</b>		2006		2005	
<b>Non-Qualified Options</b>	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	<b>906,210</b>	<b>\$ 14.06</b>	1,553,209	\$ 14.06	2,098,612	\$ 14.65
Granted						
Exercised	<b>(105,190)</b>	<b>13.78</b>	(560,239)	13.38	(111,542)	12.67
Canceled	<b>(100,750)</b>	<b>17.07</b>	(86,760)	17.27	(433,861)	17.30
Outstanding at end of year	<b>700,270</b>	<b>13.81</b>	906,210	14.17	1,553,209	14.06
Exercisable at end of year	<b>700,270</b>	<b>\$ 13.81</b>	906,210	\$ 14.17	1,547,422	\$ 14.07



The following table summarizes information about stock options outstanding at December 31, 2007:

Non-Qualified Options	Options Outstanding			Options Exercisable	
	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$10.78 to \$12.41	159,570	2.1	12.07	159,570	12.07
12.95 to 14.44	319,900	3.5	13.36	319,900	13.36
15.44 to 17.16	196,300	4.0	15.47	196,300	15.47
17.54 to 18.78	24,500	3.6	17.68	24,500	17.68
	700,270			700,270	

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.

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, which vest ratably over a three year period, had a grant date fair value, estimated using the Black-Scholes valuation model, of \$4.63 per right, and an aggregate value of \$2.3 million.

SOSARS	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year		\$
Granted	493,100	15.31
Exercised		
Canceled	(8,300)	15.94
Outstanding at end of year	484,800	\$ 15.30

Exercisable at end of year

## **12. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS**

We have both funded and, with respect to our international operations, unfunded noncontributory defined-benefit pension plans covering substantially all of our employees. The benefits are based, in the case of certain plans, on average salary and years of service and, in the case of other plans, on a fixed amount for each year of service.

U.S. Plan provisions and funding meet the requirements of the Employee Retirement

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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 retired employees. 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 not funded and claims are paid as reported.

<i>In millions</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
<b>Change in Benefit Obligation</b>				
Balance at beginning of year	\$ 378.7	\$ 316.3	\$57.9	\$48.3
Service cost	9.6	6.0	2.0	1.7
Interest cost	21.8	20.1	3.0	3.0
Plan amendments	(6.4)	5.4	(1.2)	
Actuarial (gain)/loss	(7.1)	(13.6)	(1.7)	(1.6)
Chillicothe acquisition		66.2		11.2
Benefits paid	(23.3)	(21.7)	(4.7)	(4.7)
Balance at end of year	\$ 373.3	\$ 378.7	\$55.3	\$57.9
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year	\$ 579.0	\$ 471.6	\$10.5	\$
Actual return on plan assets	45.6	58.7	0.8	
Employer contributions	2.3	(10.0)	3.3	15.2
Chillicothe acquisition		80.4		
Benefits paid	(23.3)	(21.7)	(4.7)	(4.7)
Fair value of plan assets at end of year	603.6	579.0	9.9	10.5
Funded status at end of year	\$ 230.3	\$ 200.3	\$(45.4)	\$(47.4)

The net prepaid pension cost for qualified pension plans is primarily included in Other 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, 2007 and 2006. The amounts set forth for Employer contributions for 2006 reflect a \$12.2 million transfer from the qualified pension plan assets to a post-retirement medical plan sub-account pursuant to Section 420 of the Internal Revenue Code. Such amounts are to be used to satisfy certain post-retirement health care expenses.

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

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<i>In millions</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Other assets	\$ 259.4	\$ 230.4	\$	\$
Other long-term liabilities	(29.1)	(30.1)	(45.4)	(47.4)
Net amount recognized	\$ 230.3	\$ 200.3	\$(45.4)	\$(47.4)

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

<i>In millions</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Prior service cost/(credit)	\$ 12.4	\$ 20.2	\$(7.8)	\$(5.7)
Net actuarial loss	29.7	37.5	18.3	19.2

The accumulated benefit obligation for all defined benefit pension plans was \$355.5 million and \$366.7 million at December 31, 2007 and 2006, respectively.

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

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate benefit obligation	6.25%	5.75%	6.25%	5.75%
Future compensation growth rate	4.0	4.0	4.0	

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

<i>In millions</i>	2007	2006
Projected benefit obligation	\$ 29.3	\$ 30.2
Accumulated benefit obligation	27.8	28.4
Fair value of plan assets		

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

<i>In millions</i>	Year Ended December 31		
	2007	2006	2005
<b>Pension Benefits</b>			
Service cost	\$9.6	\$6.0	\$3.7
Interest cost	21.8	20.1	16.3
Expected return on plan assets	(47.5)	(44.9)	(39.4)
Amortization of prior service cost	2.4	1.8	2.3
Amortization of actuarial loss	0.8		0.5
Net periodic benefit income	(12.9)	(17.0)	(16.6)
Special termination benefits		4.4	
Total net periodic benefit income	\$(12.9)	\$(12.6)	\$(16.6)
<b>Other Benefits</b>			
Service cost	\$2.0	\$1.7	\$1.1
Interest cost	3.0	3.0	2.7
Expected return on plan assets	(0.9)		
Amortization of prior service cost	(1.0)	(0.7)	(0.7)
Amortization of actuarial loss	1.0	1.3	1.3
Net periodic benefit cost	4.1	5.3	4.4
Special termination benefits		3.3	
Total net periodic benefit cost	\$4.1	\$8.6	\$4.4

The estimated net 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 \$1.7 million and \$0.3 million, respectively.

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

	Year Ended December 31		
	2007	2006	2005

**Pension Benefits**

Discount rate benefit expense	<b>5.75%</b>	5.5%	5.75%
Future compensation growth rate	<b>4.0</b>	4.0	4.0
Expected long-term rate of return on plan assets	<b>8.5</b>	8.5	8.5

**Other Benefits**

Discount rate benefit expense	<b>5.75%</b>	5.5%	5.75%
Expected long-term rate of return on plan assets	<b>8.5</b>		

To develop the expected long-term rate of return assumption, we considered the historical returns and

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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 at December 31 were as follows:

	<b>2007</b>	<b>2006</b>
Health care cost trend rate assumed for next year	<b>9.5%</b>	10.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	<b>5.0</b>	5.0
Year that the rate reaches the ultimate rate	<b>2015</b>	2013

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:

<i>In millions</i>	<b>One Percentage Point</b>	
	<b>increase</b>	<b>decrease</b>
Effect on:		
Post-retirement benefit obligation	\$ 3.3	\$ (3.6)
Total of service and interest cost components	0.4	(0.4)

**Plan Assets** Glatfelter's pension plan weighted-average allocations at December 31, 2007 and 2006, by asset category, are as follows:

	<b>2007</b>	2006
<b>Asset Category</b>		
Equity securities	<b>72%</b>	71%
Cash and fixed income	<b>28</b>	29
Total	<b>100%</b>	100%

Our objective is to achieve an above-market rate of return on our pension plan assets. Based upon this objective, along with the timing of benefit payments and the risks associated with various asset classes available for investment, we have established the following asset allocation guidelines:

	Minimum	Target	Maximum
Equity	60%	70%	80%
Fixed Income & Other	20	30	40

Real estate can be between 0% and 5% of the target equity allocation. Glatfelter stock can also be between 0% and 5% of the target equity allocation, although there were no holdings of Glatfelter stock as of December 31, 2007 or 2006. Our investment policy prohibits the investment in certain securities without the approval of the Finance Committee of the Board of Directors. Regarding Fixed Income securities, the weighted-average credit quality will be at least AA with a BBB minimum credit quality for each issue.

**Cash Flow** We do not expect to make contributions to our qualified pension plans in 2008. Contributions expected to be made in 2008 under our non-qualified pension plans and other benefit plans are summarized below:

*In thousands*

Nonqualified pension plans	<b>\$ 2,189</b>
Other benefit plans	<b>3,807</b>

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>In thousands</i>	Pension Benefits	Other Benefits
2008	\$27,985	\$5,429
2009	27,722	5,441
2010	27,145	5,471
2011	27,280	5,580
2012	27,135	5,493
2013 through 2017	137,969	26,843

**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 \$1.5 million, \$1.2 million and \$0.6 million in 2007, 2006 and 2005, respectively.

### 13. INVENTORIES

Inventories, net of reserves were as follows:



<i>In thousands</i>	<b>2007</b>	2006
Raw materials	<b>\$41,119</b>	\$38,539
In-process and finished	<b>102,219</b>	107,811
Supplies	<b>49,704</b>	45,931
Total	<b>\$193,042</b>	\$192,281

If we had valued all inventories using the average-cost method, inventories would have been \$12.9 million and \$13.3 million higher than reported at December 31, 2007 and 2006, respectively. During 2007 and 2005 we liquidated certain LIFO inventories, the effect of which did not have a significant impact on results of operations.

#### **14. PLANT, EQUIPMENT AND TIMBERLANDS**

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

<i>In thousands</i>	<b>2007</b>	2006
Land and buildings	<b>\$136,875</b>	\$135,836
Machinery and equipment	<b>960,133</b>	911,964
Other	<b>90,448</b>	86,606
Accumulated depreciation	<b>(680,804)</b>	(617,444)
	<b>506,652</b>	516,962
Construction in progress	<b>11,607</b>	9,759
Timberlands, less depletion	<b>1,607</b>	2,146
Total	<b>\$519,866</b>	\$528,867

**15. 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 assets" in the accompanying Consolidated Balance Sheets:

<i>In thousands</i>	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Goodwill - Composite Fibers	<b>\$18,520</b>	\$15,198
Specialty Papers		
Customer relationships	<b>\$6,155</b>	\$5,958
Composite Fibers		
Technology and related	<b>5,409</b>	4,659
Customer relationships	<b>401</b>	346
Total intangibles	<b>11,965</b>	10,963
Accumulated amortization	<b>(1,032)</b>	(638)
Net intangibles	<b>\$10,933</b>	\$10,325

<i>In thousands</i>	<b>2007</b>	2006
Aggregate amortization expense:		
2007	<b>\$1,032</b>	\$638
Estimated amortization expense:		
2008	<b>1,032</b>	
2009	<b>1,032</b>	
2010	<b>1,032</b>	
2011	<b>1,032</b>	
2012	<b>1,032</b>	

In connection with the acquisition of MPL, we recorded \$2.2 million of goodwill. The balance of the increase in goodwill was due to foreign currency translation adjustments. The remaining weighted average useful life of intangible assets was 10 years at December 31, 2007.

