

GLATFELTER P H CO
Form 10-Q
November 06, 2009

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

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

or

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD from _____ to _____
For the quarterly period ended September 30, 2009
Commission file number 1-3560**

P. H. Glatfelter Company

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-0628360

(IRS Employer Identification No.)

**96 South George Street, Suite 500
York, Pennsylvania 17401**

(Address of principal executive offices)

(717) 225-4711

(Registrant's telephone number, including area code)

N/A

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

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

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

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(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 .

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As of October 31, 2009, P. H. Glatfelter Company had 45,596,601 shares of common stock outstanding.

P. H. GLATFELTER COMPANY
REPORT ON FORM 10-Q
for the QUARTERLY PERIOD ENDED
SEPTEMBER 30, 2009
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PART I**Item 1 Financial Statements**

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
<i>In thousands, except per share</i>	2009	2008	2009	2008
Net sales	\$ 312,358	\$ 339,822	\$ 882,889	\$ 965,545
Energy sales net	2,132	2,885	6,194	7,612
Total revenues	314,490	342,707	889,083	973,157
Costs of products sold	232,025	285,535	704,303	839,329
Gross profit	82,465	57,172	184,780	133,828
Selling, general and administrative expenses	29,303	24,802	80,364	74,314
Reversal of shutdown and restructuring charges				(856)
Gains on dispositions of plant, equipment and timberlands, net	(9)	(3,975)	(681)	(18,477)
Operating income	53,171	36,345	105,097	78,847
Non-operating income (expense)				
Interest expense	(4,528)	(5,654)	(14,798)	(17,626)
Interest income	318	1,170	1,583	4,131
Other net	204	146	86	317
Total other income (expense)	(4,006)	(4,338)	(13,129)	(13,178)
Income before income taxes	49,165	32,007	91,968	65,669
Income tax provision	3,171	10,345	14,566	21,176
Net income	\$ 45,994	\$ 21,662	\$ 77,402	\$ 44,493
Earnings per share				
Basic	\$ 1.01	\$ 0.48	\$ 1.70	\$ 0.98
Diluted	1.00	0.47	1.69	0.97
Cash dividends declared per common share	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
Weighted average shares outstanding				
Basic	45,699	45,279	45,649	45,221
Diluted	45,865	45,650	45,712	45,669

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

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

<i>In thousands</i>	September 30 2009	December 31 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 116,240	\$ 32,234
Accounts receivable net	136,215	132,635
Inventories	163,340	193,354
Prepaid expenses and other current assets	66,713	33,596
Total current assets	482,508	391,819
Plant, equipment and timberlands net	477,093	493,564
Other assets	134,636	171,926
Total assets	\$ 1,094,237	\$ 1,057,309
Liabilities and Shareholders Equity		
Current liabilities		
Current portion of long-term debt	\$ 13,759	\$ 13,759
Short-term debt	3,150	5,866
Accounts payable	62,926	59,750
Dividends payable	4,164	4,089
Environmental liabilities	989	5,734
Other current liabilities	107,934	100,904
Total current liabilities	192,922	190,102
Long-term debt	246,828	293,660
Deferred income taxes	77,971	90,158
Other long-term liabilities	142,144	140,682
Total liabilities	659,865	714,602
Commitments and contingencies		
Shareholders equity		
Common stock	544	544
Capital in excess of par value	47,260	45,806
Retained earnings	669,947	605,001

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Accumulated other comprehensive loss	(153,111)	(176,133)
	564,640	475,218
Less cost of common stock in treasury	(130,268)	(132,511)
Total shareholders' equity	434,372	342,707
Total liabilities and shareholders' equity	\$ 1,094,237	\$ 1,057,309

