GLATFELTER P H CO
Form 424B4
September 23, 2004

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Filed Pursuant to Rule 424B4
Registration Nos. 333-117233 and
333-119178

8,000,000 Shares

P. H. Glatfelter Company

Common Stock

The shares of common stock are being sold by the selling shareholders. We will not receive any of the proceeds from the shares of common stock sold by the selling shareholders.

Our common stock is listed on the New York Stock Exchange under the symbol GLT. The last reported sale price on September 21, 2004 was $11.94 per share.

The underwriters have an option to purchase a maximum of 1,200,000 additional shares within 30 days following the date of this prospectus to cover over-allotments of shares.

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Shareholders
Per Share	$ 11.000	$ 0.605	$ 10.395
Total	$ 88,000,000	$ 4,840,000	$ 83,160,000

Delivery of the shares of common stock will be made on or about September 27, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

Merrill Lynch & Co.

This date of this prospectus is September 21, 2004

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

This summary highlights basic information contained in this prospectus. The summary may not contain all of the information that is important to you, and it is qualified in its entirety by the more detailed information and historical consolidated financial statements, including the notes to those financial statements, that are part of our reports filed with the SEC and included or incorporated by reference in this prospectus. You should carefully consider the information contained in and incorporated by reference in the entire prospectus, including the information set forth under the heading Risk Factors in this prospectus. In this prospectus, the terms we, us, our, the Company and Glatfelter refer to P. H. Glatfelter Company and its subsidiaries unless the context indicates otherwise.

Our Business

Glatfelter began operations in 1864 and today we believe we are one of the world s leading manufacturers of specialty papers and engineered products. Headquartered in York, Pennsylvania, we own and operate paper mills located in Spring Grove, Pennsylvania, Neenah, Wisconsin, Gernsbach, Germany and Scaër, France, as well as an abaca pulp mill in the Philippines. We serve customers in numerous markets, including book publishing, envelope converting, food and beverage, pressure-sensitive, digital imaging, composite laminates, and other highly technical niche markets. Many of the markets in which we operate are characterized by higher-value-added products and, in some cases, by higher growth prospects and lower cyclicality than commodity paper markets. Examples of some of our key product offerings include papers for:

- Tea bags and coffee filters;
- Trade book publishing;
- Specialized envelopes;
- Playing cards;
- Pressure-sensitive postage stamps;
- Metallized labels for beer bottles; and
- Digital imaging applications.

We market our products worldwide through wholesale paper merchants, brokers and agents, and directly to our customers. In 2003, our revenue was $543.2 million.

Our Business Units

We operate three primary business units: Engineered Products; Long Fiber & Overlay Papers; and Printing & Converting Papers.

Engineered Products

Engineered Products focuses on highly technical engineered paper products designed for multiple end uses, such as papers for pressure-sensitive postage stamps, disposable medical garments, playing cards and digital imaging applications. Many of the products in this segment are utilized in demanding, specialized customer and end-user applications and, therefore, command higher per ton values and generally exhibit greater pricing stability relative to commodity grade paper products. In 2003, our net sales of Engineered Products were $108.5 million.

Long Fiber & Overlay Papers

Long Fiber & Overlay Papers focuses on higher-value-added products, such as paper for tea bags and coffee filters, decorative laminates used for furniture and flooring, and metallized products used in the labeling of beer bottles. Long fiber papers, which is the generic term we use to describe products made

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from abaca pulp (primarily tea bag and coffee filter papers), account for the majority of this business unit s sales. Our focus on long fiber papers has made us one of the world s largest suppliers of tea bag papers. The balance of this unit s sales represents overlay and technical specialty products, which include flooring and furniture overlay papers, metallized products, adhesive tapes, vacuum bags, holographic labels and gift wrap. In 2003, our net sales of Long Fiber & Overlay Papers were $165.4 million.

Printing & Converting Papers

Printing & Converting Papers focuses on papers for the production of high-quality hardbound books and other book publishing needs. Total book publishing papers account for the majority of this business unit s sales, and we believe we are the leading supplier of papers for this market in the United States. This business unit also produces other papers, including paper that is converted into specialized envelopes in a wide array of colors, finishes and capabilities. These markets are generally more mature and, therefore, have modest growth characteristics. In 2003, our net sales of Printing & Converting Papers were $249.5 million.