**16. OTHER ASSETS**

Other assets consist of the following:

<i>In thousands</i>	<b>December 31</b>	
	<b>2007</b>	2006
Pension	<b>\$259,445</b>	\$230,400
Installment notes receivable	<b>81,020</b>	37,850
Goodwill and intangibles	<b>29,453</b>	25,523
Other	<b>23,871</b>	27,965
 Total	 <b>\$393,789</b>	 \$321,738

## 17. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

<i>In thousands</i>	<b>December 31</b>	
	<b>2007</b>	2006
Accrued payroll and benefits	<b>\$37,210</b>	\$34,790
Other accrued compensation and retirement benefits	<b>5,963</b>	8,752
Income taxes payable	<b>10,195</b>	602
Accrued rebates	<b>19,707</b>	17,849
Other accrued expenses	<b>28,041</b>	28,489
 Total	 <b>\$101,116</b>	 \$90,482

## 18. LONG-TERM DEBT

Long-term debt is summarized as follows:

<i>In thousands</i>	<b>December 31</b>	
	<b>2007</b>	2006
Revolving credit facility, due April 2011	<b>\$35,049</b>	\$64,795
Term Loan, due April 2011	<b>43,000</b>	96,000
7 1/8% Notes, due May 2016	<b>200,000</b>	200,000
Note payable due March 2013	<b>34,000</b>	34,000
 Total long-term debt	 <b>312,049</b>	 394,795
Less current portion	<b>(11,008)</b>	(19,500)

Long-term debt, excluding current portion	<b>\$301,041</b>	\$375,295
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On April 3, 2006, we, along with certain of our subsidiaries as borrowers and certain of our subsidiaries as guarantors, entered into a credit agreement with certain financial institutions. Pursuant to the credit agreement, we may borrow, repay and reborrow revolving credit loans in an aggregate principal amount not to exceed \$200 million outstanding at any time. All borrowings under our credit facility are unsecured. The revolving credit commitment expires on April 2, 2011.

In addition, on April 3, 2006, pursuant to the credit agreement, we received a term loan in the principal amount of \$100 million. Quarterly repayments of principal outstanding under the term loan begin on March 31, 2007 with the final principal payment due on April 2, 2011.

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

We have the right to prepay the term loan and revolving credit borrowings in whole or in part without premium or penalty, subject to timing conditions related to the interest rate option chosen. If certain prepayment events occur, such as a sale of assets or the incurrence of additional indebtedness in excess of \$30.0 million in the aggregate, we must repay a specified portion of the term loan within five days of the prepayment event.

The credit agreement contains a number of customary covenants for financings of this type that, among other things, restrict our ability to dispose of or create liens on assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial tests and ratios, each as defined in the credit

agreement, including a consolidated minimum net worth test and a maximum debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio. A breach of these requirements, of which there were none at December 31, 2007, would give rise to certain remedies under the credit agreement, among which are the termination of the agreement and acceleration of the outstanding borrowings plus accrued and unpaid interest under the credit facility.

This new credit facility replaced our prior credit facility which would have matured in June 2006. A portion of the proceeds from the new credit facility were used to finance the Chillicothe acquisition.

On April 28, 2006, we completed an offering of \$200.0 million aggregate principal amount of our 7 1/8% Senior Notes due 2016. Net proceeds from this offering totaled approximately \$196.4 million, after deducting the commissions and other fees and expenses relating to the offering and were primarily to redeem \$150.0 million aggregate principal amount of our then outstanding 6 7/8% notes due July 2007, plus the payment of applicable redemption premium and accrued interest.

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

Prior to May 1, 2011, we may redeem all, but not less than all, of the notes at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, plus a make-whole premium. On or after May 1, 2011, we may redeem some or all of the notes at specified redemption prices. In addition, prior to May 1, 2009, we may redeem up to 35% of the aggregate principal amount of the notes using the net proceeds from certain equity offerings.

The 7 1/8% Senior Note agreement contains a cross-default clause that provides if there were to be an event of default under the credit agreement discussed earlier, we would also be in default under the 7 1/8% Senior Notes.

On March 21, 2003, we sold approximately 25,500 acres of timberlands and received as consideration a \$37.9 million 10-year interest bearing note receivable from the timberland buyer. The note receivable is recorded as Other assets in the accompanying consolidated balance sheet. We pledged this note as collateral under a \$34.0 million promissory note payable to SunTrust Financial (the Note Payable ). The Note Payable bears interest at a fixed rate of 3.82% and was scheduled to mature in March 2008. In February 2008, we amended the Note Payable to extend its maturity until March 26, 2013. In addition, the amendment provides that, beginning on March 26, 2008, the Note Payable will bear a fixed rate of interest to be based on the three month LIBOR plus 0.50% as of March 24, 2008.

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

*In thousands*

2008	\$11,008
2009	13,759
2010	13,759
2011	39,523
2012	
Thereafter	234,000

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

At December 31, 2007 and 2006, we had \$14.1 million and \$8.1 million, respectively, of letters of credit issued to us by a financial institution. Such letters of credit reduce amounts available under our revolving credit facility. The letters of credit provide financial assurances for i) commitments made related to the Fox River environmental matter, ii) for the benefit of certain state workers compensation insurance agencies in conjunction with our self-insurance program, and iii) assurance related to the purchase of certain utilities for our manufacturing facilities. We bear the credit risk on this amount to the extent that we do not comply with the provisions of certain agreements. As of December 31, 2007, no amounts were outstanding under the letters of credit.

In January 2008, we entered into a \$36.7 million term loan agreement (the 2008 Term Loan ) with SunTrust. The 2008 Term Loan matures in five years, bears interest at a six-month reserve adjusted LIBOR plus a margin rate of 1.20% per annum and is secured by, among other assets, a \$43.2 million note received from the buyers of certain timberland sold in November 2007. For a more complete description of the 2008 Term Loan, refer to Note 24.

## 19. SHAREHOLDERS EQUITY

The following table summarizes outstanding shares of common stock:

<i>In thousands</i>	<b>2007</b>	Year Ended December 31,	
		2006	2005
Shares outstanding at beginning of year	<b>44,821</b>	44,132	43,950
Treasury shares issued for:			
Restricted stock performance awards		14	
401(k) plan	<b>206</b>	108	62
Director compensation	<b>11</b>	7	9
Employee stock options exercised	<b>105</b>	560	111
Shares outstanding at end of year	<b>45,143</b>	44,821	44,132

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

<i>In thousands</i>	<b>Leases</b>	<b>Other</b>
2008	<b>\$3,044</b>	\$86,011
2009	<b>2,372</b>	16,541
2010	<b>1,723</b>	
2011	<b>1,187</b>	
2012	<b>868</b>	
Thereafter	<b>7,464</b>	

At December 31, 2007, required minimum annual payments due under operating leases and other similar contractual obligations aggregated \$16.7 million and \$102.6 million, respectively.

**Contingencies*****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. As part of the 1979 acquisition of the Bergstrom Paper Company we acquired a facility located at this site (the Neenah Facility ). In part, the Neenah Facility used wastepaper as a source of fiber. At no time did the Neenah Facility utilize PCBs in the pulp and paper making process, but discharges to the lower Fox River from the facility which may have contained PCBs from wastepaper may have occurred from 1954 to the late 1970s. Any PCBs that the Neenah Facility discharged into the lower Fox River resulted from the presence of PCBs in NCR<sup>®</sup>-brand carbonless copy paper in the wastepaper that was received from others and recycled. We closed the Neenah Facility in June 2006.

As discussed below, various state and federal governmental agencies have formally notified nine potentially responsible parties ( PRPs ), including us, that they are potentially responsible for response costs and natural resource damages ( NRDs ) arising from PCB contamination at the Lower Fox River and Green Bay Superfund Site, Green Bay, Wisconsin ( Site ) under the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ) and other statutes. The other identified PRPs are NCR Corporation, Appleton Paper Inc., Georgia Pacific Corp. (formerly Fort Howard Corp. and Fort James Operating Company), WTM I Company ( WTM I , a subsidiary of Chesapeake Corp.), Riverside Paper Corporation, U.S. Paper Mills Corp. (a subsidiary of Sonoco Products Company), Sonoco Products Company, Menasha Corporation, and the U.S. Army Corps of Engineers.

The United States, on behalf of certain governmental authorities, is pursuing responsible parties to remediate the contaminated areas of the Site, to satisfy Natural Resource Damage claims, and to reimburse the governmental authorities for past costs. The areas of the lower Fox River and in the Bay of Green Bay in which PCB contamination exists are commonly referred to as Operable Unit 1 ( OU1 ), which consists of Little Lake Butte des Morts, the portion

of the river that is closest to the Neenah Facility, Operable Unit 2 ( OU2 ), which is the portion of the river between dams at Appleton and Little Rapids, and Operable Units 3 through 5 ( OU3-5 ), an area approximately 20 miles downstream from the Neenah Facility.

CERCLA establishes a two-part liability structure that makes responsible parties liable for (1) response costs or response actions associated with the remediation of a release of hazardous substances and (2) NRDs related to that release. Courts have interpreted CERCLA to impose strict, joint and several liability on responsible parties for response costs, subject to equitable allocation in certain instances. Prior to a final settlement by all responsible parties and the final cleanup of the contamination, uncertainty regarding the application of that liability will persist.

The following table summarizes the potential range of costs to satisfy total claims associated with the Fox River matter based on the best available estimates. Such amounts are not necessarily indicative of our share of responsibility:

<i>In millions</i>	<b>Low</b>	<b>High</b>
OU1	<b>\$93</b>	\$137
OU2 OU5	<b>270</b>	499
Natural Resource Damages (NRD)	<b>76</b>	333

OU1 is currently the only area of the Site in which we, together with WTM I, are conducting remediation activities. With respect to OU1, the high end of the range set forth above assumes dredging of contamination as opposed to the use of alternative remedies. As discussed below, the revised final plan provides for the use of an alternative remedial approach rather than dredging as originally proposed and approved by the United States. Based on discussions to date, we believe dredging the entire OU1 is remote. To date, approximately \$63 million of



escrowed funds have been spent on OU1 remediation. The range of costs set forth above for OU2-5 is based on the United States' estimated cost of \$390 million as set forth in the amended ROD issued in June 2007 plus or minus a 30% contingency factor. However, independent estimates of the cost to complete the remediation of OU2-5 provided to us by other parties indicate the costs likely to be incurred to remediate this portion of the Site could total amounts significantly greater than the United States' estimate. The range of NRD is based on recently obtained information that indicated \$76 million represents the best estimate of NRDs.

