GLATFELTER P H CO
Form 10-Q
November 10, 2008

Table of Contents

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

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

or

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

For the quarterly period ended September 30, 2008
Commission file number 1-3560
P. H. Glatfelter Company
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

As of October 31, 2008, P. H. Glatfelter Company had 45,316,284 shares of common stock outstanding.

P. H. GLATFELTER COMPANY
REPORT ON FORM 10-Q
for the QUARTERLY PERIOD ENDED
SEPTEMBER 30, 2008
Table of Contents

Table of Contents

PART I
Item 1 Financial Statements

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

In thousands, except per share	**Three months ended September 30 2008**	2007	**Nine months ended September 30 2008**	2007
Net sales	**$ 339,822**	$ 291,859	**$ 965,545**	$ 860,939
Energy sales net	**2,885**	2,491	**7,612**	7,129
Total revenues	**342,707**	294,350	**973,157**	868,068
Costs of products sold	**285,535**	247,470	**839,329**	755,679
Gross profit	**57,172**	46,880	**133,828**	112,389
Selling, general and administrative expenses	**24,802**	42,197	**74,314**	94,700
(Reversal of) shutdown and restructuring charges			**(856)**	162
Gains on dispositions of plant, equipment and timberlands, net	**(3,975)**	(2,301)	**(18,477)**	(11,188)
Operating income	**36,345**	6,984	**78,847**	28,715
Non-operating income (expense)				
Interest expense	**(5,654)**	(7,569)	**(17,626)**	(22,330)
Interest income	**1,170**	979	**4,131**	2,568
Other net	**146**	113	**317**	380
Total other income (expense)	**(4,338)**	(6,477)	**(13,178)**	(19,382)
Income before income taxes	**32,007**	507	**65,669**	9,333
Income tax provision	**10,345**	(7,305)	**21,176**	(3,730)
Net income	**$ 21,662**	$ 7,812	**$ 44,493**	$ 13,063
Earnings per share				
Basic	**$ 0.48**	$ 0.17	**$ 0.98**	$ 0.29
Diluted	**0.47**	0.17	**0.97**	0.29
Cash dividends declared per common share	**$ 0.09**	$ 0.09	**$ 0.27**	$ 0.27
Weighted average shares outstanding				
Basic	**45,279**	45,084	**45,221**	45,004
Diluted	**45,650**	45,364	**45,669**	45,365

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

GLATFELTER

Table of Contents

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

In thousands	**September 30 2008**	December 31 2007
Assets		
Current assets		
Cash and cash equivalents	**$ 15,947**	$ 29,833
Accounts receivable net	**156,534**	122,980
Inventories	**189,928**	193,042
Prepaid expenses and other current assets	**40,075**	27,557
Total current assets	**402,484**	373,412
Plant, equipment and timberlands net	**507,928**	519,866
Other assets	**403,186**	393,789
Total assets	**$ 1,313,598**	$ 1,287,067
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	**$ 13,071**	$ 11,008
Short-term debt	**2,081**	1,136
Accounts payable	**60,397**	73,195
Dividends payable	**4,077**	4,063
Environmental liabilities	**11,352**	7,038
Other current liabilities	**109,319**	101,116
Total current liabilities	**200,297**	197,556
Long-term debt	**298,938**	301,041
Deferred income taxes	**190,292**	189,156
Other long-term liabilities	**124,492**	123,246
Total liabilities	**814,019**	810,999
Commitments and contingencies		
Shareholders equity		
Common stock	**544**	544
Capital in excess of par value	**47,057**	44,697

Retained earnings	**595,802**	563,608
Accumulated other comprehensive (loss) income	**(9,238)**	4,061
	634,165	612,910
Less cost of common stock in treasury	**(134,586)**	(136,842)
Total shareholders equity	**499,579**	476,068
Total liabilities and shareholders equity	**$ 1,313,598**	$ 1,287,067

