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

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

FORM 10-K

[ü] 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	Name of Exchange on which registered
Common Stock, par value $.01 per share	**New York Stock Exchange**

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

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 ü .

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 ü 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. [ ]

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 ü 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 ü .

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).

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 cyclicality 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:

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

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

	2007	2006	2005
Specialty Papers	**726,657**	653,734	450,900
Composite Fibers	**72,855**	68,148	47,669
Other		10	24
Total	**799,512**	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:

In thousands	**2007**	2006	2005
Book publishing	**$ 185,343**	$ 166,605	$ 157,269
Carbonless & forms	**345,785**	266,647	
Envelope & converting	**116,797**	103,042	91,751
Engineered products	**136,785**	137,007	129,936
Other	**17,583**	20,359	1,967
Total	**$ 802,293**	$ 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:

In thousands	**2007**	2006	2005
Food & beverage	**$ 218,961**	$ 180,258	$ 103,070
Composite laminates	**52,972**	50,734	42,948
Metallized	**45,426**	40,078	35,541
Technical specialties and other	**28,671**	21,681	16,578
Total	**$ 346,030**	$ 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%

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

$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:

	Estimated Annual Quantity (short tons)	**Percent of PRM Purchased**
Specialty Papers		
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
Composite Fibers		
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.

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:

					Contract Period	
Location	**Hourly**	**Salaried**	**Total**	**Union**	**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 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.

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;

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 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)	
Specialty Papers		
Spring Grove	332,000	Uncoated
	68,000	Coated
Chillicothe	400,000	Uncoated
	7,500	Coated
Composite Fibers		
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.

Quarter	**High**	**Low**	**Dividend**
2007			
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
2006			
Fourth	$ 15.95	$ 13.26	$ 0.09
Third	16.23	12.98	0.09

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.

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

ITEM 6. SELECTED FINANCIAL DATA

Summary of Selected Consolidated Financial Data

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

*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:

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

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

In thousands, except per share	After-tax Income (loss)	Diluted EPS
2007		
Gains on sale of timberlands	**$ 44,052**	**$ 0.97**

Environmental remediation	**(15,979)**	**(0.35)**
Acquisition integration costs	**(1,569)**	**(0.03)**
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	

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.

nit Performance	**Year Ended December 31**							
s, except tons	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	20
	$802,293	$693,660	**$346,030**	$292,751	**$**	$	**$1,148,323**	$98
net	**9,445**	10,726					**9,445**	1
e	**811,738**	704,386	**346,030**	292,751			**1,157,768**	99
cts sold	**721,216**	635,143	**287,606**	246,797	**(7,366)**	9,903	**1,001,456**	89
loss)	**90,522**	69,243	**58,424**	45,954	**7,366**	(9,903)	**156,312**	10
	56,561	50,285	**32,541**	28,458	**27,042**	13,738	**116,144**	9
d restructuring					**35**	30,318	**35**	3
ositions of plant, d timberlands					**(78,685)**	(17,394)	**(78,685)**	(1
ance recoveries						(205)		
ng income (loss)	**33,961**	18,958	**25,883**	17,496	**58,974**	(36,360)	**118,818**	
g income					**(24,884)**	(22,322)	**(24,884)**	(2
) before income	**$33,961**	$18,958	**$25,883**	$17,496	**$34,090**	$(58,682)	**$93,934**	$(2
ary Data								
	726,657	653,734	**72,855**	68,148		10	**799,512**	72
, depletion and	**$34,882**	$32,824	**$21,119**	$17,197	**$**	$	**$56,001**	$5

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)

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

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

	Percent of total	
	2007	2006
Business Unit		
Specialty Papers	**69.9%**	70.3%
Composite Fibers	**30.1**	29.7
Total	**100.0%**	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:

	Year Ended December 31		
In thousands	**2007**	2006	Change
Recorded as:			
Costs of products sold	**$8,846**	$15,480	$(6,634)
SG&A expense	**4,050**	1,513	2,537
Total	**$12,896**	$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.

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

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 operation s non-U.S. dollar denominated revenues and expenses into U.S. dollars.

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

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:

In thousands, except per share	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:

In thousands, except per share	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.