### Reserves for Fox River Environmental Liabilities

We have reserves for existing environmental liabilities and for those environmental matters for which it is probable that a claim will be made and for which the amount of the obligation is reasonably estimable. The following table summarizes information with respect to such reserves.

<i>In millions</i>	<b>December 31</b>	
	<b>2007</b>	2006
<i>Recorded as:</i>		
Environmental liabilities	<b>\$7.0</b>	\$5.5
Other long-term liabilities	<b>20.0</b>	2.2
 Total	 <b>\$27.0</b>	 \$7.7

With respect to the amounts set forth above, the caption "environmental liabilities" on the consolidated balance sheet represents the current portion of our reserves. Such classification is based on our best estimate as to when the liability is expected to require the use of funds to settle the underlying obligation. As discussed later in this disclosure, during 2007, we recorded additional charges of \$26.0 million associated with the Fox River matter in our results of operations.

The following summarizes the status of our potential exposure:

### *Response Actions and Recent Activities*

**OU1 and OU2** On January 7, 2003, the Wisconsin Department of Natural Resources (the "Wisconsin DNR") and the Environmental Protection Agency ("EPA") issued a Record of Decision ("ROD") for the cleanup of OU1 and OU2. Subject to extenuating circumstances and alternative solutions provided for in the ROD, the ROD requires the removal of approximately 784,000 cubic yards of sediment from OU1 and no active remediation of OU2. The ROD also requires the long term monitoring of the two operable units. On July 1, 2003, WTM I Company entered into an Administrative Order on Consent ("AOC") with EPA and the Wisconsin DNR regarding the implementation of the Remedial Design for OU1.

In the first quarter of 2004, the United States District Court for the Eastern District of Wisconsin approved a consent decree regarding OU1 (the "OU1 Consent Decree"). Under terms of the OU1 Consent Decree, we and WTM I each agreed to pay approximately \$27 million, of which \$25 million from each was placed in escrow to fund response work at OU-1 (OU-1 Escrow Account). The remaining amount that the parties agreed to pay under the Consent Decree includes payments for NRD and NRD assessment and other past costs incurred by the governments. In addition, the

EPA agreed to contribute \$10 million from another settlement to the OU1 Escrow Account for the OU1 cleanup. As a result of these contributions, the total amount of funds initially available for remediation of OU1 totaled \$60 million.

The terms of the OU1 Consent Decree restrict the use of the escrowed funds to qualifying remediation activities or restoration activities at the lower Fox River site. The response work is being performed by us and WTM I, with governmental oversight, and funded by the funds placed in the OU1 Escrow Account. Beginning in mid 2004, we and WTM I have performed activities to remediate OU1, including, among others, construction of de-watering and water-treatment facilities, dredging of portions of OU1, dewatering of the dredged materials, and hauling of the dewatered sediment to an authorized disposal facility.

The terms of the OU1 Consent Decree include provisions to be followed should the OU1 Escrow Account be depleted prior to completion of the response work. In this event, each settling company would be notified and be provided an opportunity to contribute additional funds to the OU1 Escrow Account. Should the OU1 Consent Decree be terminated due to insufficient funds, each settling company would lose the protections contained in the OU1 Consent Decree, and the governments may order one or both parties to complete the required remedial activities for OU-1. The governments may issue a similar order to a third party or perform the work themselves and seek response costs from any or all PRPs for the site, including us. If the OU1 Consent Decree is terminated due to the insufficiency of the escrow funds, we and WTM I would each remain potentially responsible for the costs necessary to complete the remedial action.

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Since the start of these activities in the third quarter of 2004, approximately 320,000 cubic yards of contaminated sediment has been dredged.

**Recent activity** In late 2006, Glatfelter and WTM I jointly submitted a proposed Final Plan for the completion of the remediation of OU1 (the Final Plan ) to Wisconsin DNR and EPA. The Final Plan proposed the use of engineered capping of certain areas of the Site as opposed to dredging sediment. Throughout 2007, we and WTM I engaged in discussions with the government agencies concerning the Final Plan. In the first quarter of 2007, after reviewing more refined cost estimates for the OU1 remediation and our projected estimates of the funds that would be available in the OU1 Escrow Account to implement the Final Plan, we revised our cost estimates to implement the Final Plan (including work already performed). As a result of the revised cost estimate to complete the remedy of OU1, we increased our reserve in the first quarter of 2007 by \$6.0 million. Further, we and WTM I agreed to address a potential shortfall in the OU1 Escrow Account by executing a supplement to the OU1 Consent Decree which provided that we each would pay an additional \$6.0 million into the OU1 Escrow Account.

Subsequently, and as discussed below in June 2007 the agencies issued an amended ROD for operable units (or OUs) 2-5 which included the use of alternative remedies similar to, but more extensive than, those in the proposed Final Plan. In addition, during the third quarter of 2007 the agencies informed us that they would require capping or dredging in large portions of OU1 that we and WTM1 had proposed in the Final Plan not to remediate due to the relatively low levels of contamination. As a result, we and WTM 1, in the fourth quarter of 2007, submitted a proposed revised Final Plan to the agencies that was consistent with the agencies' new requirements (Revised Final Plan). The estimated cost to implement the Revised Final Plan is higher than that estimated to implement the Final Plan.

In the fourth quarter of 2007, EPA and WDNR proposed to amend the OU1 ROD to adopt the Revised Final Plan. The agencies estimated the cost to implement the Revised Final Plan to be between \$90 and \$110 million. While the parties have proceeded as if this amendment will be approved and EPA has initiated the amendment process, EPA has not yet issued an amended OU1 ROD.

In October 2007, we and WTM I reached an agreement with another PRP, Menasha Corporation ( Menasha ) which requires Menasha to deposit \$7 million to the OU1 Escrow Account to secure performance of the remediation work in OU1 that is currently planned for 2008 (the PRP's Funds ). We have agreed with Menasha and WTM I to provide the funds required to complete OU-1 on an interim basis, and there is no agreement that the amounts individually paid by each party either equal or exceed that party's fair or allocable share of those costs. That agreement was memorialized in a Second Agreed Supplement to the OU1 Consent Decree, filed in November 2007. However, claims between us and WTM may be barred by statute and the OU1 Consent Decree, so any adjustment to our and WTM I's relative allocable shares would have to come through differential recoveries from other parties who have not paid their fair or allocable share of the OU1 costs.

The United States and the State of Wisconsin have also demanded that we and WTM enter into an amended OU1 Consent Decree that commits us to complete the OU1 remedy without a budget limitation. We are engaged in discussions with the United States and the State of Wisconsin regarding their demand, but have not yet reached an agreement with regard to completing the OU1 remediation.

Also in the third quarter 2007, we conducted a pilot project to validate certain aspects of the Final Plan, including evaluating the engineered capping and covering of contaminated areas in OU1. The aggregate impact of the revised cost estimates to implement the Revised Final Plan, the agreement with Menasha for additional funding and the estimated cost impact of other developments discussed above regarding the site, are reflected in the additional \$20 million charge taken in the third quarter of 2007.

Based on information currently available to us, subject to i) government approval of the Revised Final Plan; ii) the successful negotiation of acceptable and cost effective contracts to complete the proposed OU1 remediation activities; and iii) efficient implementation of the engineered cap and cover in designated areas of OU1 by our remediation contractor, we believe the required OU1 remedial actions can be completed for amounts reserved as of December 31, 2007 together with earnings on the funds currently on deposit in the escrow account and other assets available.

**OUs 3 5** In July 2003, the EPA and the Wisconsin DNR issued a ROD (the OU3-5 ROD ) for the cleanup of OU3 5. The OU3-5 ROD calls for the removal of 6.5 million cubic yards of sediment and certain monitoring at an estimated cost of \$324.4 million but could, according to the OU3-5 ROD, cost within a range from approximately \$227.0 million to \$486.6 million. The most significant

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component of the estimated costs is attributable to large-scale sediment removal by dredging.

In 2004, NCR Corp. and Georgia Pacific Corp. entered into an agreement with the United States EPA under which they agreed to perform the Remedial Design for OU 3-5. After gathering samples to perform the Remedial Design for OU 3-5, elevated concentrations of PCBs were identified in sediments along the west bank of OU4, just downstream of the DePere Dam in Brown County, Wisconsin. Subsequently, in 2006, the United States filed a proposed Consent Decree with the U.S. District Court for the Eastern District of Wisconsin, which the court subsequently entered and under which NCR Corp. and Sonoco-U.S. Mills agreed to perform certain response actions regarding these sediments, on an expedited basis. During 2007, NCR Corp and Sonoco-U.S. Mills commenced this work.

**Recent Activity** In February 2007, we, along with the eight other PRPs identified above, received a General Notice Letter from the EPA requesting that each PRP advise the EPA of their willingness to discuss their liability for the costs to remediate OU2-5 (the governments now having demanded a small amount of cleanup in the downstream end of OU2) and to provide a good faith offer to settle by April 1, 2007. Since the receipt of this letter, the PRPs have engaged in discussions to explore a potential settlement of the asserted claims. In an attempt to resolve their disputes concerning allocation of liability, we, together with the other PRPs who received the General Notice Letter, have agreed to participate in non-binding mediation. The mediation, so far, has not resulted in any agreement as to allocation but is continuing. We do not know at this time whether an agreement will be reached between the governments and any PRPs to complete the remediation of OU2-5.

In June 2007, the EPA and the Wisconsin DNR issued an amended ROD covering Operable Units 2-5 (the Amended OU2-5 ROD ) that primarily, among other matters, expanded the Remedial Design provided for under the original OU3-5 ROD to include the use of engineered caps as an alternative to dredging. The Amended OU3-5 ROD estimates the total projected costs to be approximately \$385 million.