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

GLATFELTER

-3-

Table of Contents

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

In thousands	**Nine months Ended September 30 2008**	Nine months Ended September 30 2007
Operating activities		
Net income	**$ 44,493**	$ 13,063
Adjustments to reconcile to net cash provided (used) by operations:		
Depreciation, depletion and amortization	**46,374**	42,293
Pension income	**(11,944)**	(9,646)
(Reversal of) shutdown and restructuring charges	**(856)**	162
Deferred income tax provision	**4,366**	(11,843)
Gains on dispositions of plant, equipment and timberlands, net	**(18,477)**	(11,188)
Stock-based compensation	**3,575**	2,975
(Cash used) reserve for environmental matters	**(12,503)**	25,177
Change in operating assets and liabilities		
Accounts receivable	**(34,768)**	(5,320)
Inventories	**(1,215)**	10,168
Other assets and prepaid expenses	**5,925**	(1,550)
Accounts payable	**(11,482)**	(9,280)
Accruals and other current liabilities	**2,906**	12,297
Other	**1,365**	455
Net cash provided by operating activities	**17,759**	57,763
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	**(40,839)**	(19,289)
Proceeds from disposals of plant, equipment and timberlands, net	**19,280**	12,099
Net cash used by investing activities	**(21,559)**	(7,190)
Financing activities		
Net repayments of revolving credit facility and other	**(25,000)**	(20,656)
Net repayments of other short term debt	**(846)**	(1,767)
Proceeds from borrowing from Sun Trust Financial	**36,695**	
Principal repayments 2011 Term Loan	**(9,000)**	(23,000)
Payment of dividends	**(12,343)**	(12,253)
Proceeds from stock options exercised and other	**1,150**	1,477
Net cash used by financing activities	**(9,344)**	(56,199)
Effect of exchange rate changes on cash	**(742)**	1,461
Net decrease in cash and cash equivalents	**(13,886)**	(4,165)
Cash and cash equivalents at the beginning of period	**29,833**	21,985

Cash and cash equivalents at the end of period	**$ 15,947**	$ 17,820
Supplemental cash flow information		
Cash paid (received) for		
Interest	**$ 12,182**	$ 18,555
Income taxes	**18,239**	(900)

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

Table of Contents

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

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter) is a manufacturer of specialty papers and 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

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

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP. In our opinion, the unaudited interim consolidated financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2007 Annual Report on Form 10-K (2007 Form 10-K).

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes the estimates and assumptions used in the preparation of these 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.

3. RECENT PRONOUNCEMENTS

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). This standard defines the term fair value , establishes a framework for measurement and requires expanded
disclosures about the fair value measurements. The adoption of SFAS No. 157 did not have an 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. In addition, under SFAS No. 141(R), changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. 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. However, after adoption of SFAS No. 141(R), changes in estimates of deferred tax assets and liabilities, and final settlements of all income tax uncertainties that related to a business combination which are made after the measurement period will impact income tax expense. We expect SFAS No. 141(R) will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time.

In June 2008, the FASB issued Staff Position (FSP) No. EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. This FSP affects entities that accrue cash dividends on share-based payment awards during the awards service period when the dividends do not need to be returned if the employees forfeit the award. The FSP requires that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and are considered participating securities. The provisions of FSP No. EITF 03-6-1 are effective for fiscal years beginning after December 15, 2008. We are currently evaluating the requirements of FSP No. EITF 03-6-1, to determine the impact, if any, on our consolidated financial statements.

4. ACQUISITIONS

Metallised Products Limited On November 30, 2007, through Glatfelter-UK Limited, 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 purchased the stock of MPL for $6.8 million cash and assumed $5.8 million of debt in addition to $1.5 million of transaction costs. The amounts set forth above reflect a $0.4 million reduction in the original purchase price based on final adjusted working capital as of the closing date. The acquisition, which was financed from our existing cash balance, employed 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	7,718
Inventory	4,747
Property and equipment	10,178
Other assets	885
Goodwill	1,907
	26,165
Liabilities assumed	
Less acquisition related liabilities including accounts payable and accrued expenses	11,963
Long term debt	5,830
	17,793
Total	$ 8,372

5. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

During the first nine months of 2008 and 2007, we completed sales of timberlands which are summarized by the following table:

Dollars in thousands	**Acres**	**Proceeds**	**Gain**
2008			
Timberlands	**4,561**	**$19,280**	**$18,646**
Other			**(169)**
	4,561	**$19,280**	**$18,477**
2007			
Timberlands	4,674	$11,649	$11,223
Other		450	(35)

	4,674	$12,099	$11,188

The amounts set forth above for 2008 include a $2.9 million gain from the sale of 261 acres of timberlands for cash consideration to George H. Glatfelter, our chairman and chief executive officer and his spouse. In accordance with terms of our credit facility, we are required to use the proceeds from timberland sales to reduce amounts outstanding under our term loan.

6. EARNINGS PER SHARE

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

	Three months ended September 30	
In thousands, except per share	**2008**	2007
Net income	**$21,662**	$ 7,812
Weighted average common shares outstanding used in basic EPS	**45,279**	45,084
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	**371**	280
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**45,650**	45,364
Earnings per share		
Basic	**$ 0.48**	$ 0.17
Diluted	**0.47**	0.17

	Nine months ended September 30	
In thousands, except per share	**2008**	2007
Net income	**$44,493**	$13,063
Weighted average common shares outstanding used in basic EPS	**45,221**	45,004
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	**448**	361
Weighted average common shares outstanding and common share equivalents used in diluted EPS	**45,669**	45,365
Earnings per share		
Basic	**$ 0.98**	$ 0.29
Diluted	**0.97**	0.29

Approximately 674,534 of potential common shares have been excluded from the computation of diluted earnings per share for the three month and nine month periods ended September 30, 2008 due to their anti-dilutive nature. Approximately 460,750 and 457,750 of potential common shares were excluded from the computation of diluted earnings per share for the three month and nine month periods ended September 30, 2007, respectively.

