

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

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

FORM 10-K

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

Commission file number **1-03560**

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

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-0628360
(IRS Employer Identification No.)

96 South George Street, Suite 500
York, Pennsylvania 17401
(Address of principal executive offices)

(717) 225-4711
(Registrant's telephone number, including area code)

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

Title of Class	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 .

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

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

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

Edgar Filing: GLATFELTER P H CO - 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 Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Common Stock outstanding on March 6, 2008 totaled 45,167,030 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this Annual Report on Form 10-K:
Proxy Statement to be dated on or about March 21, 2008 (Part III).

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

DECEMBER 31, 2007

Table of Contents

	Page
PART I	
Item 1 Business	1
Item 1A. Risk Factors	6
Item 2 Properties	8
Item 3 Legal Proceedings	9
Item 4 Submission of Matters to a Vote of Security Holders	9
Executive Officers	9
PART II	
Item 5 Market for the Registrant's Common Stock and Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6 Selected Financial Data	12
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	22
Item 8 Financial Statements and Supplementary Data	23
Item 9A. Controls and Procedures	55
PART III	
Item 10 Directors, Executive Officers and Corporate Governance	56
Item 11 Executive Compensation	56
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	56
Item 13 Certain Relationships and Related Transactions, and Director Independence	56
Item 14 Principal Accountant Fees and Services	56
PART IV	
Item 15 Exhibits, Financial Statement Schedules	57
SIGNATURES	59

CERTIFICATIONS	60
SCHEDULE II	62

ITEM 1. BUSINESS

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

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

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

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

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

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

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

Specialty Papers

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

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

Composite Fibers

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

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

<i>Dollars in thousands</i>	2007	2006	2005
Net sales	\$ 1,148,323	\$ 986,411	\$ 579,121
<i>Business unit composition</i>			
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:

<i>In thousands</i>	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:

<i>In thousands</i>	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%

-2-

GLATFELTER

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

-3-

GLATFELTER

\$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
<i>Specialty Papers</i>		
Spring Grove		
Pulpwood	1,051,000	86
Wood and other pulps	37,000	100
Chillicothe		
Pulpwood	1,207,000	100
Wood and other pulps	58,000	100
<i>Composite Fibers</i>		
Wood and other pulps	37,600	100
Abaca pulp	18,000	30
Synthetic fiber	9,400	100
Metallized base stock	30,400	100
Abaca fiber	17,000	100

Our Spring Grove, Pennsylvania and Chillicothe, Ohio mills are vertically integrated operations producing in excess of 85% of the combined annual pulp required for paper production. The principal raw material used to produce this pulp is pulpwood, of which both hardwoods and softwoods are used. Hardwoods are available within a relatively short distance of our mills. Softwoods are obtained from a variety of locations in relatively close proximity to the location of the respective mill and includes the states of Pennsylvania, Maryland, Delaware, Virginia, Kentucky, Tennessee and South Carolina. To protect our sources of pulpwood, we actively promote conservation and forest management among suppliers and woodland owners. In addition to sourcing the pulpwood in the open market, we have long-term supply contracts that provide access to timber at market prices.

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

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

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

Our Philippines mill processes abaca fiber to produce a specialized pulp. This abaca pulp production provides a unique advantage by supplying a key raw material used by our Composite Fibers business unit. The supply of abaca fiber has been constrained due to severe weather related damage to the source crop as well as selection by land owners of alternative uses of land in lieu of fiber producing activities. In addition, events may arise from the relatively unstable political and economic environment in which the Philippine facility operates that could interrupt the production of abaca pulp. Management periodically evaluates the availability of abaca pulp for our Composite Fibers business unit. Any extended interruption of the Philippine operation could have a material impact on our consolidated financial position and/or results of operations. We target to have approximately one month of fiber supply in stock and one month of fiber supply at sea available to us. In addition, we have established contingency plans for alternative sources of abaca pulp. However, the cost of obtaining abaca pulp from such alternative sources, if available, would likely be higher.

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

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

-4-

GLATFELTER

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

There are a number of companies in the United States that manufacture printing and converting papers. We believe we are one of the leading producers of book publishing papers and compete in these markets with, among others, Domtar and Fraser. In the envelope sector we compete with, among others, International Paper, Domtar and Blue Ridge. In the carbonless paper and forms market, we compete with Appleton Papers and, to a lesser extent, Nekoosa Papers, Inc. In our Specialty Papers engineered products markets and for the Composite Fibers business unit's markets, competition is product line specific as the necessity for technical expertise and specialized manufacturing equipment limits the number of companies offering multiple product lines. We compete with specialty divisions of large companies such as, among others, Ahlstrom, International Paper, MeadWestvaco, Sappi and Stora Enso. Service, product performance, technological advances and product pricing are important competitive factors with respect to all our products. We believe our reputation in these areas continues to be excellent.

Capital Expenditures Our business is capital intensive and requires extensive expenditures for new and enhanced equipment. These capital investments are necessary for environmental compliance, normal upgrades or replacements, business strategy and research and development. In 2008, we expect capital expenditures to total \$52 million to \$57 million, including a \$10 million investment to upgrade the capabilities of one of our inclined wire paper machines in Germany.

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

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

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