In the fourth quarter of 2007, EPA issued a unilateral administrative order ( UAO ) to us and to seven other respondents: Appleton Papers, Inc., CBC Coating, Inc. (a party related to Riverside Paper Corporation), Georgia-Pacific Consumer Products, LP, Menasha Corporation, U.S. Paper Mills Corp., and WTM I Company. That UAO required parties other than us to take certain actions now to prepare for full-scale dredging of OU3-5, and then requires all parties, beginning in August 2008, to begin to implement the Amended OU2-5 ROD.

**Natural Resource Damages** Neither the ROD nor the OU3-5 ROD place any value on claims for NRDs associated with this matter. As noted above, NRD claims are distinct from costs related to the primary remediation of a Superfund site. Calculating the value of NRD claims is difficult, especially in the absence of a completed remedy for the underlying contamination. The State of Wisconsin, the United States Fish and Wildlife Service ( FWS ), the National Oceanic and Atmospheric Administration ( NOAA ), four Indian tribes and the Michigan Attorney General have asserted that they possess NRD claims related to the lower Fox River and the Bay of Green Bay.

In September 1994, FWS notified the then-identified PRPs that it considered them potentially responsible for NRDs. The federal, tribal and Michigan agencies claiming to be NRD trustees have proceeded with the preparation of an NRD assessment. While the final assessment has yet to be completed, the federal trustees released a plan on October 25, 2000 that values NRDs for injured natural resources that allegedly fall under their trusteeship at between \$176 million and \$333 million. We believe that the federal NRD assessment is technically and procedurally flawed. We also believe that the NRD claims alleged by the various alleged trustees are legally and factually without merit.

The OU1 Consent Decree required that Glatfelter and WTM I each pay the governments \$1.5 million for NRDs for the Fox River site, and \$150,000 for NRD assessment costs. Each of these payments was made in return for credit to be applied toward each settling company's potential liability for NRDs associated with the Fox River site.

**Litigation Activity** In response to the issuance of the UAO in the fourth quarter of 2007, we filed a motion for a case management order in the pending proceeding, *United States v. P.H. Glatfelter Co.*, No. 2:03-cv-949-LA, in which the OUI Consent Decree has been entered. That motion observed that, in light of the United States' issuance of the UAO, the OUI Consent Decree does not resolve some of the claims asserted by the United States and the State of Wisconsin in that law suit. Accordingly, that motion sought an order establishing a procedure for litigating those claims, and through which we could assert our defenses. The United States and the State of Wisconsin opposed that motion. On February 13, 2008, the Court issued an Order denying our motion having concluded that the United States' complaint and the

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associated OU1 Consent Decree referred only to cleanup activities at OU1 and not the entire Site. We disagree and are currently evaluating whether to appeal the Court's denial of our motion.

During the first quarter of 2008, Appleton Papers, Inc., and NCR Corporation terminated their tolling and forbearance agreements with all other PRPs, and commenced a lawsuit against George A. Whiting Paper Company ( Whiting ). Their lawsuit against Whiting seeks allocation of all costs of response incurred associated with lower Fox River contamination. At the same time, Appleton Papers, Inc., and NCR Corporation sought and obtained leave to add additional parties following the termination of existing agreements with certain PRPs which prohibited NCR from commencing litigation against those PRPs. During the first quarter of 2008, NCR joined us and Menasha in the Whiting lawsuit. We are currently reviewing the complaint in Whiting lawsuit and intend to defend the lawsuit.

**Reserves for the Fox River Site** At December 31, 2007, the OU1 Escrow Account balance totaled \$1.9 million none of which was allocable to our portion. In addition to the Escrow Account balance, as discussed above, Menasha has agreed to contribute \$7 million to the Escrow Account and we and WTM I each will provide an additional \$6 million towards OU1 remediation in 2008. Our committed share is recorded in the accompanying Consolidated Balance Sheet under the caption Environmental liabilities.

As a result of the recent developments concerning the Fox River including: (i) our revised cost estimates for the Revised Final Plan; (ii) developments in the ongoing PRP mediation and discussions with other PRPs; and (iii) the then anticipated issuance of the UAO by the United States; we recorded an additional charge of \$20 million in the third quarter 2007 to satisfy both our obligations at OU1 and all pending, threatened or asserted and unasserted claims against us for the Fox River including our claimed liability for the remediation of OU3-5. This additional charge represents our current assessment of the ultimate costs to be incurred by us associated with the Revised Final Plan and any settlement of liability for NRDs and for remediation of OU 3-5. As of December 31, 2007, our reserve for the Fox River environmental liability totaled \$27.0 million. Our reserve includes amounts originally established in 2003 and adjustments in the first and third quarter of 2007 increasing the liability by \$26 million offset by expenditures related to remediation activities.

We believe that we have strong defenses to liability for remediation of OU2-5 including the existence of ample credible data that indicates that PCBs did not leave OU1 in concentrations that could have caused or contributed to the need for cleanup in OU2-5. Others, including the EPA and other PRPs, disagree with us and, as a result, the EPA has issued a UAO to us and to others to perform the OU2-5 work, NCR and Appleton Papers have commenced the Whiting litigation and have joined us and other litigation associated with the remediation of the Site is likely. Even if we are not successful in establishing that we are not liable for the remediation of OU2-5, we do not believe that we would be allocated a significant percentage share of liability in any equitable allocation of the remediation costs and other potential damages associated with OU2-5. The accompanying consolidated financial statements do not include reserves for any future litigation or defense costs for the Fox River, and because litigation has commenced, the costs to do so could be significant.

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

**Other Information** The Wisconsin DNR and FWS have each published studies, the latter in draft form, estimating the amount of PCBs discharged by each identified PRP to the lower Fox River and the Bay of Green Bay. These reports estimate the Neenah Facility's share of the volumetric discharge to be as high as 27%. We do not believe the volumetric estimates used in these studies are accurate because (a) the studies themselves disclose that they are not

accurate and (b) the volumetric estimates contained in the studies are based on assumptions that are unsupported by existing evidence. We believe that our volumetric contribution is significantly lower than the estimates set forth in these studies. Further, we do not believe that a volumetric allocation would constitute an equitable allocation of the potential liability for the contamination. Other factors, such as the location of contamination, the location of discharge, and a party's role in causing discharge, must be considered in order for the allocation to be equitable.

We previously entered into interim cost-sharing agreements with four of the other PRPs, which provided for those PRPs to share certain costs relating to scientific studies of PCBs discharged at the Site

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( Interim Cost Sharing Agreements ). These interim cost-sharing agreements do not establish the final allocation of remediation costs incurred at the Site. Based upon our evaluation of the volume, nature and location of the various discharges of PCBs at the Site and the relationship of those discharges to identified contamination, we believe our allocable share of liability at the Site is less than our share of costs under the Interim Cost Sharing Agreements.

We also believe that there exist additional potentially responsible parties other than the nine PRPs who were issued the General Notice Letter for OU2-5. For instance, certain of the identified PRPs discharged their wastewater through public wastewater treatment facilities, which we believe makes the owners of such facilities potentially responsible in this matter. We also believe that entities providing PCB-containing wastepaper to each of the recycling mills are also potentially responsible in this matter.

While the OU1 Consent Decree, as amended, provides a negotiated framework for resolving both our and WTM I s liability for the remediation of OU1, it may not completely resolve our exposure at the Site. We note that EPA has issued a UAO to us calling for further work, and Appleton Papers and NCR have commenced the Whiting litigation that may become more complicated and involve additional parties. We cannot predict the magnitude or outcome of the Whiting litigation or any other litigation related to this matter.

**Range of Reasonably Possible Outcomes** Our analysis of the range of reasonably possible outcomes is derived from all available information, including but not limited to official documents such as RODs, discussions with the United States and other PRPs, as well as legal counsel and engineering consultants. Based on our analysis of currently available information and experience regarding the cleanup of hazardous substances, we believe that it is reasonably possible that our costs associated with the Fox River matter discussed herein may exceed the amount of charges taken by amounts that may prove to be insignificant or that could range, in the aggregate, up to approximately \$195 million, over a period that is undeterminable but that could range beyond 15 years. We believe that the likelihood of an outcome in the upper end of the monetary range is significantly less than other possible outcomes within the range and that the possibility of an outcome in excess of the upper end of the monetary range is remote.

In our estimate of the upper end of the range of reasonably possible outcomes for the Site, we have considered: (i) the remedial actions agreed upon to date under the OU1 Consent Decree; and (ii) the requirements of the Amended OU2-5 ROD. We have also assumed successful implementation of the Amended OU2-5 ROD, although at a significantly higher cost than estimated in the Amended OU2-5 ROD. We have also assumed our share of the ultimate liability to be 18%, which is significantly higher than we believe is appropriate or than we will incur, and that our ultimate liability for NRDs government oversight costs and for reimbursement of expenses from other parties, although reasonably possible, is unlikely to be significant.

Based on currently available information, including actual remediation costs incurred to date, we believe that the remediation of OU1 as proposed in the Revised Final Plan can be completed with available amounts in the OU1 Escrow Account, the amounts committed to be funded and the amounts currently reserved. Our assessment assumes that: 1) the Revised Final Plan will be approved by the United States; 2) we and WTM I successfully negotiate acceptable contracts to complete remediation activities; and 3) the OU1 remediation contractor will successfully implement the Revised Final Plan. However, if we are unsuccessful in managing our costs to implement the Revised Final Plan additional charges may be necessary and such amounts could be material.

The OU1 Consent Decree does not address response costs necessary to remediate the remainder of the Site and only addresses NRDs and claims for reimbursement of government expenses to a limited extent. Because CERCLA imposes strict joint and several liability, uncertainty persists regarding our exposure with respect to the remainder of the Fox River site.

In estimating both our current reserves for environmental remediation at the Site, we have assumed that we will not bear the entire cost of remediation and damages to the exclusion of other known PRPs at the Site who are also potentially jointly and severally liable. The ability of other PRPs to participate has also been taken into account in preparing our estimates, and is generally based on our evaluation of recent publicly available financial information on each PRP, and any known insurance, indemnity or cost sharing agreements between PRPs and third parties.

