GLATFELTER P H CO
Form 10-K
March 08, 2013
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the fiscal year ended December 31, 2012**

**or**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from to**

96 South George Street, Suite 520

York, Pennsylvania 17401

*(Address of principal executive offices)*

(717) 225-4711

*(Registrant s telephone number, including area code)*

| Commission file number | Exact name of registrant as specified in its charter | IRS Employer Identification No. | State or other jurisdiction of incorporation or organization |
|---|---|---|---|
| 1-03560 | P. H. Glatfelter Company | 23-0628360 | Pennsylvania |

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

| Title of Each Class | Name of Each 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 þ.

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 þ.

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 the past 90 days. Yes þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 or 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 small reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ¨ | Accelerated filer þ | Non-accelerated filer ¨<br>(Do not check if a smaller reporting company). | Small 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 þ.

Based on the closing price as of June 30, 2012, the aggregate market value of the Common Stock of the Registrant held by non-affiliates was $692.9 million.

**Common Stock outstanding on February 28, 2013 totaled 42,824,288 shares.**

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following documents are incorporated by reference in this Annual Report on Form 10-K:

Portions of the registrant s Proxy Statement to be dated on or about April 3, 2013 are incorporated by reference into Part III.

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**P. H. GLATFELTER COMPANY**

**ANNUAL REPORT ON FORM 10-K**

**For the Year Ended**

**DECEMBER 31, 2012**

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**PART I**

We make regular filings with the Securities and Exchange Commission (SEC), including this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. These filings are available, free of charge, on our website, www.glatfelter.com, and the SEC website at www.sec.gov. We also provide copies of our SEC filings at no charge upon request to Investor Relations at (717) 225-2719, ir@glatfelter.com, or by mail to Investor Relations, 96 South George Street, Suite 520, York, PA, 17401. In this filing, unless the context indicates otherwise, the terms we, us, our, the Company, or Glatfelter refer to P. H. Glatfelter Company and subsidiaries.

***ITEM 1 BUSINESS***

**Overview** Glatfelter began operations in 1864, and we believe we are one of the world s leading manufacturers of specialty papers and fiber-based engineered materials. Headquartered in York, Pennsylvania, we own and operate manufacturing facilities located in Pennsylvania, Ohio, Canada, Germany, the United Kingdom, France, and the Philippines.

**Products** Our three business units manufacture a wide array of specialty papers and fiber-based engineered materials including:

*Specialty Papers* with revenues from the sale of papers for carbonless and other forms, book publishing, envelopes, and engineered products such as papers for digital imaging, casting, release, transfer, playing card, postal, FDA-compliant food and beverage applications, and other niche specialty applications;

*Composite Fibers* primarily consists of single-serve coffee and tea filtration papers, metallized and self adhesive labeling papers, composite laminates used for decorative furniture and flooring applications, and technical specialties such as battery pasting papers, among others; and

*Advanced Airlaid Materials* with revenue from the sale of airlaid non-woven fabric-like materials used in feminine hygiene and adult incontinence products, cleaning pads and wipes, food pads, napkins, tablecloths, and baby wipes.

The markets served by the Composite Fibers and Advance Airlaid Materials business units are characterized by attractive growth rates as the result of new and emerging products and markets, changing end-user

preferences and evolving demographics. Specialty Papers serves more mature market segments, many of which are in decline.

As a result of our strategy to diversify sources of revenue and invest in growth businesses, revenue generated from Composite Fibers and Advanced Airlaid Materials is expected to represent an increasingly greater proportion of total revenue. For 2012, these two business units comprised 43% of consolidated revenue compared with 30% in 2006.

Consolidated net sales and the relative net sales contribution of each of our business units for the past three years are summarized below:

| *Dollars in thousands* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Net sales | **$ 1,577,788** | $ 1,603,154 | $ 1,455,331 |
| *Business unit contribution* | | | |
| Specialty Papers | **56.7%** | 54.6% | 57.9% |
| Composite Fibers | **27.7** | 29.7 | 28.8 |
| Advanced Airlaid Materials | **15.6** | 15.7 | 13.3 |
| Total | **100.0%** | 100.0% | 100.0% |

Our strategies are focused on growing revenues, in part, by leveraging leading positions in key global growth markets including the single-serve coffee and tea markets and the hygiene products markets. To ensure we are best positioned to serve these markets, we have made investments to increase production capacity and intend to make additional future investments.

In addition to leveraging our leading positions, our focus on product innovation is a critical component of our business strategy. During 2012, 2011 and 2010, we invested $10.9 million, $11.7 million and $10.4 million, respectively, in new product development activities. In each of the past three years, in excess of 50% of net sales were generated from products developed, enhanced or improved within the past five years.

Other key elements to our success include margin expansion, driven by cost reduction and continuous improvement initiatives; the generation of strong and reliable cash flows; and strategic investments to improve our returns on invested capital. The strength of our balance sheet and generation of cash flows has allowed us to pursue strategic actions such as the $50 million investment to expand capacity in Composite Fibers and share repurchase programs executed in 2011 and 2012. Under the programs we have repurchased $54 million of our common stock. These actions and our disciplined approach to capital expenditures has resulted in the generation of returns on invested capital that exceed our cost of capital.

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We have a demonstrated ability to establish leading market positions through the successful acquisition and integration of complementary businesses. Since 2006, we have successfully completed and integrated four acquisitions. Our acquisition strategy complements our long-term strategy of driving growth in our markets.

**Our Business Units** We manage our company as three distinct business units: (i) Specialty Papers (ii) Composite Fibers; and (iii) Advanced Airlaid Materials. Net tons sold by each business unit for the past three years were as follows:

| *Short tons* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Specialty Papers | **789,201** | 779,647 | 764,670 |
| Composite Fibers | **90,300** | 93,317 | 90,350 |
| Advanced Airlaid Materials | **90,332** | 87,951 | 72,833 |
| Total | **969,833** | 960,915 | 927,853 |

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

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

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

**Envelope and converting** papers for the direct mail market, shopping bags, and other converting applications; and

**Engineered products** for digital imaging, casting, release, transfer, playing card, postal, FDA-compliant food and beverage applications, and other niche specialty applications.

The market segments in which Specialty Papers competes have undergone significant changes over the past several years in response to capacity exceeding demand. This business unit produces both commodity products (comprised of envelopes and certain forms) and higher-value-added specialty products.