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

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

<i>In thousands</i>	Nine months ended	
	September 30	
	2009	2008
Operating activities		
Net income	\$ 77,402	\$ 44,493
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, depletion and amortization	45,823	46,374
Pension expense (income)	5,045	(11,944)
Reversal of shutdown and restructuring charges		(856)
Deferred income tax provision	(18,599)	4,366
Gains on dispositions of plant, equipment and timberlands, net	(681)	(18,477)
Stock-based compensation	3,704	3,575
Alternative fuel mixture credits, net of credits applied to taxes due	(34,888)	
Change in operating assets and liabilities:		
Accounts receivable, net	197	(34,768)
Inventories	33,645	(1,215)
Prepaid expenses and other current assets	5,245	5,925
Accounts payable	1,492	(11,482)
Environmental matters	(7,383)	(12,503)
Accruals and other current liabilities	8,220	2,906
Other	292	1,365
Net cash provided by operating activities	119,514	17,759
Investing activities		
Expenditures for purchases of plant, equipment and timberlands	(16,704)	(40,839)
Proceeds from disposals of plant, equipment and timberlands, net	728	19,280
Proceeds from timberland installment sale note receivable	37,850	
Net cash provided (used) by investing activities	21,874	(21,559)
Financing activities		
Net repayments of revolving credit facility	(1,623)	(25,000)
Net repayments of short term debt	(2,640)	(846)
Repayment of Note payable, due March 2013	(34,000)	
Proceeds from Term Loan, due January 2013		36,695
Principal repayments 2011 Term Loan	(12,000)	(9,000)
Payment of dividends	(12,433)	(12,343)
Proceeds from stock options exercised and other		1,150
Net cash used by financing activities	(62,696)	(9,344)
Effect of exchange rate changes on cash	5,314	(742)

Net increase (decrease) in cash and cash equivalents	84,006	(13,886)
Cash and cash equivalents at the beginning of period	32,234	29,833
Cash and cash equivalents at the end of period	\$ 116,240	\$ 15,947

Supplemental cash flow information

Cash paid for		
Interest	\$ 9,523	\$ 12,182
Income taxes	16,175	18,239

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

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

unaudited

1. ORGANIZATION

P. H. Glatfelter Company and subsidiaries (Glatfelter , our , us or we) is a manufacturer of specialty papers and engineered products. Headquartered in York, Pennsylvania, our manufacturing facilities are located in Spring Grove, Pennsylvania; Chillicothe and Freemont, Ohio; Gloucestershire (Lydney), England; Caerphilly, Wales; Gernsbach, Germany; Scaër, France; and the Philippines. Our products are marketed throughout the United States and in over 85 other countries, either through wholesale paper merchants, brokers and agents or directly to customers.

2. ACCOUNTING POLICIES

Basis of Presentation The unaudited condensed consolidated financial statements (financial statements) include the accounts of Glatfelter and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. We have evaluated all subsequent events through November 6, 2009, the date the financial statements were issued.

We prepared these financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). In our opinion, the financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. When preparing these financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2008 Annual Report on Form 10-K (2008 Form 10-K).

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

3. RECENT PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification (ASC) and the Hierarchy of GAAP, a replacement of SFAS No. 162 (SFAS 162) as codified under ASC 105 Generally Accepted Accounting Principles . SFAS No. 168 became the source of authoritative GAAP recognized by the FASB. SFAS No. 168 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The issuance of SFAS No. 168 requires references to authoritative US GAAP to coincide with the appropriate section of the ASC. Accordingly, this standard did not have an impact on our financial condition or results of operations.

On December 30, 2008, the FASB issued FSP FAS 132(R)-1 *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1) as codified under ASC 715-20 *Defined Benefit Plans General*. This standard, which will be effective for us beginning December 31, 2009, will require more detailed disclosures about pension plan assets, our investment strategies, major categories of plan assets, concentrations of risk within the plan, and valuation techniques used to measure fair value. The adoption of FSP FAS 132(R)-1 is not expected to have a material impact on our consolidated financial position or results of operations.