Our Competitive Strengths

Since commencing operations 140 years ago, we believe that Glatfelter has developed into one of the world s leading manufacturers of specialty papers and engineered products. We believe that the following competitive strengths have contributed to our success:

Leading market positions in higher-value, niche segments. We have focused our resources to achieve market-leading positions in certain higher-value, niche segments. Our products include various highly specialized paper products designed for technically demanding end uses. Consequently, many of our products achieve premium pricing that is significantly above that of commodity paper grades. In 2003, approximately 70% of our sales were derived from these higher-value, niche products. The specialized nature of these products generally provides greater pricing stability relative to commodity paper products.

Customer-centric business focus. We offer a unique and diverse product line that can be customized to serve the individual needs of our customers. Our size allows us to develop close relationships with our key customers and to be adaptable in our product development, manufacturing, sales and marketing practices. We believe that this approach has led to the development of excellent customer relationships, defensible market positions and increased pricing stability relative to commodity paper products.

Significant investment in product development. In order to keep up with our customers ever-changing needs, we continually enhance our product offerings through significant investment in product development. In each of the past three years, we invested approximately $5.1 million on product development. Revenue generated from products developed, enhanced or improved within the five previous years as a result of these activities represented approximately 25%, 37% and 47% of our sales during 2001, 2002 and 2003, respectively.

Geographic diversity. In 1998, we expanded our global reach with the acquisition of Schoeller & Hoesch GmbH & Co. KG. Schoeller & Hoesch operates paper mills in Gernsbach, Germany and Scaër, France, as well as an abaca pulp mill in the Philippines. The Schoeller & Hoesch product lines serve multiple end markets, including tea bags, coffee filters, laminate furniture and flooring, labels and packaging, and adhesive tapes. During 2003, we sold our products to customers in approximately 80 countries throughout the world.

Integrated production. As a partially integrated producer, we are less subject to changes in the costs of certain raw materials and energy than non-integrated producers. Our Spring Grove mill is a vertically integrated operation producing in excess of 85% of the annual pulp required for its paper production. The principal raw material used to produce this pulp is pulpwood. We obtain approximately 25% of our pulpwood requirements from Company-owned timberlands, which helps

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stabilize our fiber costs in a highly fragmented market. Our Spring Grove facility also generates 100% of the steam and electricity required for its operations. In addition, our Philippine mill processes abaca fiber to produce abaca pulp, which is a key raw material used by our Long Fiber & Overlay business unit in Gernsbach and Scaër.

Our Business Strategy

Our vision is to become the global supplier of choice in specialty papers and engineered products. We are continuously developing and refining strategies to strengthen our business and position it for the future. Execution of these strategies is intended to capitalize on our strengths in customer relationships, technology and people, as well as our leadership positions in certain markets. To be successful in the current market environment, our strategy is focused on aggressively reducing costs and continually repositioning our product portfolio to increase our focus on higher-value, niche products. Implementation of our strategy may include the pursuit of acquisitions or other strategic opportunities. Certain key elements of our strategy are outlined below:

Reposition our product portfolio. By leveraging our leadership positions in several specialty niche markets, we plan to accelerate growth, improve margins and generate better financial returns through the optimization of our product portfolio. In 2003, approximately 70% of our total sales were derived from what we consider to be higher-value, niche products. Over time, we plan to increase our concentration on such products by driving growth in our sales of trade book papers, uncoated specialty products, long fiber and overlay products, and other specialty products. We believe that this strategy will realign our business more closely with our customers needs and further reduce our exposure to the higher level of cyclicality experienced in commodity paper grades.

Employ commodity cost approach to specialty product manufacturing. While we are focused on higher-value, niche products, we seek to employ a commodity-like, low-cost approach to our manufacturing activities. In September 2003, we initiated a restructuring of our Neenah facility, and during the second quarter of 2004, we began to implement our North American Restructuring Program. Together, these actions comprise a series of initiatives designed to improve our cost position and overall financial performance. We believe that these steps will significantly improve our profitability and cash flow, which will allow us to deploy additional capital to specialty products with higher growth potential and returns.

Maintain our strong balance sheet and preserve financial flexibility for future growth initiatives. We are focused on prudent financial management and the maintenance of a conservative capital structure. Furthermore, we are committed to maintaining an investment grade credit rating and our flexibility to pursue strategic opportunities that will benefit our shareholders. We demonstrated this commitment in 2003, during which we maintained a stable debt level despite significant investments in capital equipment.