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

| *In thousands* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Carbonless & forms | **$ 372,950** | $ 368,582 | $ 359,033 |
| Book publishing | **155,925** | 166,506 | 168,155 |
| Envelope & converting | **174,781** | 170,380 | 157,202 |
| Engineered products | **187,724** | 166,660 | 155,257 |
| Other | **3,397** | 2,950 | 2,967 |
| Total | **$ 894,777** | $ 875,078 | $ 842,614 |

Although many of the markets served by Specialty Papers are mature and, in many instances, declining, we have been successful at maintaining this unit s shipments through new product and new business development initiatives while leveraging the flexibility of our operating assets to efficiently respond to changing customer demands. In each of the past eight years, our flexible asset base, new product development capabilities and superior customer service offerings allowed us to outperform the broader uncoated free sheet market in terms of shipping volumes.

We believe we are one of the leading suppliers of carbonless and book publishing papers in the United States. Although the markets for these products are declining, we have been successful in executing our strategy to replace this lost volume with products such as envelope papers and business forms, and other value-added specialty products. Specialty Papers also produces paper that is converted into specialized envelopes in a wide array of colors, finishes and end-uses. While this market is also declining, we have leveraged our customer service capabilities to grow our market share in each of the last several years.

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, conical cups, 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 for demanding, specialized customer and end-user applications. Some of our products are new and higher 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 prices and generally exhibit greater pricing stability relative to commodity grade paper products.

The Specialty Papers business unit operates two integrated pulp and paper making facilities with the following combined attributes:

| Uncoated Production Capacity (short tons) | Principal Raw Material ( PRM ) | Estimated Annual Quantity of PRM (short tons) |
|---|---|---|
| 795,000 | Pulpwood | 2,327,250 |
| | Wood-and other pulps | 721,600 |

This business unit s pulp mills have a combined pulp making capacity of 598,000 tons of bleached pulp per year. The principal raw material used to produce each

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facility s pulp is pulpwood, including both hardwoods and softwoods. Pulpwood is obtained from a variety of locations including the states of Pennsylvania, Maryland, Delaware, New Jersey, New York, West Virginia, Virginia, Kentucky, Ohio and Tennessee. To protect our sources of pulpwood, we actively promote conservation and forest management among suppliers and woodland owners. In addition to critical raw materials, the cost to produce Specialty Papers products is influenced by energy costs. Although the business unit generates all of its steam needed for production at both facilities and generates more power than it consumes at the Spring Grove, PA facility, in 2012, it purchased approximately 22% of its electricity needed for the Chillicothe, OH mill. The facilities source of fuel is primarily coal and, to a lesser extent, natural gas.

Since becoming a member of PJM Interconnection, a federally regulated Independent System Operator ( ISO ) that coordinates the movement and ensures reliability of wholesale electricity in its region, excess electricity generated by Spring Grove is sold to the high-voltage electricity grid. As a member of PJM, we provide capacity to the grid and sell excess power at market prices. Accordingly, our margin earned from energy sales will be subject to market volatility associated with the price at which energy is sold together with volatility in input costs, primarily related to coal.

The Spring Grove facility includes five uncoated paper machines as well as an off-line combi-blade coater and a Specialty Coater ( S-Coater ), which together provide 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. The Chillicothe facility operates four paper machines producing uncoated and carbonless paper. Two of the machines have built-in coating capability which along with three additional coaters at the facility provide annual coated capacity of 130,000 tons.

In the carbonless paper market, we compete with Appleton Papers and, to a lesser extent, foreign importers including Fibria Celulose (formerly Votorantim Celulose e Papel) and Asia Pulp and Paper Co. We believe we are one of the leading producers of book publishing papers and compete in these markets with Domtar Corp. and North Pacific Paper (NORPAC), among others. In the envelope sector we compete with International Paper, Domtar Corp., Boise Inc. and Evergreen Packaging, among others. In our Specialty Papers engineered products 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 International Paper, Domtar Corp., Boise Inc., NewPage Corp. and Sappi Limited, among others. 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.

To be successful in the market environment in which Specialty Papers operates, our strategy is focused on:

- employing our new product and new business development capabilities to meet changing customer demands and ensure optimal utilization of capacity;
- leveraging our flexible operating platform to optimize product mix by shifting production among facilities to more closely match output with changing demand trends;
- aggressively employing methodologies to manage pressures on margins presented by more mature markets;
- utilizing ongoing continuous improvement methodologies to ensure operational efficiencies; and
- maintaining superior customer service.

***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 primarily used for single-serve coffee and tea products;

**Metallized** products used in the labeling of beer bottles, packaging innerliners, gift wrap, self-adhesive labels and other consumer product applications;

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

**Technical Specialties** a diverse line of paper products used in batteries, adhesive tapes and other highly-engineered applications.

We believe this business unit maintains a market leadership position in the single-serve coffee and tea markets, and the composite laminates market. Composite

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

| *In thousands* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Food & beverage | **$ 265,423** | $ 284,748 | $ 242,882 |
| Metallized | **87,720** | 95,276 | 88,753 |
| Composite laminates | **44,613** | 53,334 | 50,801 |
| Technical specialties and other | **38,984** | 42,671 | 36,781 |
| Total | **$ 436,740** | $ 476,029 | $ 419,217 |

We believe many of the market segments served by Composite Fibers, particularly single-serve coffee and tea, present attractive growth opportunities by capitalizing on evolving consumer preferences, expanding into new or emerging geographic markets, and by gaining market share through quality product and service offerings. Many of this unit s papers are technically sophisticated and most, except for metallized papers, are extremely lightweight and require specialized fibers. Our engineering capabilities, specifically designed papermaking equipment, use of specialized fibers and customer orientation positions us well to compete in these global markets.

The primary raw materials used in the production of our lightweight papers are abaca pulp and wood pulp. Abaca pulp is a specialized pulp with limited sources of availability. Our abaca pulp production process, fulfilled by our Philippine mill, provides a unique advantage by supplying a key raw material used by our Composite Fibers business unit. Sufficient quantities of abaca pulp and the source fiber are required to support growth in this business unit. In the event the supply of abaca fiber becomes constrained or when production demands exceed the capacity of the Philippines mill, alternative sources and/or substitute fibers are used to meet customer demands.

The Composite Fibers business unit is comprised of three paper making facilities (Germany, France and England), metallizing operations (Wales and Germany) and a pulp mill (the Philippines) with the following combined attributes:

| Production Capacity (short tons) | Principal Raw Material ( PRM ) | Estimated Annual Quantity of PRM (short tons) |
|---|---|---|
| 68,400 lightweight | Abaca pulp | 18,100 |
| | Wood pulp | 46,000 |
| | Synthetic fiber | 12,800 |
| 28,100 metallized | Base stock | 30,200 |
| 15,300 abaca pulp | Abaca fiber | 26,270 |

Composite Fibers uses highly specialized inclined wire paper machine technology and we believe we currently maintain approximately 25% of the global inclined wire capacity.