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

ed December 31 *ds, except tons*	Specialty Papers		Composite Fibers		Other and Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	$693,660	$380,923	$292,751	$198,137	$	$61	$986,411	$579,
s, net	10,726	10,078					10,726	10,
ue	704,386	391,001	292,751	198,137		61	997,137	589,
ducts sold	635,143	340,629	246,797	166,153	9,903	(14,759)	891,843	492,
t	69,243	50,372	45,954	31,984	(9,903)	14,820	105,294	97,
	50,285	39,876	28,458	21,282	13,738	6,475	92,481	67,
ng charges					30,318	1,564	30,318	1,
spositions of ment and s					(17,394)	(22,053)	(17,394)	(22,
urance recoveries					(205)	(20,151)	(205)	(20,
ting income (loss)	18,958	10,496	17,496	10,702	(36,360)	48,985	94	70,
ng income					(22,322)	(10,043)	(22,322)	(10,
s) from operations before es	$18,958	$10,496	$17,496	$10,702	$(58,682)	$38,942	$(22,228)	$60,
tary Data								
ld	653,734	450,900	68,148	47,669	10	24	721,892	498,
n expense	$32,824	$35,781	$17,197	$14,866	$	$	$50,021	$50,

Sales and Costs of Products Sold

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

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:

	Year Ended December 31	
	2006	2005
Business Unit		
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 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:

	Year Ended December 31		
In thousands	2006	2005	Change
Recorded as:			
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.

Dollars in thousands	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:

In thousands	Year Ended December 31, 2006
Recorded as:	
Costs of products sold	**$ 25,371**
Shutdown and restructuring charge	**29,074**
Total	**$ 54,445**

The following table summarizes shutdown reserve activity during 2006:

In thousands	Beg. Balance	Amount Accrued	Less Non-Cash-Charges and Cash Payments	Balance

Non-cash charges				
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)	
Cash charges				
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.

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 operation s non-U.S. dollar denominated revenues and expenses into U.S. dollars.

In thousands	Year Ended December 31
	Favorable (unfavorable)
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:

In thousands	**Year Ended December 31** **2007**	2006
Cash and cash equivalents at beginning of period	**$ 21,985**	$ 57,442
Cash provided by (used for)		
Operating activities	**100,332**	(28,427)
Investing activities	**4,733**	(181,831)
Financing activities	**(99,371)**	173,388
Effect of exchange rate changes on cash	**2,154**	1,413
Net cash provided(used)	**7,848**	(35,457)
Cash and cash equivalents at end of period	**$ 29,833**	$ 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 71/8% Senior Notes due 2016. We used the net proceeds to redeem $150 million aggregate principal amount of our outstanding 67/8% 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:

	December 31	
In thousands	**2007**	2006
Revolving credit facility, due April 2011	**$35,049**	$64,795
Term loan, due April 2011	**43,000**	96,000
71/8% 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 71/8% Notes contain a cross default provision that in the event of a default under the credit agreement, the

71/8% 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.

		Payments Due During the Year Ended December 31,			
In millions	Total	2008	2009 to 2010	2011 to 2012	2013 and beyond
Long-term debt[1]	$450	$31	$64	$71	$284
Operating leases[2]	16	3	4	2	7
Purchase obligations[3]	103	86	17		
Other long term obligations[4],[5]	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 71/8%, 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.

(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 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

	Year Ended December 31					At December 31, 2007	
Dollars in thousands	2008	2009	2010	2011	2012	Carrying Value	Fair Value
ong-term debt							
verage principal utstanding							
t fixed interest rates ond	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$192,172
t fixed interest rates ote payable	34,000	34,000	34,000	34,000	34,000	34,000	31,081
t variable interest ates	72,543	60,160	46,401	13,021		78,049	78,047
						$312,049	$301,300
eighted-average terest rate							
ixed interest rate ebt Bond	7.13%	7.13%	7.13%	7.13%	7.13%		
ixed interest rate ebt Note payable	3.82	3.82	3.82	3.82	3.82		
ariable interest rate ebt	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.