Execute Long Fiber & Overlay Papers growth plan. A core component of our long-term strategy is to drive growth in our Long Fiber & Overlay Papers business unit. Currently, we are one of the leading producers of tea bag papers in the world, and we believe that this market has promising growth characteristics as certain markets move toward tea bags versus loose tea leaves. We believe that we are well positioned to capitalize on this growth by leveraging our strong customer relationships and market-leading position in this segment. In addition, our rebuilt paper machine in Gernsbach will allow us to penetrate certain technical specialty markets, including the wall covering, textile/apparel and industrial markets.

Background to the Offering

Since Glatfelter was founded in 1864 by Philip H. Glatfelter, his descendants have retained a significant ownership interest in the Company. Throughout this prospectus, we refer to the descendants of Philip H. Glatfelter as the Glatfelter Family. Members of the Glatfelter Family have also played a key role in the management of our company, including our current Chairman and Chief Executive Officer, George H. Glatfelter II, a direct descendant of our founder. Today, there are over 100 members of the Glatfelter Family, none of whom are involved in the day-to-day management of our business, other than George H. Glatfelter II. For a more detailed discussion of the relationships between certain members of the Glatfelter Family and the Company, please see Certain Relationships and Related Transactions included elsewhere in this prospectus.

We estimate that, as of August 31, 2004, approximately 35% of our outstanding common stock was held by or for the benefit of the Glatfelter Family. The selling shareholders in this offering are trusts created by or for the benefit of members of the Glatfelter Family as well as a member of the Glatfelter Family. Following consummation of this offering, we estimate that the Glatfelter Family, including those not participating in this offering, will beneficially own approximately 17% of our outstanding common stock (or approximately 14%, if the underwriters exercise their over-allotment option in full).

We have agreed to undertake this offering following a request received from representatives of the Glatfelter Family. We have been informed by the selling shareholders that the decision to offer stock in this offering has been motivated by the desire to diversify their investments in a manner consistent with prudent investment principles.

The Glatfelter Family does not possess registration rights with regard to our common stock and substantially all of our common stock that the Glatfelter Family will own following this offering will be unregistered. In connection with this offering, the holders of substantially all of the shares of our common stock held by or for the benefit of the Glatfelter Family have agreed, subject to certain exceptions, not to offer or sell shares of our common stock for a period of 180 days after the date of this prospectus. These members of the Glatfelter Family have also agreed not to seek registration rights from us with respect to their remaining shares for a period of 365 days after the date of this prospectus. See Underwriting included elsewhere in this prospectus for more information on these agreements.

Risks Relating to Our Business

You should carefully consider the matters discussed in the Risk Factors section beginning on page 8 of this prospectus prior to deciding whether to invest in shares of our common stock. Some of the risks include:

- Our business and financial performance may be adversely affected by downturns in the target markets that we serve;
- Our industry is highly competitive and many of our competitors have greater financial resources than we do. Increased competition could adversely affect our financial performance;
- Increases in the cost of raw materials and energy used to manufacture our products will increase our production costs and may adversely affect our financial performance; and
- We are subject to substantial costs and potential liability related to environmental regulations and environmental remediation activities. We may face increasing compliance and remediation costs which could adversely affect our financial performance.

Company Information

We are incorporated under the laws of the Commonwealth of Pennsylvania. Our executive offices are located at 96 South George Street, Suite 500, York, Pennsylvania 17401. Our telephone number is (717) 225-4711. Our Web site address is www.glatfelter.com. The information on our Web site is not part of this prospectus.

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The Offering

Common stock offered by the selling shareholders	8,000,000 shares (or 9,200,000 shares if the underwriters exercise the over-allotment option in full)
Common stock outstanding before and after this offering	43,882,744 shares
Use of proceeds	We will not receive any proceeds from the sale of common stock by the selling shareholders.
New York Stock Exchange symbol	GLT

All of the shares offered by this prospectus are being offered by the selling shareholders.

The number of shares of common stock outstanding is based on the number of shares outstanding as of August 31, 2004 and excludes:

2,188,262 shares of common stock reserved for issuance upon the exercise of outstanding stock options at a weighted average exercise price per share of $14.60;

279,620 shares of common stock reserved for issuance upon the vesting of restricted stock awards and restricted stock units; and

1,159,990 shares of common stock reserved for future awards under our 1992 Key Employee Long-Term Incentive Plan.