In addition to critical raw materials, the cost to produce Composite Fibers products is influenced by energy costs. Although the business unit generates all of its steam needed for production, in 2012, it purchased 93% of its electricity.

In Composite Fibers 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. In single-serve coffee and tea products we compete with companies such as Ahlstrom and Purico. In composite laminates, we compete with PdM, a division of Schweitzer-Maudit, Purico, MB Papeles and Oi feng. For metallized products, competitors include AR Metallizing, Torras Papel Novelis, Vaassen, and Wenzhou Protec Vacuum Metallizing Co. Ltd.

Our strategy in Composite Fibers is focused on:

- capturing global growth in food & beverage, technical specialties and composite laminates;

- expanding value-added production capacity by investing in state-of-the-art inclined wire technology to better ensure our capacity supports consistent growth of markets;

- capitalizing on rapidly growing markets;

- enhancing product mix across all of the business unit s markets by utilizing new product and new business development capabilities;

- implementing continuous improvement methodologies to increase productivity, reduce costs and expand capacity; and

- ensuring readily available access to specialized raw material requirements to support projected growth.

As part of our commitment to realizing the growth potential of certain of this business unit s markets, we announced a $50 million investment to expand our inclined wire capacity by nearly 20%, or approximately 10,500 short tons, by converting a flat wire machine, currently producing composite laminates, to a state-of-the-art inclined wire machine. The project began in 2012 and is expected to be completed in the second quarter of 2013. Production of saleable products from the new machine is scheduled to begin in the second quarter of 2013. We expect to achieve a 15% to 20% after-tax return on this investment within three years.

***Advanced Airlaid Materials*** was formed in connection with our February 2010 acquisition of Concert Industries Corp. ( Concert ). Advanced Airlaid Materials is

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a leading global supplier of highly absorbent cellulose-based airlaid non-woven materials used to manufacture consumer and industrial products for growing global end-user markets. These products include, but are not limited to:

- feminine hygiene;
- adult incontinence;
- home care;
- specialty wipes;
- table top; and
- food pads.

Advanced Airlaid Materials affords us the opportunity to grow with customers who are industry leading consumer product companies for feminine hygiene and adult incontinence products. Advanced Airlaid Materials holds leading market share positions in many of the markets it serves, excels in building long-term customer relationships through superior quality and customer service programs, and has a well-earned reputation for innovation and its ability to quickly bring new products to market.

Advanced Airlaid Materials revenue composition by market consisted of the following for the years indicated:

| *In thousands* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Feminine hygiene | **$ 197,792** | $ 206,724 | $ 157,660 |
| Home care | **14,527** | 15,308 | 13,691 |
| Wipes | **13,562** | 5,463 | |
| Adult incontinence | **6,959** | 6,083 | 6,167 |
| Other | **13,442** | 18,469 | 15,981 |
| Total | **$ 246,282** | $ 252,047 | $ 193,499 |

The feminine hygiene category accounted for 80% of Advanced Airlaid Material s revenue in 2012, sales of which are to a small group of large, leading global consumer products companies. This market is considered to be more growth oriented driven by population growth in certain geographic regions, consumer preferences, and suppliers ability to provide innovative products. In developing regions, demand is also influenced by increases in disposable income and cultural preferences.

The Advanced Airlaid Materials business unit operates state-of-the-art facilities in Falkenhagen, Brandenburg, Germany and Gatineau, Quebec, Canada. The Falkenhagen location operates three multi-bonded production lines and three proprietary single-lane festooners. The Gatineau location consists of two airlaid production lines employing multi-bonded and thermal-bonded airlaid technologies and, with the recently completed investment, two proprietary single-lane festooners.

The business unit s two facilities operate with the following combined attributes:

| Airlaid Production Capacity (short tons) | Principal Raw Material ( PRM ) | Estimated Annual Quantity of PRM (short tons) |
|---|---|---|

| | | |
|---|---|---|
| 107,000 | Fluff pulp | 73,250 |

In addition to the cost of critical raw materials, the cost to produce multi-bonded and thermal-bonded airlaid materials is impacted by energy costs. Advanced Airlaid Materials purchases all of its electricity and natural gas. Approximately 80% of this business unit s revenue is earned under contracts with pass-through provisions directly related to the price of key input costs.

Advanced Airlaid Materials continues to be a technology and product innovation leader in technically demanding segments of the airlaid market, most notably feminine hygiene. We believe that its facilities are among the most modern and flexible airlaid facilities in the world, allowing it to produce at industry leading operating rates. Its proprietary single-lane rotary festooning technology, developed in 2002, provides customers with a product packaged for efficient use. This business unit s in-house technical expertise, combined with significant capital investment requirements and rigorous customer expectations creates large barriers to entry for new competitors.

The airlaid industry is made up of several producers, including Buckeye Technologies Inc., Georgia-Pacific LLC, Duni AB, Petropar SA, McAirlaid s Vliestoffe GmbH & Co. KG, and us.

The markets served by this business unit are characterized by attractive growth opportunities. To take advantage of this, our strategy is focused on:

- maintaining and expanding relationships with customers that are market-leading consumer product companies;
- expanding geographic reach of markets served;
- optimizing the use of existing production capacity;
- employing continuous improvement methodologies and initiatives to reduce costs, improve efficiencies and create capacity; and
- capitalizing on our product and process innovation capabilities.

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 and Supplementary Data, Note 22 including geographic revenue and long-lived asset financial information.

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**Balance Sheet** We are focused on prudent financial management and the maintenance of a conservative capital structure and strong balance sheet. This includes:

- aggressively managing working capital to enhance cash flow from operations;
- making disciplined capital expenditure decisions; and
- monetizing the value of our timberland assets as opportunities develop.

The success of these actions positions us with the flexibility to pursue strategic opportunities that will benefit our shareholders.

**Concentration of Customers** For each of the past three years, no single customer represented more than 10% of our consolidated net sales. However, as discussed in Item 1A Risk Factors, one customer accounted for the majority of Advanced Airlaid Materials net sales in 2012, 2011 and 2010.