In addition, our assessment is based upon the magnitude, nature, location and circumstances associated with the various discharges of PCBs to the river and the relationship of those discharges to identified contamination. We will continue to evaluate

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our exposure and the level of our reserves, including, but not limited to, our potential share of the costs and NRDs, if any, associated with the Fox River site.

**Summary** Our current assessment is that we will be able to manage these environmental matters without a long-term, material adverse impact on the Company. These matters could, however, at any particular time or for any particular year or years, have a material adverse effect on our consolidated financial position, liquidity and/or results of operations or could result in a default under our loan covenants. Moreover, there can be no assurance that our reserves will be adequate to provide for future obligations related to 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. With regard to the Fox River site, if we are not successful in managing the completion of the remaining remedial work at OU1 and/or should the United States seek to enforce the UAO for OU2-5 against us which requires us to either perform directly or contribute significant amounts towards the performance of that work, such developments could have a material adverse effect on our consolidated financial position, liquidity and results of operations and may result in a default under our loan covenants.

### Ecusta Division Matters

At December 31, 2007, we had reserves for various matters associated with our former Ecusta Division. Summarized below is the activity in these reserves during the period indicated:

<i>In thousands</i>	Ecusta Environmental Matters	Workers Comp	Other	Total
Balance, Jan. 1, 2007	\$ 7,202	\$ 1,409	\$	\$ 8,611
Accruals	258	125		383
Payments	(1,024)	(997)		(2,021)
Dec. 31, 2007	\$ 6,436	\$ 537	\$	\$ 6,973
Balance, Jan. 1, 2006	\$ 8,105	\$ 1,913	\$ 3,300	\$ 13,318
Accruals				
Payments	(903)	(504)	(3,262)	(4,669)
Other adjustments			(38)	(38)
Dec. 31, 2006	\$ 7,202	\$ 1,409	\$	\$ 8,611
Balance, Jan. 1, 2005	\$ 6,391	\$ 2,144	\$ 3,300	\$ 11,835
Accruals	2,700			2,700
Payments	(986)	(231)		(1,217)
Dec. 31, 2005	\$ 8,105	\$ 1,913	\$ 3,300	\$ 13,318

With respect to the reserves set forth above as of December 31, 2007, \$3.7 million is recorded under the caption "Other current liabilities" and \$3.3 million is recorded under the caption "Other long-term liabilities" in the accompanying consolidated balance sheets.

The following discussion provides more details on each of these matters.

**Background Information** In August 2001, pursuant to an acquisition agreement (the "Acquisition Agreement"), we sold the assets of our Ecusta Division to four related entities, consisting of Purico (IOM) Limited, an Isle of Man limited liability company ("Purico"), RF&Son Inc. ("RF"), RFS US Inc. ("RFS US") and RFS Ecusta Inc. ("RFS Ecusta"), each of which is a Delaware corporation (collectively, the "Buyers").

In August 2002, the Buyers shut down the manufacturing operation of the pulp and paper mill in Pisgah Forest, North Carolina, which was the most significant operation of the Ecusta Division. On October 23, 2002, RFS Ecusta and RFS US (the "Debtors") separately filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. The bankruptcy cases were later converted to Chapter 7 proceedings. Effective August 8, 2003, the assets of RFS Ecusta and RFS US, which substantially consist of the pulp and paper mill and related real property, were sold to several third parties unrelated to the Buyers (the "New Buyers").

**Ecusta Environmental Matters** Beginning in April 2003, government authorities, including the North Carolina Department of Environment and Natural Resources ("NCDENR"), initiated discussions with us and the New Buyers regarding, among other environmental issues, certain landfill closure liabilities associated with the Ecusta mill and its properties (the "Ecusta Property"). The discussions focused on NCDENR's desire to establish a plan and secure financial resources to close three landfills located at the Ecusta Property and to address other environmental matters at the facility. During the third quarter of 2003, the discussions ended with NCDENR's conclusion to hold us responsible for the closure of three landfills. Accordingly, we established reserves approximating \$7.6 million representing estimated closure costs. In March 2004 and September 2005, NCDENR issued us separate orders requiring the closure of two of the three landfills at issue. We have completed the closure of these two landfills and are in the process of closing the third; in addition, we have accepted responsibility for decommissioning a fourth landfill (collectively, the "Landfill Closure and Post-Closure Obligations").

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

Landfill ); and (iv) contamination in the vicinity of a former caustic building.

On November 15, 2006, Olin Corporation ( Olin ), a former owner of the Ecusta Property, filed a First Amended Complaint against us in the United States District Court for the Western District of North Carolina asking the court for a declaratory judgment that under the terms of a Purchase Agreement, Olin is not liable for certain environmental contamination that occurred at the Ecusta Property during the time period when Olin owned such facility. We answered and filed a counterclaim against Olin, alleging claims for (i) fraud and fraudulent omissions; (ii) negligent misrepresentation; and (iii) violation of the North Carolina Unfair and Deceptive Trade Practices Act. Specifically, we alleged that Olin had knowledge of extensive environmental contamination at the Ecusta Property, but that it had concealed this information in the course of negotiating the sale of the property in 1985 to our predecessor. The parties are currently engaged in the discovery process. We intend to vigorously defend and prosecute this action.

**Recent Activities** On January 25, 2008, we entered into a series of agreements (the DRV Transaction ) pursuant to which we transferred potential liabilities for certain environmental matters at the Ecusta Property to Davidson River Village, LLC ( DRV ), which contemporaneously purchased the facility from the New Buyers. As part of the DRV Transaction, DRV assumed, and indemnified us for, liability arising from environmental matters and conditions at the Ecusta Property with certain enumerated exceptions, including the Landfill Closure and Post-Closure Obligations and investigation and remediation (if necessary) of any pollutants that may have migrated from the Ecusta Property to the Davidson and French Broad Rivers (the River Areas ), which liabilities were retained by us.

DRV's assumption of liability and indemnification of us was secured in a number of ways: (i) an escrow account in the amount of \$4.4 million, of which we contributed \$2.2 million, was established to pay for the estimated cost of the assessment and remediation of on-site mercury contamination at the Ecusta Property; (ii) DRV caused two irrevocable letters of credit totaling \$7.0 million to be issued by Bank of America in our favor; and (iii) DRV purchased environmental insurance to cover up to \$11.4 million of potential remediation cost overruns and \$25 million of potential third party liability. Thus, in consideration of the amount we contributed to the escrow account and bearing a share of the cost of the insurance policies, our potential liability for future claims with respect to the previously disclosed environmental matters has been transferred to DRV. Our reserve, at December 31, 2007, associated with this matter was adequate to cover the amounts contributed towards resolution of these matters.

With respect to the River Areas, we entered into two agreements with the U.S. Environmental Protection Agency ( EPA ) and/or NCDENR. Specifically, we agreed to determine the nature and extent of contamination and threat to the public health, welfare or the environment caused by hazardous substances released from the Ecusta Property to the River Areas and, if necessary, to identify and evaluate remedial alternatives to prevent, mitigate or remedy such a release. In the event the results of this study indicates the existence of a material contamination, additional activities may be required and further charges could be necessary.

**Workers Compensation** Prior to 2003, we established reserves related to potential workers' compensation claims associated with the former Ecusta Division, which at that time were estimated to total approximately \$2.2 million. In the fourth quarter of 2005, the North Carolina courts issued a ruling that held us liable for workers' compensation claims of certain employees injured during their employment at the Ecusta facility prior to our sale of the Division. Since this ruling, we have made payments as indicated in the reserve analysis presented earlier in this Note 20.

In addition to the specific matters discussed above, we are subject to loss contingencies resulting from regulation by various federal, state, local and foreign governments with respect to the environmental impact of our mills. To comply with environmental laws and regulations, we have incurred substantial capital and operating expenditures in past years. We anticipate that environmental regulation of our operations will continue to become more burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. In addition, we may incur obligations to remove or mitigate the adverse effects, if any, 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.

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

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**21. SEGMENT AND GEOGRAPHIC INFORMATION**

The following table sets forth profitability and other information by business unit for the year ended December 31:

Specialty Papers			Composite Fibers			Other and Unallocated		
2006	2005	<b>2007</b>	2006	2005	<b>2007</b>	2006	2005	<b>2007</b>
\$693,660	\$380,923	<b>\$346,030</b>	\$292,751	\$198,137	\$	\$	\$61	<b>\$1,148,323</b>
10,726	10,078							<b>9,445</b>
704,386	391,001	<b>346,030</b>	292,751	198,137			61	<b>1,157,768</b>
635,143	340,629	<b>287,606</b>	246,797	166,153	<b>(7,366)</b>	9,903	(14,759)	<b>1,001,456</b>
69,243	50,372	<b>58,424</b>	45,954	31,984	<b>7,366</b>	(9,903)	14,820	<b>156,312</b>
50,285	39,876	<b>32,541</b>	28,458	21,282	<b>27,042</b>	13,738	6,475	<b>116,144</b>
					<b>35</b>	30,318	1,564	<b>35</b>
					<b>(78,685)</b>	(17,394)	(22,053)	<b>(78,685)</b>
						(205)	(20,151)	
18,958	10,496	<b>25,883</b>	17,496	10,702	<b>58,974</b>	(36,360)	48,985	<b>118,818</b>
					<b>(24,884)</b>	(22,322)	(10,043)	<b>(24,884)</b>
\$18,958	\$10,496	<b>25,883</b>	\$17,496	\$10,702	<b>34,090</b>	\$(58,682)	\$38,942	<b>\$93,934</b>
\$315,556	\$335,745	<b>\$232,759</b>	\$213,311	\$143,083				<b>\$519,866</b>
36,484	21,413	<b>11,565</b>	7,976	9,611				<b>28,960</b>
32,824	35,781	<b>21,119</b>	17,197	14,866				<b>56,001</b>

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 non-cash pension income, charges related to the Fox River environmental reserves, restructuring related charges, unusual items, certain corporate level costs, effects of asset dispositions and insurance recoveries because it believes 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 core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is closely aligned with the management and operating structure of our company. It is also on this basis that the Company's performance is evaluated internally and by the Company's Board of Directors.

Our North America-based Specialty Papers business unit focuses on papers for the production of high-quality hardbound books and other book publishing needs, carbonless papers designed for multiple end-uses, such as credit card receipts, forms and other applications, envelope & converting markets and highly technical customized products for the digital imaging, casting and release, pressure sensitive, and several niche technical specialty markets.