4. ALTERNATIVE FUEL MIXTURE CREDITS

The U.S. Internal Revenue Code provides a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to \$0.50 per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. We began mixing black liquor and diesel fuel in late February 2009 and filed an application to be registered as an alternative fuel mixer with the Internal Revenue Service in March 2009. On May 11, 2009, we were notified by the Internal Revenue Service that our application to be registered as an alternative fuel mixer was approved. We subsequently filed an excise tax refund claim for the alternative fuel mixture consumed at our Spring Grove, PA and Chillicothe, OH facilities during the period February 20, 2009 through May 17, 2009 and received a payment from the Internal Revenue Service (IRS) on June 30, 2009 in the amount of \$29.7 million.

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For the period May 18, 2009 through September 30, 2009, we earned an additional \$45.8 million of alternative fuel mixture credits for which a claim has yet to be submitted to the IRS. Of this amount, \$10.9 million was used to reduce estimated interim tax payments. We intend to claim the balance of this amount as a non-taxable income tax credit in connection with the filing of our 2009 federal corporate income tax return.

The accompanying condensed consolidated statement of income for the three months and nine months ended September 30, 2009 includes \$33.0 million and \$73.8 million, respectively, recorded as a credit to cost of products sold representing alternative fuel mixture credits earned through September 30, 2009, net of associated expenses. On an after-tax basis, we recognized \$32.9 million of alternative fuel mixture credits during the third quarter of 2009 and \$63.3 million in the nine months ended September 30, 2009.

According to the Internal Revenue Code, the tax credit is scheduled to expire on December 31, 2009. However, there can be no assurances that the incentive program for alternative fuel mixtures will continue in effect or that its provisions, including taxes applicable to the credits, will not be changed, or that we will be successful in receiving future credits under the program.

5. GAIN ON DISPOSITIONS OF PLANT, EQUIPMENT AND TIMBERLANDS

During the first nine months of 2009 and 2008, we completed sales of timberlands as summarized by the following table:

<i>Dollars in thousands</i>	Acres	Proceeds	Gain
2009			
Timberlands	189	\$ 728	\$ 699
Other	n/a		(18)
	189	\$ 728	\$ 681
2008			
Timberlands	4,561	\$ 19,280	\$ 18,646
Other	n/a		(169)
	4,561	\$ 19,280	\$ 18,477

6. EARNINGS PER SHARE

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

<i>In thousands, except per share</i>	Three months ended	
	September 30	
	2009	2008
Net income	\$45,994	\$21,662
Weighted average common shares outstanding used in basic EPS	45,699	45,279
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	166	371
Weighted average common shares outstanding and common share equivalents used in diluted EPS	45,865	45,650
Earnings per share		

Basic	\$ 1.01	\$ 0.48
Diluted	1.00	0.47

<i>In thousands, except per share</i>	Nine months ended September 30	
	2009	2008
Net income	\$77,402	\$44,493
Weighted average common shares outstanding used in basic EPS	45,649	45,221
Common shares issuable upon exercise of dilutive stock options, restricted stock awards and performance awards	63	448
Weighted average common shares outstanding and common share equivalents used in diluted EPS	45,712	45,669
Earnings per share		
Basic	\$ 1.70	\$ 0.98
Diluted	1.69	0.97

Approximately 1,244,410 and 674,534 of potential common shares have been excluded from the computation of diluted earnings per share for the three month period ended September 30, 2009 and 2008, respectively, due to their anti-dilutive nature. The amounts excluded for the nine month period ended September 30, 2009 and 2008, were 2,287,620 and 674,534, respectively.

7. INCOME TAXES

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

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As of September 30, 2009 and December 31, 2008, we had \$28.7 million and \$29.2 million, respectively, of gross unrecognized tax benefits. As of September 30, 2009, if such benefits were to be recognized, approximately \$25.1 million would be recorded as a component of income tax expense, thereby affecting our effective tax rate.