**Capital Expenditures** Our business is capital intensive and requires extensive expenditures for new and enhanced equipment. These capital investments are necessary to support growth strategies, research and development initiatives, environmental compliance, and for normal upgrades or replacements. Capital expenditures totaled $58.8 million, $64.5 million and $36.5 million, in 2012, 2011 and 2010, respectively. For 2013, capital expenditures are estimated to be $90 million to $100 million. This includes $33.5 million of the $50 million investment to expand capacity to serve Composite Fibers growth markets.

**Environmental Matters** We are subject to various federal, state and local laws and regulations intended to protect the environment as well as human health and safety. At various times, we have incurred significant costs to comply with these regulations and we could incur additional costs as new regulations are developed or regulatory priorities change. As a result of new air quality regulations including the U.S. EPA Best Available Retrofit Technology rule (BART; otherwise known as the Regional Haze Rule) and the Boiler Maximum Achievable Control Technology rule (Boiler MACT), we anticipate that we could incur material capital and operating costs. For example, on December 20, 2012, the Administrator of the U. S. Environmental Protection Agency signed new rules which could require process modifications and/or installation of air pollution controls on power boilers at two of our facilities. We are currently reviewing these rules to understand the effect they may have on our

operations, such as reducing or curtailing boiler usage or modifying the types of boilers operated or fuel consumed. The cost of compliance is likely to be significant. Our current estimates to implement viable options could result in additional capital spending of approximately $45 million. The amount ultimately incurred may be less depending on our successful implementation of appropriate available options. In addition, the timing of any additional capital spending is uncertain, although we currently expect to incur the expenditures generally in 2015 and 2016. Enactment of new environmental laws or regulations or changes in existing laws or regulations could significantly change our estimates. For a discussion of other environmental matters, see Item 8 Financial Statements and Supplementary Data Note 21.

**Employees** As of December 31, 2012, we employed 4,258 people worldwide, of which approximately 70% are unionized. The United Steelworkers International Union and the Office and Professional Employees International Union represents approximately 1,600 hourly employees at our Chillicothe, OH and Spring Grove, PA facilities under labor contracts expiring in November 2015 and January 2014, respectively. Hourly employees at each of our international locations are represented by various unions or works councils. We consider the overall relationship with our employees to be satisfactory.

**Other Available Information** The Corporate Governance page of our corporate web site includes our Governance Principles and Code of Business Conduct, and biographies of our Board of Directors and Executive Officers. In addition, the website includes the charters for the Audit, Compensation, Finance, and Nominating and Corporate Governance Committees of the Board of Directors. The Corporate Governance page also includes the Code of Business Ethics for the CEO and Senior Financial Officers of Glatfelter, our whistle-blower policy and other related material. We 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 contacting Investor Relations at (717) 225-2719, ir@glatfelter.com or by mail to 96 South George Street, Suite 520, York, PA, 17401.

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***ITEM 1A RISK FACTORS***

***Our business and financial performance may be adversely affected by the global economic environment or downturns in the target markets that we serve.***

Adverse global economic conditions could impact our target markets resulting in decreased demand for our products. Approximately 17% of our net sales in 2012 were shipped to customers in western Europe, the demand for which, in many cases, is dependent on economic conditions in this area, and to the extent customers do business outside of Europe, in other regions of the world. 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. The economic environment may cause customer insolvencies which may result in their inability to satisfy their financial obligations to us. These conditions are beyond our ability to control and may have a significant impact on our sales and results of operations.

The markets for our products are also significantly affected by changes in industry capacity and output. There have been periods of supply/demand imbalance in our industry which have caused pulp prices and our products selling prices to be volatile. The timing and magnitude of price increases or decreases in these markets have generally varied by region and by product type. A sustained period of weak demand or excess supply would likely adversely affect pulp prices and our products selling prices. This could have a material adverse affect on our operating and financial results.

***The cost of raw materials and energy used to manufacture our products could increase and the availability of certain raw materials could become constrained.***

We require access to sufficient and reasonably priced quantities of pulpwood, purchased pulps, pulp substitutes, abaca fiber, synthetic fibers, and certain other raw materials. Our Spring Grove and Chillicothe locations are vertically integrated manufacturing facilities that generate approximately 82% of their annual pulp requirements.

Our Philippine mill purchases abaca fiber to produce abaca pulp, which we use to manufacture our paper for single-serve coffee, tea and technical specialty products at our Gernsbach, Scaër and Lydney facilities. At certain times in the past, the supply of abaca fiber has been constrained due to factors such as weather related damage to the

source crop as well as decisions by land owners to produce alternative crops in lieu of those used to produce abaca fiber.

Our Advanced Airlaid Materials business unit requires access to sufficient quantities of fluff pulp, the supply of which is subject to availability of certain softwoods. Softwood availability can be limited by many factors, including weather in regions where softwoods are abundant.

The cost of many of our production materials, including petroleum based chemicals, and freight charges, are influenced by the cost of oil. In addition, coal is a principal source of fuel for both the Spring Grove and Chillicothe facilities and natural gas is used as a source of fuel for our Chillicothe facility, and the Composite Fibers and Advanced Airlaid Materials business units facilities.

Although we have contractual cost pass-through arrangements with certain customers, we may not be able to fully pass increased raw materials or energy costs on to all 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 industry is highly competitive and increased competition could reduce our sales and profitability.***

In the past, global industries in which we compete have been adversely affected by capacity exceeding the demand for products and by declining uncoated free sheet demand. As a result, steps have been taken 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 producers to enter our markets when they are unable to compete or when demand softens in their traditional markets;

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- the aggressiveness of our competitors pricing strategies, which could force us to decrease prices in order to maintain market share;
- our failure to anticipate and respond to changing customer preferences;
- the impact of electronic-based substitutes for certain of our products such as carbonless and forms, book publishing, and envelope papers;
- the impact of replacement or disruptive technologies;
- changes in end-user 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 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 efficiently in research and development activities.

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. The Clean Air Act, and similar regulations, could impose significant compliance costs or require significant capital expenditures. 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 globally 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.

Despite favorable rulings in the pending Fox River litigation, we continue to have exposure to liability for remediation and other costs related to the presence of polychlorinated biphenyls in the lower Fox River on which our former Neenah, Wisconsin mill was located. There can be no assurance that we will not be required to ultimately pay material amounts to resolve our liability in the Fox River matter. We have financial reserves for environmental matters, including the Fox River site, 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 complex and should be reviewed in the context set forth in more detail in Item 8  Financial Statements and Supplementary Data  Note 21.