Composite Fibers, based in Gernsbach, Germany, focuses on higher-value-added products, such as paper for tea bags and coffee pods/pads and filters, decorative laminates used for furniture and flooring, and metallized products used in the labeling of beer bottles.

We sell a significant portion of our specialty papers through wholesale paper merchants. No individual customer accounted for more than 10% of our consolidated net sales in 2007, 2006 or 2005.

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

<i>In thousands</i>	2007			2006			2005		
	Net sales	Plant, Equipment and Timberlands	Net	Net sales	Plant, Equipment and Timberlands	Net	Net sales	Plant, Equipment and Timberlands	Net
United States	\$ 832,724	\$ 287,107	\$ 719,720	\$ 315,556	\$ 399,705	\$ 335,745			
Germany	190,796	133,505	173,267	128,290	143,227	123,685			
United Kingdom	87,054	74,000	60,115	63,061					
Other	37,749	25,254	33,309	21,960	36,189	19,398			
Total	\$ 1,148,323	\$ 519,866	\$ 986,411	\$ 528,867	\$ 579,121	\$ 478,828			



**22. GUARANTOR FINANCIAL STATEMENTS**

Our 71/8% 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, GLT International Finance, LLC, Glatfelter Holdings, LLC and Glatfelter Holdings II, LLC.

The following presents our consolidating statements of income and cash flow for the years ended December 31, 2007, 2006 and 2005 and our consolidating balance sheets as of December 31, 2007 and 2006. These financial statements reflect P. H. Glatfelter Company (the parent), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and elimination entries necessary to combine such entities on a consolidated basis.

**Condensed Consolidating Statement of Income for the  
year ended December 31, 2007**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 802,293	\$ 42,801	\$ 346,030	\$ (42,801)	\$ 1,148,323
Energy sales net	9,445				9,445
Total revenues	811,738	42,801	346,030	(42,801)	1,157,768
Costs of products sold	716,015	40,181	287,931	(42,671)	1,001,456
Gross profit	95,723	2,620	58,099	(130)	156,312
Selling, general and administrative expenses	80,112	1,845	34,187		116,144
Shutdown and restructuring charges	201		(166)		35
Gains on dispositions of plant, equipment and timberlands, net	76	(78,761)			(78,685)
Gains from insurance recoveries					
Operating income (loss)	15,334	79,536	24,078	(130)	118,818
Non-operating income (expense)					
Interest expense	(26,980)	(3)	(2,039)		(29,022)
Other income (expense) net	75,806	15,910	(5,939)	(81,639)	4,138
Total other income (expense)	48,826	15,907	(7,978)	(81,639)	(24,884)
Income (loss) before income taxes	64,160	95,443	16,100	(81,769)	93,934
Income tax provision (benefit)	688	35,992	555	(6,773)	30,462

Net income (loss)	\$ 63,472	\$ 59,451	\$ 15,545	\$ (74,996)	\$ 63,472
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**Condensed Consolidating Statement of Income for the  
year ended December 31, 2006**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$ 693,661	\$ 36,432	\$ 292,750	\$ (36,432)	\$ 986,411
Energy sales net	10,726				10,726
Total revenues	704,387	36,432	292,750	(36,432)	997,137
Costs of products sold	647,877	33,340	247,041	(36,415)	891,843
Gross profit	56,510	3,092	45,709	(17)	105,294
Selling, general and administrative expenses	60,119	2,501	29,861		92,481
Shutdown and restructuring charges	29,073		1,245		30,318
Gains on dispositions of plant, equipment and timberlands, net	(1,761)	(15,960)	327		(17,394)
Gains from insurance recoveries	(205)				(205)
Operating income	(30,716)	16,551	14,276	(17)	94
Non-operating income (expense)					
Interest expense	(20,942)	(463)	(3,048)		(24,453)
Other income (expense) net	22,643	14,767	(5,477)	(29,802)	2,131
Total other income (expense)	1,701	14,304	(8,525)	(29,802)	(22,322)
Income (loss) before income taxes	(29,015)	30,855	5,751	(29,819)	(22,228)
Income tax provision (benefit)	(16,779)	11,062	1,908	(6,183)	(9,992)
Net income (loss)	\$ (12,236)	\$ 19,793	\$ 3,843	\$ (23,636)	\$ (12,236)

**Condensed Consolidating Statement of Income for the  
year ended December 31, 2005**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net sales	\$380,906	\$34,334	\$198,254	\$(34,373)	\$579,121
Energy sales net	10,078				10,078
Total revenues	390,984	34,334	198,254	(34,373)	589,199
Costs of products sold	326,433	33,101	167,157	(34,668)	492,023
Gross profit	64,551	1,233	31,097	295	97,176
Selling, general and administrative expenses	44,381	1,798	21,454		67,633
Shutdown and restructuring charges			1,564		1,564
Gains on dispositions of plant, equipment and timberlands, net	(881)	(21,213)	41		(22,053)
Gains from insurance recoveries	(20,151)				(20,151)
Operating income	41,202	20,648	8,038	295	70,183
Non-operating income (expense)					
Interest expense	(10,730)		(2,353)		(13,083)
Other income (expense) net	16,697	8,231	(1,330)	(20,558)	3,040
Total other income (expense)	5,967	8,231	(3,683)	(20,558)	(10,043)
Income (loss) before income taxes	47,169	28,879	4,355	(20,263)	60,140
Income tax provision (benefit)	8,560	11,956	1,808	(793)	21,531
Net income (loss)	\$38,609	\$16,923	\$2,547	\$(19,470)	\$38,609

**Condensed Consolidating Balance Sheet as of December 31, 2007**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
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**Assets****Current assets**

Cash and cash equivalents	\$6,693	\$162	\$22,978	\$	\$29,833
Other current assets	257,804	277,958	37,008	(229,191)	343,579
Plant, equipment and timberlands net	279,511	7,591	232,764		519,866
Other assets	749,913	212,513	(78,513)	(490,124)	393,789
<b>Total assets</b>	<b>\$1,293,921</b>	<b>\$498,224</b>	<b>\$214,237</b>	<b>\$(719,315)</b>	<b>\$1,287,067</b>

**Liabilities and Shareholders****Equity**

Current liabilities	\$319,516	\$39,285	\$64,423	\$(225,668)	\$197,556
Long-term debt	267,041		34,000		301,041
Deferred income taxes	138,615	33,557	32,236	(15,252)	189,156
Other long-term liabilities	92,681	14,310	8,489	7,766	123,246
<b>Total liabilities</b>	<b>817,853</b>	<b>87,152</b>	<b>139,148</b>	<b>(233,154)</b>	<b>810,999</b>
Shareholders' equity	476,068	411,072	75,089	(486,161)	476,068
<b>Total liabilities and shareholders equity</b>	<b>\$1,293,921</b>	<b>\$498,224</b>	<b>\$214,237</b>	<b>\$(719,315)</b>	<b>\$1,287,067</b>

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**Condensed Consolidating Balance Sheet as of December 31, 2006**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$10,227	\$546	\$11,212	\$	\$21,985
Other current assets	234,038	10,083	114,983	(6,051)	353,053
Plant, equipment and timberlands net	302,606	12,945	213,316		528,867
Other assets	1,269,299	475,354	(153,452)	(1,269,463)	321,738
<b>Total assets</b>	<b>\$1,816,170</b>	<b>\$498,928</b>	<b>\$186,059</b>	<b>\$(1,275,514)</b>	<b>\$1,225,643</b>
<b>Liabilities and Shareholders Equity</b>					
Current liabilities	\$157,029	\$2,753	\$36,375	\$(2,867)	\$193,290
Long-term debt	329,516		45,779		375,295
Deferred income taxes	137,180	18,112	29,472	(2,105)	182,659
Other long-term liabilities	804,077	91,418	25,844	(835,308)	86,031
<b>Total liabilities</b>	<b>1,427,802</b>	<b>112,283</b>	<b>137,470</b>	<b>(840,280)</b>	<b>837,275</b>
Shareholders equity	388,368	386,645	48,589	(435,234)	388,368
<b>Total liabilities and shareholders equity</b>	<b>\$1,816,170</b>	<b>\$498,928</b>	<b>\$186,059</b>	<b>\$(1,275,514)</b>	<b>\$1,225,643</b>

**Condensed Consolidating Statement of Cash Flows for the year  
ended December 31, 2007**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by Operating activities	\$92,366	\$(40,334)	\$48,300	\$	\$100,332

Investing activities				
Purchase of plant, equipment and timberlands	(16,334)	(1,091)	(11,535)	(28,960)
Proceeds from disposal plant, equipment and timberlands	199	41,041	376	41,616
Acquisition of Lydney mill, Chillicothe and Caerphilly			(7,923)	(7,923)
Total investing activities	(16,135)	39,950	(19,082)	4,733
Financing activities				
Net (repayments of) proceeds from indebtedness	(71,570)		(19,002)	(90,572)
Payment of dividends	(16,350)		0	(16,350)
Other	7,551		0	7,551
Total financing activities	(80,369)		(19,002)	(99,371)
Effect of exchange rate on cash	604		1,550	2,154
Net increase (decrease) in cash	(3,534)	(384)	11,766	7,848
Cash at the beginning of period	10,227	546	11,212	21,985
Cash at the end of period	\$6,693	\$162	\$22,978	\$29,833

**Condensed Consolidating Statement of Cash Flows for the year  
ended December 31, 2006**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$(75,468)	\$23,795	\$13,860	\$9,386	\$(28,427)
Investing activities					
Purchase of plant, equipment and timberlands	(35,527)	(957)	(7,976)		(44,460)
Proceeds from disposal plant, equipment and timberlands	4,632	16,436	3		21,071
Proceeds from sale of subsidiary, net of cash dividend	(89,217)	(69,225)			(158,442)
Total investing activities	(120,112)	(53,746)	(7,973)		(181,831)
Financing activities					
Net (repayments of) proceeds from indebtedness	199,016		(8,476)	(9,419)	181,121
Payment of dividends	(16,023)				(16,023)
Proceeds from stock options exercised	8,290				8,290
Total financing activities	191,283		(8,476)	(9,419)	173,388
Effect of exchange rate on cash		2	1,411		1,413
Net increase (decrease) in cash	(4,297)	(29,949)	(1,178)	(33)	(35,457)
Cash at the beginning of period	14,524	30,495	12,390	33	57,442
Cash at the end of period	\$10,227	\$546	\$11,212	\$	\$21,985