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

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

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

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

Basic	**$1.41**	$(0.27)	$0.88
Diluted	**1.40**	(0.27)	0.87

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

P. H. GLATFELTER COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

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)	**544**	544
Capital in excess of par value	**44,697**	42,288
Retained earnings	**563,608**	519,489
Accumulated other comprehensive income (loss)	**4,061**	(32,337)
	612,910	529,984
Less cost of common stock in treasury	**(136,842)**	(141,616)
Total shareholders equity	**476,068**	388,368
Total liabilities and shareholders equity	**$1,287,067**	$1,225,643

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

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

	Year Ended December 31		
In thousands	**2007**	2006	2005
Operating activities			
Net income (loss)	**$63,472**	$(12,236)	$38,609
Adjustments to reconcile to net cash (used) provided by operations:			
Depreciation, depletion and amortization	**56,001**	50,021	50,647
Reserve for environmental matters	**26,000**		
Pension income	**(12,896)**	(16,993)	(16,517)
Restructuring charges	**35**	37,066	1,564
Deferred income taxes	**8,004**	(12,726)	3,020
Gains on dispositions of plant, equipment and timberlands, net	**(78,685)**	(17,394)	(22,053)
Share-based compensation	**3,850**	2,335	630
Change in operating assets and liabilities			
Accounts receivable	**16,662**	(17,622)	(5,876)
Inventories	**8,493**	(8,869)	(6,195)
Prepaid and other assets	**(2,461)**	4,413	3,995
Liabilities	**11,857**	(36,422)	(4,956)
Net cash (used) provided by operations	**100,332**	(28,427)	42,868
Investing activities			
Expenditures for purchases of plant, equipment and timberlands	**(28,960)**	(44,460)	(31,024)
Proceeds from disposal of plant, equipment and timberlands	**41,616**	21,071	22,450
Proceeds from sale of subsidiary, net of cash divested			545
Acquisitions, net of cash acquired	**(7,923)**	(158,442)	
Net cash provided (used) by investing activities	**4,733**	(181,831)	(8,029)
Financing activities			
Net (repayments of) proceeds from revolving credit facility	**(30,656)**	43,522	(1,117)
Net (repayments of) proceeds from other short-term debt	**(6,916)**	(995)	384
Net (repayments of) net proceeds from $100 million term loan facility	**(53,000)**	94,829	
Payment of dividends	**(16,350)**	(16,023)	(15,839)
Net proceeds from $200 million 71/8% note offering		196,440	
Repayment of $150 million 67/8 notes		(152,675)	
Proceeds and tax benefits from stock options exercised and other	**7,551**	8,290	1,414
Net cash provided (used) by financing activities	**(99,371)**	173,388	(15,158)
Effect of exchange rate changes on cash	**2,154**	1,413	(2,190)

Net increase (decrease) in cash and cash equivalents	**7,848**	(35,457)	17,491
Cash and cash equivalents at the beginning of period	**21,985**	57,442	39,951
Cash and cash equivalents at the end of period	**$29,833**	$21,985	$57,442
Supplemental cash flow information			
Cash paid for			
Interest	**$28,498**	$26,218	$12,378
Income taxes	**2,614**	17,579	17,443

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

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

In thousands, except shares outstanding	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

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			**63,472**				**63,472**
Foreign currency translation adjustments					**24,966**		
Change in benefit plans net funded status, net of tax benefit of $7,167					**11,432**		
Other comprehensive income					**36,398**		**36,398**
Comprehensive income							**99,870**
Cumulative effect of adopting of FIN 48			**(2,974)**				**(2,974)**
Tax effect on employee stock options exercised		**89**					**89**
Cash dividends declared			**(16,379)**				**(16,379)**
Share-based compensation expense		**2,348**					**2,348**
Delivery of treasury shares							
401(k) plans		**85**				**3,049**	**3,134**
Director compensation		**1**				**162**	**163**
Employee stock options exercised net		**(114)**				**1,563**	**1,449**
Balance at December 31, 2007	**$ 544**	**$ 44,697**	**$ 563,608**	$	**$ 4,061**	**$ (136,842)**	**$ 476,068**

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

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

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 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:

In thousands	**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:

In thousands	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 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.

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:

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

The Neenah 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