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***The Advanced Airlaid Materials business unit generates a substantial portion of its revenue from one customer serving the hygiene products market, the loss of which could have a material adverse effect on our results of operations.***

Advanced Airlaid Materials generates the majority of its net sales of hygiene products from one customer. The loss of this significant customer could have a material adverse effect on their operating results. In addition, sales in the feminine hygiene market accounted for 80% of Advanced Airlaid Materials net sales in 2012 and sales are concentrated within a small group of large customers. A decline in sales of hygiene products could have a material adverse effect on this unit s operating results. Customers in the airlaid non-woven fabric material market, including the hygiene market, may also switch to less expensive products, change preferences or otherwise reduce demand for Advanced Airlaid Material s products, thus reducing the size of the markets in which it currently sells its products. Any of the foregoing could have a material adverse effect on our financial performance and business prospects.

***Our operations may be impaired and we may be exposed to potential losses and liability as a result of natural disasters, acts of terrorism or sabotage or similar events.***

If we have a catastrophic loss or unforeseen operational problem at certain of our facilities, we could suffer significant lost production which could impair our ability to satisfy customer demands.

Natural disasters, such as earthquakes, flooding or fire, and acts of terrorism or sabotage affecting our operating activities and major facilities could materially and adversely affect our operations, operating results and financial condition. In addition, we own and maintain four dams in York County, Pennsylvania, that were built to ensure a steady supply of water for the operation of our facility in Spring Grove which is a primary manufacturing location for our envelope papers and engineered products. Each of these dams is classified as high hazard by the Commonwealth of Pennsylvania because they are located in close proximity to inhabited areas. Any sudden failure of a dam, including as a result of natural disaster or act of terrorism or sabotage, would endanger occupants and residential, commercial and industrial structures, for which we could be liable. The failure of a dam could also be extremely disruptive and result in damage to or the shutdown of our Spring Grove mill. Any losses or liabilities incurred due to the failure of one of our dams may not be fully covered by our insurance policies or may substantially exceed the limits of our

policies, and could materially and adversely affect our operating results and financial condition.

In addition, many of our papermaking operations require a reliable and abundant supply of water. Such mills rely on a local water body or water source for their water needs and, therefore, are particularly impacted by drought conditions or other natural or manmade interruptions to its water supplies. At various times and for differing periods, each of our mills has had to modify operations due to water shortages, water clarity, or low flow conditions in its principal water supplies. Any interruption or curtailment of operations at any of our paper mills due to drought or low flow conditions at the principal water source or another cause could materially and adversely affect our operating results and financial condition.

Our pulp mill in Lanao del Norte on the Island of Mindanao in the Republic of the Philippines is located along the Pacific Rim, one of the world s hazard belts. By virtue of its geographic location, this mill is subject to, among similar types of natural disasters discussed above, cyclones, typhoons, and volcanic activity. Moreover, the area of Lanao del Norte has been a target of suspected terrorist activities. The most common bomb targets in Lanao del Norte to date have been power transmission towers. Our pulp mill in Mindanao is located in a rural portion of the island and is susceptible to attacks or power interruptions. The Mindanao mill supplies approximately 85% of the abaca pulp that is used by our Composite Fibers business unit to manufacture our paper for single serve coffee and tea products and certain technical specialties products. Any interruption, loss or extended curtailment of operations at our Mindanao mill could materially affect our operating results and financial condition.

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

Our pulp mill in the Philippines is located in a region that is unstable and subject to political unrest. As discussed above, our Philippine pulp mill produces abaca pulp, a significant raw material used by our Composite Fibers business unit, and 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.

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***Our international operations pose certain risks that may adversely impact sales and earnings.***

We have significant operations and assets located in Canada, Germany, France, the United Kingdom, and the Philippines. Our international sales and operations are subject to a number of unique 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.***

As we diversify our business and expand our global footprint, an increasing proportion of our revenue is generated outside of the United States. We also own and operate manufacturing facilities in Canada, Germany, France, the United Kingdom and the Philippines. Currently, the majority of our business is transacted in U.S. dollars; however, an increasing portion of business is transacted in Euros, British Pound Sterling, Canadian dollars or Philippine Peso. With respect to the Euro, we generate substantially greater cash inflow in this currency than we do outflow. However, with respect to the British Pound Sterling, Canadian dollar, and Philippine Peso, we have greater outflows than inflows of these currencies. As a result of these positions, we are exposed to changes in currency exchange rates. Uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations and actions proposed to restructure such obligations may cause the value of the euro to fluctuate further. In the event that one or more European countries were to replace the euro with another currency, business may be adversely affected until stable exchange rates are established.

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.

***An IRS audit of our 2009 tax return could result in a change in the tax treatment of the alternative fuel mixture credits we claimed in 2009, which could have a material adverse effect on our results of operations and financial position.***

The U.S. Internal Revenue Code, or the Code, provided a tax credit for companies that used alternative fuel mixtures to produce energy to operate their businesses on or prior to December 31, 2009. During 2009, we registered two of our facilities with the IRS as alternative fuel mixers based on their use of black liquor as an alternative fuel source. For the year ended December 31, 2009, we had substantial alternative fuel mixture credits relating to these facilities. Our results of operations in 2009 included, on a pre-tax basis, $107.8 million of alternative fuel mixture credits. During 2012, we amended our 2009 federal income tax return to convert a portion of the alternative fuel mixture credits for cellulosic biofuel production credits. In the event that the IRS audits our tax return for the year ended December 31, 2009, the IRS may conclude that some or all of the credits claimed are subject to federal income taxes, which would subject us to additional tax liabilities and could have a material adverse effect on our results of operations and financial position.

***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 to support growth strategies, research and development initiatives, environmental compliance, and for normal upgrades or replacements. 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.

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### *ITEM 1B UNRESOLVED STAFF COMMENTS*
None.

### *ITEM 2 PROPERTIES*
We own substantially all of the land and buildings comprising our manufacturing facilities located in Pennsylvania; Ohio; Canada; the United Kingdom; Germany; France; and the Philippines; as well as substantially all of the equipment used in our manufacturing and related operations. Certain of our operations, particularly our metallized paper production facility located in Caerphilly, Wales, office and warehouse space in Moscow, Russia and our corporate offices located in York, Pennsylvania are under lease agreements. 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.