As of August 31, 2004 the selling shareholders held approximately 32% of our outstanding common stock. After giving effect to this offering, the selling shareholders will own approximately 13% of our outstanding common stock (or approximately 11% if the underwriters over-allotment option is exercised in full).

Unless otherwise indicated, the information in this prospectus assumes that the underwriters will not exercise the over-allotment option granted to them by the selling shareholders.

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Summary Consolidated Financial Information

The following summary consolidated financial information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Selected Historical Financial Data and our consolidated financial statements and related notes included elsewhere in this prospectus. The summary consolidated financial information for the years ended December 31, 2001, 2002, and 2003, and as of December 31, 2002 and 2003 is derived from our audited consolidated financial statements included elsewhere in this prospectus. In July 2003, we completed the sale of our Wisches, France subsidiary and, in accordance with accounting principles generally accepted in the United States of America, the consolidated financial information for all periods presented in this Summary Consolidated Financial Information has been adjusted to reflect this subsidiary as a discontinued operation. As a result of such adjustment, the summary consolidated financial information for the years ended December 31, 1999 and 2000 and as of December 31, 1999, 2000 and 2001 is unaudited. The summary consolidated financial information for the six months ended June 30, 2003 and 2004 is unaudited. The historical results are not necessarily indicative of our future results of operations or financial performance.

Dollars in thousands, except per share amounts	Year Ended December 31,					Six Months Ended June 30,	
	1999	2000	2001	2002	2003	2003	2004
Income Statement Data:							
Total revenues	$711,553	$731,188	$642,263	$550,161	$543,233	$276,958	$266,414
Cost of products sold	578,639	589,149	501,142	423,880	463,687	228,382	229,873
Gross profit	132,914	142,039	141,121	126,281	79,546	48,576	36,541
Selling, general and administrative expenses	55,932	59,905	60,225	53,699	59,146	29,771	30,513
Restructuring charges and unusual items, net		3,336	60,908	2,241	18,484		867
Gains on disposition of plant, equipment and timberlands, net	(4,076)	467	(2,015)	(1,304)	(32,334)	(31,401)	(33,430)
Gains from insurance recoveries							(25,500)
Operating income	81,058	78,331	22,003	71,645	34,250	50,206	64,091
Other nonoperating income (expense)							
Interest, net	(16,283)	(12,461)	(12,039)	(13,532)	(12,449)	(7,054)	(6,695)
Other net	(11)	1,759	1,558	1,016	(1,385)	(356)	838
Total other income (expense)	(16,294)	(10,702)	(10,481)	(12,516)	(13,834)	(7,410)	(5,857)
Income from continuing operations before income taxes	64,764	67,629	11,522	59,129	20,416	42,796	58,234
Income tax provision	23,591	24,262	4,693	21,492	7,430	15,425	23,604
Income from continuing operations	$ 41,173	$ 43,367	$ 6,829	$ 37,637	$ 12,986	$ 27,371	$ 34,630
Diluted earnings per share from continuing operations	$ 0.98	$ 1.04	$ 0.16	$ 0.86	$ 0.30	$ 0.63	$ 0.79
	0.70	0.70	0.70	0.70	0.53	0.35	0.18

Cash dividends declared
per common share

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Dollars in thousands	Year Ended December 31, 1999	2000	2001	2002	2003	Six Months Ended June 30, 2003	2004
Cash Flow Data:							
Cash provided (used) by continuing operations							
Operating activities	$81,054	$103,067	$64,437	$77,706	$46,996	$31,953	$16,830
Investing activities	(29,105)	(29,054)	(30,536)	(49,610)	(62,367)	(44,468)	22,987
Financing activities	(26,264)	(36,789)	(48,710)	(84,605)	(2,462)	6,639	(43,968)
Depreciation, depletion and amortization	47,578	45,931	44,815	45,003	56,029	25,153	26,380
Capital expenditures	24,044	29,197	47,805	51,108	66,758	45,548	11,121

Dollars in thousands	As of December 31, 1999	2000	2001	2002	2003	As of June 30, 2004
Balance Sheet Data:						
Cash and cash equivalents	$ 75,879	$ 110,413	$ 95,407	$ 32,219	$ 15,566	$ 11,097
Working capital[1]	137,202	169,177	32,213	88,140	59,232	58,777
Total assets	1,003,780	1,023,325	966,604	953,202	1,027,019	1,024,125
Total debt	329,770	306,822	277,755	220,532	254,275	216,822
Shareholders equity	358,124	372,703	353,469	373,833	371,431	395,978

(1) Working capital is defined as current assets less current liabilities.