GLATFELTER

-6-

Table of Contents

7. INCOME TAXES

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

As of September 30, 2008 and December 31, 2007, we had $27.9 million and $26.1 million of gross unrecognized tax benefits respectively. As of September 30, 2008, if such benefits were to be recognized, approximately $22.1 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

	Open Tax Year	
Jurisdiction	**Examination in progress**	**Not under examination**
United States		
Federal	2004 2006	2007
State	2004	2003 2007
Germany (1)	2003 2006	2007
France	N/A	2006 2007
United Kingdom	N/A	2006 2007
Philippines	2005 2007	N/A

(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 limitations, 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 the third quarter of 2008 totaled $0.3 million and $0.2 million in the third quarter of 2007. Interest expense recognized for the first nine months of 2008 totaled $0.5 million and $0.5 million during the first nine months of 2007. Accrued interest was $2.3 million and $1.8 million as of September 30, 2008 and December 31, 2007, respectively. We did not record any penalties associated with uncertain tax positions during 2008 or 2007.

8. STOCK-BASED COMPENSATION

During the first nine months of 2008, 265,910 Stock Only Stock Appreciation Rights (SOSAR) were granted, net of forfeitures, to members of executive management at a weighted average grant date strike price of $13.49 per share. 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 $3.75 per right, and an aggregate value of $1.1 million. In addition, 137,600 Restricted Stock Units (RSU) were issued in the first nine months of 2008 with a weighted-average grant date fair value of $14.47 per unit and an aggregate value of $2.0 million. The RSUs vest over a period ranging from three years to five years.

During the first nine months of 2008 and 2007, we recognized stock-based compensation expense totaling $3.5 million and $3.0 million, respectively.

Table of Contents

9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

	Three months ended September 30	
In thousands	**2008**	2007
Pension Benefits		
Service cost	**$ 1,907**	$ 2,392
Interest cost	**5,897**	5,452
Expected return on plan assets	**(12,445)**	(11,872)
Amortization of prior service cost	**571**	600
Amortization of unrecognized loss	**91**	203
Net periodic benefit income	**$ (3,979)**	$ (3,225)
Other Benefits		
Service cost	**$ 503**	$ 506
Interest cost	**825**	759
Expected return on plan assets	**(216)**	(223)
Amortization of prior service cost	**(337)**	(259)
Amortization of unrecognized loss	**359**	262
Net periodic benefit cost	**$ 1,134**	$ 1,045

	Nine months ended September 30	
In thousands	**2008**	2007
Pension Benefits		
Service cost	**$ 6,435**	$ 7,176
Interest cost	**17,646**	16,370
Expected return on plan assets	**(38,077)**	(35,600)
Amortization of prior service cost	**1,768**	1,799
Amortization of unrecognized loss	**284**	609
Net periodic benefit income	**$(11,944)**	$ (9,646)
Other Benefits		
Service cost	**$ 1,564**	$ 1,520
Interest cost	**2,401**	2,275
Expected return on plan assets	**(633)**	(669)
Amortization of prior service cost	**(933)**	(776)
Amortization of unrecognized loss	**981**	786

Net periodic benefit cost	**$ 3,380**	$ 3,136

In millions	**Sept. 30, 2008**	Dec. 31, 2007
Pension Plan Assets		
Fair value of plan assets at end of period	**$489.0**	$603.6

The decline in the fair value of our pension plan assets reflects the deteriorating global equity markets during 2008. As of December 31, 2007, approximately 70% of the pension plan assets were invested in publicly-traded equity securities and the balance was comprised of cash and fixed rated debt instruments.

As of December 31, 2007, our pension plans were overfunded by $230.3 million. Although the fair value of our pension plan assets has since declined, the plans remain overfunded at September 30, 2008.

10. COMPREHENSIVE INCOME

The following table sets forth comprehensive income and its components:

	Three months ended September 30	
In thousands	**2008**	2007
Net income	**$ 21,662**	$ 7,812
Foreign currency translation adjustment	**(29,510)**	11,207
Additional pension liability amortization, net of tax	**466**	528
Comprehensive income	**$ (7,382)**	$19,547

	Nine months ended September 30	
In thousands	**2008**	2007
Net income	**$44,493**	$13,063