### *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 21.

**EXECUTIVE OFFICERS**

The following table sets forth certain information with respect to our executive officers and senior management as of March 7, 2013.

| Name | Age | Office with the Company |
|---|---|---|
| Dante C. Parrini | 48 | Chairman and Chief Executive Officer |
| John P. Jacunski | 47 | Senior Vice President and Chief Financial Officer |
| Christopher W. Astley | 40 | Vice President, Corporate Strategy |
| Jonathan A. Bourget | 48 | Vice President & General Manager, Advanced Airlaid Materials Business Unit |
| David C. Elder | 44 | Vice President, Finance |
| Debabrata Mukherjee | 43 | Vice President & General Manager, Specialty Papers Business Unit |
| Martin Rapp | 53 | Vice President & General Manager, Composite Fibers Business Unit |
| Mark A. Sullivan | 58 | Vice President, Global Supply Chain and Information Technology |
| William T. Yanavitch II | 52 | Vice President, Human Resources and Administration |

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.

**Dante C. Parrini** became Chief Executive Officer effective January 1, 2011 and Chairman of the Board in May 2011. Prior to this, he was Executive Vice President and Chief Operating Officer, a position he held since February 2005. Mr. Parrini joined us in 1997 and has previously served as Senior Vice President and General Manager, a position he held beginning in January 2003 and prior to that as Vice President responsible for Sales and Marketing.

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

**Christopher W. Astley** joined us in August 2010 as Vice President, Corporate Strategy. He has over fifteen years experience as an advisor and practitioner leading critical strategic and tactical corporate initiatives for natural resource companies, with a focus since 1999 on the pulp, paper, and packaging industries. Mr. Astley previously held positions with Accenture, a global management consulting firm, and The Coca-Cola

Company, as well as successfully leading a privately held business for several years.

**Jonathan A. Bourget** joined us in July 2010 as Vice President & General Manager, Advanced Airlaid Materials Business Unit. From 2008 until joining our Company, Mr. Bourget was Vice President & General Manager of European operations at Polymer Group Inc. Prior to this, he held various positions of increasing responsibility, including General Manager Specialties Division in Europe, with Alcoa Inc.

**David C. Elder** was promoted to Vice President, Finance in December 2011 and continues as our Chief Accounting Officer. Prior to his promotion, he was our Vice President, Corporate Controller, a position held since joining Glatfelter in January 2006. Mr. Elder was previously Corporate Controller for YORK International Corporation and prior to that he was the Director, Financial Planning and Analysis for that company.

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**Debabrata Mukherjee** was appointed Vice President & General Manager, Specialty Papers Business Unit in April 2008. Dr. Mukherjee joined our Company in 1998 and since then has held various operational, sales and technical leadership positions within the Specialty Papers Business Unit. From March 2006 through March 2008, Dr. Mukherjee served as Division Vice President, Engineered & Converting Products. From February 2004 through February 2006, Dr. Mukherjee served as Director, Engineered Products. Prior to joining Glatfelter, Dr. Mukherjee served in various capacities with Felix Schoeller, a Germany based global specialty paper manufacturer.

**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.

**Mark A. Sullivan** joined our Company in December 2003 and serves as Vice President, Global Supply Chain and Information Technology. Previously, he was our Chief Procurement Officer. Prior to joining Glatfelter, his experience included a broad array of operations and supply chain management responsibilities during twenty years with the DuPont Company.

**William T. Yanavitch II** was appointed Vice President, Human Resources and Administration in May 2005. Mr. Yanavitch briefly worked with Constellation Energy in Human Resources from February 2005 May 2005. He served as our Vice President Human Resources from July 2000 until January 2005. Prior to joining us he worked for Dentsply International and Gould Pumps Inc. in various leadership capacities.

### *ITEM 4 MINE SAFETY DISCLOSURES*

Not Applicable

## PART II

### *ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, 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 |
|---|---|---|---|
| **2012** | | | |
| **Fourth** | **$ 18.58** | **$ 15.31** | **$ 0.09** |
| **Third** | **18.25** | **15.43** | **0.09** |
| **Second** | **16.47** | **14.25** | **0.09** |
| **First** | **16.36** | **14.12** | **0.09** |
| 2011 | | | |
| Fourth | $ 15.79 | $ 12.46 | $ 0.09 |
| Third | 16.03 | 11.73 | 0.09 |
| Second | 15.51 | 12.65 | 0.09 |
| First | 13.40 | 11.00 | 0.09 |

As of March 5, 2013, we had 1,282 shareholders of record.

**STOCK PERFORMANCE GRAPH**

The following graph 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. For the year ended December 31, 2012, we compare our stock performance to the S&P Small Cap 600 Paper Products index comprised of us, Buckeye Technologies Inc., Clearwater Paper Corp., Kapstone Paper & Packaging Corp., Neenah Paper Inc., Schweitzer-Mauduit International and Wausau Paper Corp. In addition, the chart includes a comparison to the Russell 2000, which we believe is an appropriate benchmark index for stocks such as ours.

The following graph assumes that the value of the investment in our common stock, in each index, and the peer group (including reinvestment of dividends) was $100 on December 31, 2007 and charts it through December 31, 2012.

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***ITEM 6 SELECTED FINANCIAL DATA***

*As of or for the year ended December 31*

| *Dollars in thousands, except per share* | **2012** | 2011 | 2010 (3) | 2009 (5) | 2008 |
|---|---|---|---|---|---|
| Net sales | **$ 1,577,788** | $ 1,603,154 | $ 1,455,331 | $ 1,184,010 | $ 1,263,850 |
| Energy and related sales, net | **7,000** | 9,344 | 10,653 | 13,332 | 9,364 |
| Total revenue | **1,584,788** | 1,612,498 | 1,465,984 | 1,197,342 | 1,273,214 |
| Reversal of (charges for) shutdown and restructuring | | | | | 856 |
| Gains on dispositions of plant, equipment and timberlands, net | **9,815** | 3,950 | 453 | 898 | 18,468 |
| Net income | **$ 59,379(1)** | $ 42,694(2) | $ 54,434(4) | $ 123,442 | $ 57,888 |
| | | | | | |
| Earnings per share | | | | | |
| Basic | **$ 1.39** | $ 0.94 | $ 1.19 | $ 2.70 | $ 1.28 |
| Diluted | **1.36** | 0.93 | 1.17 | 2.70 | 1.27 |
| | | | | | |
| Total assets | **$ 1,242,985** | $ 1,136,925 | $ 1,341,747 | $ 1,190,294 | $ 1,057,309 |
| Total debt | **250,000** | 227,000 | 333,022 | 254,583 | 313,285 |
| Shareholders equity | **539,679** | 490,404 | 552,442 | 510,704 | 342,707 |
| | | | | | |
| Cash dividends declared per common share | **0.36** | 0.36 | 0.36 | 0.36 | 0.36 |
| Depreciation, depletion and amortization | **69,500** | 69,313 | 65,839 | 61,256 | 60,611 |
| Capital expenditures | **58,752** | 64,491 | 36,491 | 26,257 | 52,469 |
| Shares outstanding | **42,784** | 42,650 | 45,976 | 45,706 | 45,434 |
| Net tons sold | **969,833** | 960,915 | 927,853 | 818,905 | 829,354 |
| Number of employees | **4,258** | 4,274 | 4,337 | 3,546 | 3,633 |

(1) During 2012, we recorded after-tax charges totaling $4.8 million related to the write-off of unamortized deferred issuance costs and the early redemption premium in connection with the refinancing of $200 million of bonds. In addition, net income includes a $4.0 million benefit from the conversion of alternative fuel mixture credits for cellulosic biofuel production credits.