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

Jurisdiction	Open Tax Year	
	Examination in progress	Not under examination
United States		2007 and 2008
Federal	N/A	2004 2008
State	2004	
International		2007 and 2008
Germany (1)	2003 2006	2006 2008
France	N/A	2006 2008
United Kingdom	N/A	2006 2008
Philippines	2005 2008	N/A

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Management performs a comprehensive review of its global tax positions on a quarterly basis and accrues amounts for uncertain tax positions. Based on these reviews and the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are determined or resolved or as such statutes are closed. Due to potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible our gross unrecognized tax benefits balance may change within the next twelve months by as much as \$7.6 million. Substantially all of this relates to tax positions taken in the U.S. and in Germany.

On July 14, 2009, we received notification that the IRS examination of our federal returns for the tax years 2004 through 2006 was completed. Accordingly, we recognized a benefit in the third quarter of 2009 of \$0.6 million, net, of previously unrecognized tax benefits related to uncertain tax positions for these periods.

We recognize interest and penalties related to uncertain tax positions as income tax expense. Interest expense recognized in the third quarter of 2009 and first nine months of 2009 totaled \$0.1 million and \$0.7 million, respectively. Accrued interest was \$3.4 million and \$2.6 million as of September 30, 2009 and December 31, 2008, respectively. We did not record any penalties associated with uncertain tax positions during the third quarters of 2009 or 2008.

8. STOCK-BASED COMPENSATION

On April 29, 2009, our shareholders approved the P. H. Glatfelter Amended and Restated Long Term Incentive Plan (the LTIP) to authorize, among other things, the issuance of up to 5,500,000 shares of Glatfelter common stock to

eligible participants. The LTIP provides for the issuance of restricted stock units, restricted stock awards, non-qualified stock options, performance shares, incentive stock options and performance units.

Restricted Stock Units (RSU) Awards of RSU are made under our LTIP. The RSUs vest based solely on the passage of time on a graded scale over a three, four, and five-year period. The following table summarizes RSU activity during the first nine months of 2009:

<i>Units</i>	2009
Beginning balance	486,988
Granted	205,360
Forfeited	(6,000)
Restriction lapsed/shares delivered	(5,747)
Ending balance	680,601

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

<i>In thousands</i>	September 30	
	2009	2008
Three months ended	\$ 448	\$ 470
Nine months ended	1,175	1,324

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

SOSARS	2009	
	Shares	Wtd Avg Exercise Price
Outstanding at Jan. 1,	718,810	\$ 14.63
Granted	1,043,210	9.91
Exercised		
Canceled		
Outstanding at Sept 30,	1,762,020	\$ 11.84
2009 SOSAR Grants		
Weighted average grant date fair value per share	\$ 2.83	
Aggregate grant date fair value (<i>in thousands</i>)	\$ 2,957	
Black-Scholes Assumptions		
Dividend yield	3.63%	
Risk free rate of return	2.26%	
Volatility	40.59%	
Expected life	6 yrs	

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

<i>In thousands</i>	September 30	
	2009	2008
Three months ended	\$ 596	\$ 387
Nine months ended	1,293	1,123

9. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

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

<i>In thousands</i>	Three months ended September 30	
	2009	2008
Pension Benefits		
Service cost	\$ 2,158	\$ 1,907
Interest cost	5,861	5,897
Expected return on plan assets	(9,884)	(12,445)
Amortization of prior service cost	537	571
Amortization of unrecognized loss	3,186	91

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Net periodic benefit cost (income)	\$ 1,858	\$ (3,979)
Other Benefits		
Service cost	\$ 654	\$ 503
Interest cost	878	825
Expected return on plan assets	(122)	(216)
Amortization of prior service cost	(308)	(337)
Amortization of unrecognized loss	519	359
Net periodic benefit cost	\$ 1,621	\$ 1,134

In thousands

**Nine months ended
September 30
2009 2008**

Pension Benefits

Service cost