**Condensed Consolidating Statement of Cash Flows for the year  
ended December 31, 2005**

<i>In thousands</i>	Parent Company	Guarantors	Non Guarantors	Adjustments/ Eliminations	Consolidated
Net cash provided (used) by					
Operating activities	\$28,694	\$42,318	\$(12,497)	\$(15,647)	\$42,868
Investing activities	(20,319)	(1,094)	(9,611)		(31,024)

Purchase of plant, equipment and timberlands					
Proceeds from disposal plant, equipment and timberlands	55	981	21,414		22,450
Proceeds from sale of subsidiary, net of cash dividend			545		545
Total investing activities	(20,264)	(113)	12,348		(8,029)
Financing activities					
Net (repayments of) proceeds from indebtedness			(4,153)	3,420	(733)
Payment of dividends	(15,839)	(12,001)		12,001	(15,839)
Proceeds from stock options exercised	1,414				1,414
Total financing activities	(14,425)	(12,001)	(4,153)	15,421	(15,158)
Effect of exchange rate on cash		(1)	(2,189)		(2,190)
Net increase (decrease) in cash	(5,995)	30,203	(6,491)	(226)	17,491
Cash at the beginning of period	20,399	412	18,881	259	39,951
Cash at the end of period	\$14,404	\$30,615	\$12,390	\$33	\$57,442



**23. QUARTERLY RESULTS (UNAUDITED)***In thousands, except per share*

	Net sales		Gross Profit		Net Income (loss)		Diluted Earnings (loss) Per Share	
	2007	2006	2007	2006	2007	2006	2007	2006
First	\$ <b>280,989</b>	\$ 160,606	\$ <b>36,709</b>	\$ 20,265	\$ <b>3,253</b>	\$(11,865)	\$ <b>0.07</b>	\$ (0.27)
Second	<b>288,091</b>	279,720	<b>28,800</b>	5,733	<b>1,998</b>	(20,722)	<b>0.04</b>	(0.46)
Third	<b>291,859</b>	277,489	<b>46,880</b>	37,903	<b>7,812</b>	5,368	<b>0.17</b>	0.12
Fourth	<b>287,384</b>	268,596	<b>43,923</b>	41,393	<b>50,409</b>	14,983	<b>1.12</b>	0.33

The information set forth above includes the following, on an after-tax basis:

<i>In thousands</i>	Restructuring Charges and Unusual Items		Gains on Sales of Plant, Equipment and Timberlands, and Other Asset Sales		Environmental Reserve	
	2007	2006	2007	2006	2007	2006
First	\$ <b>(147)</b>	\$(17,864)	\$ <b>1,914</b>	\$	\$ <b>3,695</b>	\$
Second		(14,731)	<b>3,486</b>			
Third		(1,901)	<b>1,415</b>	264	<b>12,286</b>	
Fourth	<b>(85)</b>	(428)	<b>37,237</b>	8,576		

**24. SUBSEQUENT EVENT**

On January 15, 2008, GPW Virginia Timberlands LLC ( GPW Virginia ), an indirect wholly owned and bankruptcy-remote subsidiary of ours, entered into a Term Loan Agreement with SunTrust Bank (the Agent ), pursuant to which GPW Virginia borrowed \$36.7 million on fully secured basis (the Term Loan ). The Term Loan bears interest at a six month reserve adjusted LIBOR rate plus a margin rate of 1.20% per annum. Interest on the Term Loan is payable semiannually. The principal amount of the Term Loan is due on January 15, 2013, but GPW Virginia may prepay the Term Loan, in whole or in part, without premium or penalty. The bulk of the proceeds from the term loan are expected to be used to pay down outstanding debt in accordance with our credit facility.

The Term Loan is secured by all of the assets of GPW Virginia, including, without limitation, (i) a 20-year note (the GIC Note ) in the principal amount of \$43.2 million, dated November 16, 2007, issued by GIC Investments LLC, a wholly owned subsidiary of Glawson Investments Corp., in connection with GIC s purchase of certain timberlands from the Company, (ii) an irrevocable letter of credit supporting the GIC Note (the GIC Letter of Credit ) issued by

The Royal Bank of Scotland plc (the L/C Issuer ) and (iii) notes with an aggregate principal amount of \$9.2 million issued by the Company in favor of GPW Virginia (the Company Notes ). The Term Loan requires mandatory prepayment in the event that the maturity of the GIC Note is accelerated for any reason.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), as of December 31, 2007, have concluded that, as of the evaluation date, our disclosure controls and procedures were effective.

**Internal Control Over Financial Reporting.**

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

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended December 31, 2007, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. In the course of completing our evaluation of internal control over financial reporting we implemented certain changes and enhancements to our controls.

## **PART III**

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

***Directors*** The information with respect to directors required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 21, 2008. Our board of directors has determined that, based on the relevant experience of the members of the Audit Committee, the members are *audit committee financial experts* as this term is set forth in the applicable regulations of the SEC.

***Executive Officers of the Registrant*** The information with respect to the executive officers required under this Item is set forth in Part I of this report.

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

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

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 21, 2008.

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

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 21, 2008.

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

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 21, 2008.

### ***ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required under this Item is incorporated herein by reference to our Proxy Statement, to be dated on or about March 21, 2008.

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

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

- (a)
1. Our Consolidated Financial Statements as follows are included in Part II, Item 8:
    - i. Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005
    - ii. Consolidated Balance Sheets as of December 31, 2007 and 2006
    - iii. Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005
    - iv. Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2007, 2006 and 2005
    - v. Notes to Consolidated Financial Statements for the Years Ended December 31, 2007, 2006 and 2005
  2. Financial Statement Schedules (Consolidated) are included in Part IV:
    - i. Schedule II -Valuation and Qualifying Accounts For Each of the Three Years in the Period Ended December 31, 2007

**(b) Exhibit Index**

Exhibit Number	Description of Documents	Incorporated by Reference to	
		Exhibit	(Filing)
2 (a)	Asset Purchase Agreement, dated February 21, 2006, among NewPage Corporation, Chillicothe Paper Inc. and P. H. Glatfelter Company	2.1	February 21, 2006 Form 8-K
(b)	Agreement for Sale of Assets (Lydney), dated March 8, 2006, by and among J R Crompton Limited, Nicholas James Dargan and Willian Kenneth Dawson, as administrators and Glatfelter-UK Limited and the Company	10	March 31, 2006 Form 10-Q
(c)	Agreement, dated as of November 30, 2007, between Metallised Products Limited ( MPL ) and Glatfelter Lydney Limited, a wholly-owned indirect subsidiary of P. H. Glatfelter Company to acquire MPL, filed herewith. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the Securities and Exchange Commission upon request)		
3 (a)	Articles of Amendment dated April 27, 1977, including restated Articles of Incorporation, as amended by:	3(a)	1993 Form 10-K
	i. Articles of Merger dated January 30, 1979	3(a)	1993 Form 10-K
	ii. Statement of Reduction of Authorized Shares dated May 12, 1980	3(a)	1993 Form 10-K
	iii.	3(a)	1993 Form 10-K

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	Statement of Reduction of Authorized Shares dated September 23, 1981		
	iv. Statement of Reduction of Authorized Shares dated August 2, 1982	3(a)	1993 Form 10-K
	v. Statement of Reduction of Authorized Shares dated July 29, 1983	3(a)	1993 Form 10-K
	vi. Articles of Amendment dated April 25, 1984	3(a)	1994 Form 10-K
	vii. Statement of Reduction of Authorized Shares dated October 15, 1984	3(b)	1984 Form 10-K
	viii. Statement of Reduction of Authorized Shares dated December 24, 1985	3(b)	1985 Form 10-K
	ix. Articles of Amendment dated April 23, 1986	(3)	March 31, 1986 Form 10-Q
	x. Statement of Reduction of Authorized Shares dated July 11, 1986	3(b)	1986 Form 10-K
	xi. Statement of Reduction of Authorized Shares dated March 25, 1988	3(b)	1987 Form 10-K
	xii. Statement of Reduction of Authorized Shares dated November 9, 1988	3(b)	1988 Form 10-K
	xiii. Statement of Reduction of Authorized Shares dated April 24, 1989	3(b)	1989 Form 10-K
	xiv. Articles of Amendment dated November 29, 1990	3(b)	1990 Form 10-K
	xv. Articles of Amendment dated June 26, 1991	3(b)	1991 Form 10-K
	xvi. Articles of Amendment dated August 7, 1992	3(b)	1992 Form 10-K
	xvii. Articles of Amendment dated July 30, 1993	3(b)	1993 Form 10-K
	xviii. Articles of Amendment dated January 26, 1994	3(b)	1993 Form 10-K
	xix. Articles of Amendment dated December 20, 2007, filed herewith		
	(b) Articles of Incorporation, as amended through January 26, 1994 (restated for the purpose of filing on EDGAR), filed herewith		
	(c) By-Laws as amended through December 18, 2007, filed herewith		
4	(a) Indenture, dated as of April 28, 2006, by and between the Company and SunTrust Bank, as trustee relating to 71/8 Notes due 2016	4.1	May 3, 2006 Form 8-K
	(b) First Supplemental Indenture, dated as of September 22, 2006, among Glatfelter Holdings, LLC, Glatfelter Holdings II, LLC, the Existing Subsidiary Guarantors named therein and SunTrust Bank relating to 71/8 Notes due 2016	4.3	September 22, 2006 Form S-4/A
10	(a) P. H. Glatfelter Company Management Incentive Plan, effective January 1, 1982, as amended and restated effective January 1, 1994**	10(a)	2000 Form 10-K**
	(b) P. H. Glatfelter Company 2005 Management Incentive Plan, adopted as of April 27, 2005**	10.4	April 27, 2005 Form 8-K
	(c) P. H. Glatfelter Company Supplemental Executive Retirement Plan, as amended and restated effective April 23, 1998 and further amended December 20, 2000**	10(c)	2000 Form 10-K**
	(d) Description of Executive Salary Continuation Plan**	10(g)	1990 Form 10-K**
	(e) P. H. Glatfelter Company Supplemental Management Pension Plan, effective as of April 23, 1998**	10(f)	1998 Form 10-K**
	(f)	10(g)	2000 Form 10-K **