(2) During 2011, we recorded after-tax charges totaling $6.1 million related to the write-off of unamortized deferred issuance costs and original issue discount and the redemption premium in connection with the early redemption of $100 million of bonds.

(3) The information set forth above for 2010 includes the financial information for Concert Industries Corp. prospectively from the February 12, 2010 acquisition date.

(4) During 2010, net income included a $23.2 million tax benefit from cellulosic biofuel production credits.

(5) During 2009, we recognized $107.8 million of alternative fuel mixture credits, all of which were recorded as a reduction to cost of products sold.

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

**Forward-Looking Statements** This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects and future consolidated financial position or results of operations, made in this Report on Form 10-K are forward looking. We use words such as anticipates , believes , expects , future , intends and similar expressions to identify forward-looking statements. Forward-looking statements reflect management s current expectations and are inherently uncertain. Our actual results may differ significantly from such expectations. The following discussion includes forward-looking statements regarding expectations of, among others, non-cash pension expense, 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. variations in demand for our products including the impact of any unplanned market-related downtime, or variations in product pricing;

ii. changes in the cost or availability of raw materials we use, in particular pulpwood, pulp, pulp substitutes, caustic soda, and abaca fiber;

iii. changes in energy-related costs and commodity raw materials with an energy component;

iv. our ability to develop new, high value-added products;

v. the impact of exposure to volatile market-based pricing for sales of excess electricity;

vi. the impact of competition, both domestic and international, changes in industry production capacity, including the construction of new mills or new machines, the closing of mills and incremental changes due to capital expenditures or productivity increases;

vii. the gain or loss of significant customers and/or on-going viability of such customers;

viii. 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;

ix. risks associated with our international operations, including local economic and political environments and fluctuations in currency exchange rates;

x. geopolitical events, including war and terrorism;

xi. disruptions in production and/or increased costs due to labor disputes;

xii. the impact of unfavorable outcomes of audits by various state, federal or international tax authorities;

xiii. enactment of adverse state, federal or foreign tax or other legislation or changes in government policy or regulation;

xiv. adverse results in litigation in the Fox River matter;

xv. our ability to finance, consummate and integrate acquisitions;

xvi. the cost, and successful design and construction, of the Composite Fibers capacity expansion project; and

xvii. the incurrence of unforeseen costs associated with the repair of equipment and clean-up of the Scäer facility, our ability to supply this facility s customers, and the coverage provided by insurance.

**Introduction** We manufacture a wide array of specialty papers and fiber-based engineered materials. We manage our company along three business units:

*Specialty Papers* with revenue from the sale of carbonless papers and forms, book publishing, envelope & converting papers, and fiber-based engineered products;

*Composite Fibers* with revenue from the sale of single-serve coffee and tea filtration papers, metallized papers, composite laminates used for decorative furniture and flooring applications, and other technical specialty papers; and

*Advanced Airlaid Materials* with revenue from the sale of airlaid non-woven fabric-like materials used in feminine hygiene products, adult incontinence products, cleaning pads, wipes, food pads, napkins, tablecloths, and baby wipes.

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**Overview** For the year ended December 31, 2012, net income was $59.4 million, or $1.36 per diluted share, compared with net income of $42.7 million, or $0.93 per diluted share, in 2011. The amounts reported for 2012 include after-tax charges totaling $4.8 million incurred in connection with the refinancing of $200 million fixed-rate bonds for a new $250 million fixed-rate issuance, as well as a $4.0 million benefit from the conversion of alternative fuel mixture credits for cellulosic biofuel production credits. Results for 2011 include after-tax charges totaling $7.5 million for costs incurred to redeem $100 million of fixed-rate bonds, acquisition and integration expenses and work force efficiency actions. Reported results for both years included after-tax gains of $5.4 million and $4.2 million in 2012 and 2011, respectively, from the sales of timberlands and, in 2011, the release of tax reserves related to prior timberland sales. Unfavorable foreign currency translations affected the comparison of reported results for 2012 with 2011 by $5.7 million.

From an operating perspective, our businesses performed well during 2012 compared with 2011, evidenced by a $9.9 million, or 8.9%, increase in business unit operating income led by strong improvements from Specialty Papers and Advanced Airlaid Materials. Composite Fibers results were unfavorable in the comparison by $4.7 million.

Specialty Papers operating income totaled $67.3 million and $57.3 million for 2012 and 2011, respectively. Volumes shipped increased in the comparison to 2011 and this unit s profitability was further favorably impacted by higher selling prices and slightly lower input costs partially offset by higher spending for maintenance and other costs.

Our Composite Fibers business unit s operating income decreased to $36.1 million from $40.8 million in 2011. Volumes shipped decreased 3.2% compared to 2011 reflecting generally softer economic conditions in its market segments. Unfavorable foreign currency translations affected this unit s operating income by $3.2 million.

Advanced Airlaid Materials operating income increased $4.6 million, or 34.3%, largely reflecting lower input costs and an increase in shipping volumes. Unfavorable foreign currency translations affected this unit s operating income by $3.0 million.

During 2012, we generated significant operating cash flow of $112.8 million, and although lower than 2011, this was largely due to the year over year impact of receiving cash in 2011 compared with a net outflow of cash in 2012 related to cellulosic biofuel production and alternative fuel mixture credits.

**RESULTS OF OPERATIONS**

***2012 versus 2011***

The following table sets forth summarized consolidated results of operations:

| | Year Ended December 31 | |
|---|---|---|
| *In thousands, except per share* | **2012** | 2011 |
| Net sales | **$ 1,577,788** | $ 1,603,154 |
| Gross profit | **213,649** | 206,193 |
| Operating income | **101,874** | 85,272 |
| Net income | **59,379** | 42,694 |
| Earnings per diluted share | **1.36** | 0.93 |

The consolidated results of operations for 2012 and 2011 include the following items not considered to be part of our core business operations:

| *In thousands, except per share* | After-tax Gain (loss) | Diluted EPS |
|---|---|---|
| **2012** | | |
| Early redemption of $200 million bonds | **$ (4,784)** | **$ (0.11)** |
| Conversion of alternative fuel mixture/Cellulosic biofuel credits | **4,020** | **0.09** |
| Timberland sales and related transaction costs | **5,388** | **0.12** |
| 2011 | | |
| Early redemption of $100 million bonds | $ (6,065) | (0.13) |
| Charge for workforce efficiencies | (652) | (0.01) |
| Acquisition and integration costs | (792) | (0.02) |

| | | |
|---|---|---|
| Timberland sales and related transaction costs | 4,160 | 0.09 |

During 2012, the aggregate effect of the unusual items set forth above increased earnings by $4.6 million, or $0.10 per diluted share. In 2011, the items set forth above decreased earnings by $3.3 million, or $0.07 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 Business Unit Performance table.

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Management evaluates results of operations of the business units before pension expense, alternative fuel mixture credits, debt redemption costs, restructuring related charges, certain corporate level costs, and the effects of certain asset dispositions. Management believes that this is a more meaningful representation of the operating performance of its core businesses, the

profitability of business units and the extent of cash flow generated from these core operations. Such amounts are presented under the caption Other and Unallocated. This presentation is 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.

**Business Unit Performance**

| Year ended December 31<br>*In millions* | Specialty Papers | | Composite Fibers | | Advanced Airlaid Materials | | Other and Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| Net sales | **$ 894.8** | $ 875.1 | **$ 436.7** | $ 476.0 | **$ 246.3** | $ 252.0 | **$** | $ | **$ 1,577.8** | $ 1,603.2 |
| Energy and related sales, net | **7.0** | 9.3 | | | | | | | **7.0** | 9.3 |
| Total revenue | **901.8** | 884.4 | **436.7** | 476.0 | **246.3** | 252.0 | | | **1,584.8** | 1,612.5 |
| Cost of products sold | **779.5** | 775.7 | **362.6** | 395.7 | **218.7** | 227.7 | **10.3** | 7.2 | **1,371.1** | 1,406.3 |
| Gross profit (loss) | **122.3** | 108.7 | **74.2** | 80.3 | **27.6** | 24.3 | **(10.4)** | (7.2) | **213.6** | 206.2 |
| SG&A | **55.0** | 51.4 | **38.1** | 39.5 | **9.6** | 10.9 | **18.9** | 23.0 | **121.6** | 124.9 |
| Gains on dispositions of plant, equipment and timberlands, net | | | | | | | **(9.8)** | (4.0) | **(9.8)** | (4.0) |
| Total operating income (loss) | **67.3** | 57.3 | **36.1** | 40.8 | **18.0** | 13.4 | **(19.5)** | (26.2) | **101.9** | 85.3 |
| Non-operating expense | | | | | | | **(22.9)** | (34.4) | **(22.9)** | (34.4) |
| Income (loss) before income taxes | **$ 67.3** | $ 57.3 | **$ 36.1** | $ 40.8 | **$ 18.0** | $ 13.4 | **$ (42.4)** | $ (60.7) | **$ 78.9** | $ 50.8 |
| **Supplementary Data** | | | | | | | | | | |
| Net tons sold *(thousands)* | **789.2** | 779.6 | **90.3** | 93.3 | **90.3** | 88.0 | | | **969.8** | 960.9 |
| Depreciation, depletion and amortization | **$ 37.4** | $ 36.0 | **$ 23.5** | $ 24.8 | **$ 8.7** | $ 8.5 | **$** | | **$ 69.5** | $ 69.3 |
| Capital expenditures | **23.1** | 31.4 | **31.4** | 22.5 | **3.9** | 10.6 | **0.3** | | **58.8** | 64.5 |

The sum of individual amounts set forth above may not agree to the consolidated financial statements included herein due to rounding.

**Sales and Costs of Products Sold**

| *In thousands* | Year ended December 31<br>**2012** | 2011 | Change |
|---|---|---|---|
| Net sales | **$ 1,577,788** | $ 1,603,154 | $ (25,366) |
| Energy and related sales net | **7,000** | 9,344 | (2,344) |
| Total revenues | **1,584,788** | 1,612,498 | (27,710) |
| Costs of products sold | **1,371,139** | 1,406,305 | (35,166) |
| Gross profit | **$ 213,649** | $ 206,193 | $ 7,456 |
| Gross profit as a percent of Net sales | **13.5%** | 12.9% | |

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

| *Percent of Total* | Year ended December 31<br>**2012** | 2011 |
|---|---|---|
| **Business Unit** | | |

| | | |
|---|---|---|
| Specialty Papers | **56.7%** | 54.6% |
| Composite Fibers | **27.7** | 29.7 |
| Advanced Airlaid Material | **15.6** | 15.7 |
| Total | **100.0%** | 100.0% |

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Net sales for 2012 decreased $25.4 million, or 1.6%, in the comparison to 2011 and totaled $1,577.8 million. The translation of foreign currencies unfavorably impacted net sales by $35.8 million more than offsetting a $3.5 million benefit from higher selling prices. Shipping volumes were up slightly as higher shipping volumes in both Specialty Papers and Advanced Airlaid Materials were offset by softer demand in Composite Fibers related to the weak European economy.

In the Specialty Papers business unit, net sales for 2012 increased $19.7 million, or 2.3%, to $894.8 million. The increase was primarily due to a $6.5 million benefit from higher selling prices and a 1.2% increase in shipping volumes.

Specialty Papers operating income in 2012 of $67.3 million was $10.0 million higher than 2011 reflecting the benefits from higher selling prices and shipping volumes, and a $5.7 million benefit from lower raw material costs. These factors were partially offset by higher maintenance and other cost inflation as well as $2.3 million of lower energy and related sales.

We sell excess power generated by the Spring Grove, PA facility. In addition, two of our facilities are registered generators of renewable energy credits ( RECs ). The following table summarizes this activity for 2012 and 2011:

| | Year ended December 31 | | |
|---|---|---|---|
| *In thousands* | **2012** | 2011 | Change |
| Energy sales | **$ 5,284** | $ 10,992 | $ (5,708) |
| Costs to produce | **(4,187)** | (9,319) | 5,132 |
| Net | **1,097** | 1,673 | (576) |
| Renewable energy credits | **5,903** | 7,671 | (1,768) |
| Total | | | |