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	P. H. Glatfelter Company 1992 Key Employee Long-Term Incentive Plan, as amended December 20, 2000**		
(g)	P. H. Glatfelter Company 2005 Long-Term Incentive Plan, adopted as of April 27, 2005**	10.1	April 27, 2005 Form 8-K
(g) (A)	Form of Top Management Restricted Stock Unit Award Certificate.**	10.2	April 27, 2005 Form 8-K
(g) (B)	Form of Non-Employee Director Restricted Stock Unit Award Certificate**	10.3	April 27, 2005 Form 8-K
(h)	P. H. Glatfelter Company Deferred Compensation Plan for Directors, effective as of April 22, 1998**	10(h)	1998 Form 10-K**
(i)	Change in Control Employment Agreement by and between P. H. Glatfelter Company and George H. Glatfelter II, dated as of March 7, 2008, filed herewith**		
(j)	Form of Change in Control Employment Agreement by and between P. H. Glatfelter Company and certain employees, dated as of March 7, 2008 , filed herewith**		

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Exhibit Number	Description of Documents	Incorporated by Reference to	
		Exhibit	(Filing)
(j) (A)	Schedule of Change in Control Employment Agreements, filed herewith**		
(k)	Agreement between the State of Wisconsin and Certain Companies Concerning the Fox River, dated as of January 31, 1997, among P. H. Glatfelter Company, Fort Howard Corporation, NCR Corporation, Appleton Papers Inc., Riverside Paper Corporation, U.S. Paper Mills, Wisconsin Tissue Mills Inc. and the State of Wisconsin	10(i)	1996 Form 10-K
(l)	Credit Agreement, dated as of April 3, 2006, by and among the Company, certain of the Company's subsidiaries as guarantors, the banks party thereto, PNC Bank, National Association, as agent for the banks under the Credit Agreement, PNC Capital Markets LLC and Credit Suisse Securities (USA) LLC, as joint arrangers and bookrunners, and Credit Suisse Securities (USA) LLC, as syndication agent	10.1	April 7, 2006 Form 8-K
(l) (A)	First Amendment to Credit Agreement among the Company, certain of the Company's subsidiaries, certain lenders party thereto and PNC Bank, National Association, in its capacity as agent for such lenders, dated April 25, 2006	10.1	Aug 7, 2007 Form 10-Q
(l) (B)	Second Amendment to Credit Agreement among the Company, certain of the Company's subsidiaries, certain lenders party thereto and PNC Bank, National Association, in its capacity as agent for such lenders, dated December 22, 2006	10.2	Aug 7, 2007 Form 10-Q
(l) (C)	Third Amendment to Credit Agreement among the Company, certain of the Company's subsidiaries, certain lenders party thereto and PNC Bank, National Association, in its capacity as agent for such lenders, dated June 8, 2007*	10.3	Aug 7, 2007 Form 10-Q
(m)	Contract for the Purchase and Bargain Sale of Property, dated as of December 16, 2002, by and among Glatfelter Pulp Wood Company (a wholly owned subsidiary of the Registrant), the Conservation Fund and Fidelity National Title Insurance Company	10(o)	2002 Form 10-K
(n)	Term Loan Agreement, dated as of March 21, 2003, among GPW Timberlands, LLC (a wholly owned subsidiary of the Registrant) and SunTrust Bank, as Administrative Agent	10.3	March 31, 2003 Form 10-Q
(n) (A)	First Amendment to Term Loan Agreement dated January 31, 2008, by and among GPW Timberlands, LLC, P.H. Glatfelter Company and SunTrust Bank, as administrative agent, filed herewith.		

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(o)	Consent Decree for Remedial Design and Remedial Action at Operable Unit 1 of the Lower Fox River and Green Bay site by and among the United States of America and the State of Wisconsin v. P. H. Glatfelter Company and WTMI Company (f/k/a Wisconsin Tissue Mills, Inc.)	10.2	October 1, 2003 Form 8-K/A -- No. 1
(o) (A)	Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.), filed herewith		
(o) (B)	Second Agreed Supplement to Consent Decree between United States of America and the State of Wisconsin vs. P.H. Glatfelter Company and WTM I Company (f/k/a Wisconsin Tissue Mills Inc.)	10.1	Nov 15, 2007 Form 8-K
(p)	Administrative Order for Remedial Action dated November 13, 2007; issued by the United States Environmental Protection Agency.	10.2	Nov 15, 2007 Form 8-K
(q)	Compensatory Arrangements with Certain Executive Officers, filed herewith**		
(r)	Summary of Non-Employee Director Compensation (effective January 1, 2005), filed herewith **		
(s)	Service Agreement, commencing on August 1, 2006, between the Registrant (through a wholly owned subsidiary) and Martin Rapp**	10(r)	2006 Form 10-K
(t)	Retirement Pension Contract, dated October 31, 2007, between Registrant (through a wholly owned subsidiary) and Martin Rapp, filed herewith**		
(u)	Form of Stock-Only Stock Appreciation Right Award Certificate**	10(s)	2006 Form 10-K
(v)	Form of Top Management Restricted Stock Unit Award Certificate**	10(t)	2006 Form 10-K
(w)	Timberland Purchase & Sale Agreement - Virginia Timberlands, entered into by and among Glawson Investments Corp., GIC Investments LLC and Glatfelter Pulp Wood Company, dated and effective as of August 8, 2007	10.1	Nov 9, 2007 Form 10-Q
(x)	Term Loan Agreement dated January 15, 2008, among GPW Virginia Timberlands LLC, certain lenders party thereto and SunTrust Bank, in its capacity as agent for such lenders, filed herewith		
14	Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter.	14	2003 Form 10-K
21	Subsidiaries of the Registrant, filed herewith.		
23	Consent of Independent Registered Public Accounting Firm, filed herewith.		
31.1	Certification of George H. Glatfelter II, Chairman and Chief Executive Officer of Glatfelter, pursuant to Section 302 (a) of the Sarbanes-Oxley Act Of 2002, filed herewith.		
31.2	Certification of John P. Jacunski, Senior Vice President and Chief Financial Officer of Glatfelter, pursuant to		



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Section 302 (a) of the Sarbanes-Oxley Act Of 2002, filed herewith.

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

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

\* Confidential treatment has been requested for certain portions thereof pursuant to a confidential treatment request filed with the Commission on August 7, 2007. Such provisions have been filed separately with the Commission.

\*\* Management contract or compensatory plan

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**SIGNATURES**

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

P. H. GLATFELTER COMPANY  
(Registrant)

March 13, 2008

By /s/ George H. Glatfelter II

George H. Glatfelter II  
Chairman and  
Chief Executive Officer

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

<b>Date</b>	<b>Signature</b>	<b>Capacity</b>
March 13, 2008	<u>/s/ George H. Glatfelter II</u> George H. Glatfelter II Chairman and Chief Executive Officer	Principal Executive Officer and Director
March 13, 2008	<u>/s/ John P. Jacunski</u> John P. Jacunski Senior Vice President and Chief Financial Officer	Principal Financial Officer
March 13, 2008	<u>/s/ David C. Elder</u> David C. Elder Corporate Controller and Chief Accounting Officer	Controller
March 13, 2008	<u>/s/ Kathleen A. Dahlberg</u> Kathleen A. Dahlberg	Director
March 13, 2008	<u>/s/ Nicholas DeBenedictis</u> Nicholas DeBenedictis	Director
March 13, 2008	<u>/s/ Richard C. III</u> Richard C. III	Director
March 13, 2008	<u>/s/ J. Robert Hall</u> J. Robert Hall	Director

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March 13, 2008	<u>/s/ Ronald J. Naples</u> Ronald J. Naples	Director
March 13, 2008	<u>/s/ Richard L. Smoot</u> Richard L. Smoot	Director
March 13, 2008	<u>/s/ Lee C. Stewart</u> Lee C. Stewart	Director

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GLATFELTER

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

I, George H. Glatfelter II, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2007 of P. H. Glatfelter Company ( Glatfelter );
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. Glatfelter s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Glatfelter s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in Glatfelter s internal control over financial reporting that occurred during Glatfelter s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter s internal control over financial reporting; and
5. Glatfelter s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter s auditors and the audit committee of the Glatfelter s board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter s internal control over financial reporting.

Date: March 13, 2008

By: /s/ George H. Glatfelter II

George H. Glatfelter II  
Chairman and Chief Executive Officer

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GLATFELTER

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

I, John P. Jacunski, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2007 of P. H. Glatfelter Company ( Glatfelter );
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. Glatfelter s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Glatfelter and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Glatfelter, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Glatfelter s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in Glatfelter s internal control over financial reporting that occurred during Glatfelter s most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Glatfelter s internal control over financial reporting; and
5. Glatfelter s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Glatfelter s auditors and the audit committee of the Glatfelter s board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Glatfelter s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Glatfelter s internal control over financial reporting.

Date: March 13, 2008

By: /s/ John P. Jacunski

John P. Jacunski  
Senior Vice President and  
Chief Financial Officer

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GLATFELTER

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

**For Each of the Three Years in the Period Ended December 31, 2007**

**Valuation and Qualifying Accounts**

<i>In thousands</i>	Allowance for					
	Doubtful Accounts			Sales Discounts and Deductions		
	2007	2006	2005	2007	2006	2005
Balance, beginning of year	<b>\$3,613</b>	\$931	\$2,364	<b>\$2,585</b>	\$2,045	\$2,217
Provision (a)	<b>781</b>	2,771	382	<b>6,723</b>	3,153	2,788
Write-offs, recoveries and discounts allowed	<b>(1,319)</b>	(137)	(1,726)	<b>(5,195)</b>	(2,795)	(2,711)
Other (b)	<b>42</b>	48	(89)	<b>232</b>	182	(249)
Balance, end of year	<b>\$3,117</b>	\$3,613	\$931	<b>\$4,345</b>	\$2,585	\$2,045

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

(a) The amount in 2006 includes \$1.8 million of doubtful account allowances acquired in connection with the Chillicothe and Lydney acquisitions.

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