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RISK FACTORS

An investment in our common stock involves risks. You should carefully consider, in addition to the other information contained or incorporated by reference in this prospectus, the following risk factors before deciding to purchase any shares of our common stock. If any of the following risks occur, our business, prospects, reputation, results of operations or financial condition could be harmed. In that case, the trading price of our common stock could decline, and you could lose some or all of your investment. This prospectus also contains forward-looking statements that involve risks and uncertainties (see Cautionary Note Regarding Forward-Looking Statements included elsewhere in this prospectus). Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks described below and elsewhere in this prospectus.

Risks Related to Our Business

Our business and financial performance may be adversely affected by downturns in the target markets that we serve.

Demand for our products in the markets we serve is primarily driven by consumption of the products we produce, which is often affected by general economic conditions. In recent years, the global paper industry in which we compete has been adversely impacted by paper producing capacity exceeding the demand for products. Our Printing & Converting Papers business unit, in particular, has been negatively affected by such over capacity. Downturns in our target markets could result in decreased demand for our products. In particular, our business may be adversely affected during periods of economic weakness by the general softness in these target markets. Our results could be adversely affected if economic conditions weaken or fail to improve. Also, there may be periods during which demand for our products is insufficient to enable us to operate our production facilities in an economical manner. These conditions are beyond our ability to control and have had, and may continue to have, a significant impact on our sales and results of operations.

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

Our industry is highly competitive and increased competition could reduce our sales and profitability.

We offer our products throughout the United States and globally in approximately 80 countries. We compete on the basis of the quality of our products, customer service, product development activities, price and distribution. Our competition in the markets in which we participate comes from companies of various sizes, some of which have greater financial and other resources than we do. In our Engineered Products and Long Fiber & Overlay Papers business units, we compete with specialty divisions of large companies such as Ahlstrom, International Paper, MeadWestvaco, Sappi and Stora Enso, as well as other companies such as J R Crompton. In our Printing & Converting Papers business unit, we compete with companies such as Domtar and Weyerhaeuser, with respect to book publishing papers. In the envelope sector, we compete with companies such as Blue Ridge, International Paper and Weyerhaeuser. 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 disadvantage.

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Some of the factors that may adversely affect our ability to compete in the markets in which we participate include:

- the entry of new competitors into the markets we serve, including foreign producers;
- the willingness of commodity-based paper producers to enter our specialty markets when they are unable to compete or when demand softens in their traditional markets;
- the aggressiveness of our competitors pricing strategies, which could force us to decrease prices in order to maintain market share;
- our failure to anticipate and respond to changing customer preferences;
- our inability to develop new, improved or enhanced products; and
- our inability to maintain the cost efficiency of our facilities.

If we cannot effectively compete in the markets in which we operate, our sales and operating results are likely to be adversely affected.

The cost of raw materials and energy used to manufacture our products could increase.

We require access to sufficient and reasonably priced quantities of pulpwood, wood and other pulps, pulp substitutes, abaca fiber and certain other raw materials. Although our manufacturing facility in Spring Grove is a vertically integrated operation that uses wood acquired from our own timberlands and others to make pulp, our Neenah facility purchases wood and other pulps for use in the manufacture of its products. In addition, our Philippines facility purchases abaca fiber to make pulp, which we use to manufacture our long fiber products in Gernsbach, Germany and Scaër, France. We may not be able to pass increased raw materials prices on to our customers if the market or existing agreements with our customers do not allow us to raise the prices of our finished products. Moreover, if we elect to pass-through increased raw materials costs, the resulting increase in the selling prices for the products we produce could reduce the volume of units we sell and decrease our revenues. If price adjustments significantly trail the increase in raw materials prices or if we cannot effectively hedge against price increases, our operating results will be adversely effected.

With the exception of our Neenah facility, our production facilities generate all of the steam required for their operations. The Neenah facility purchases steam under a long-term agreement with a third party supplier. The cost of the purchased steam is based on the market price of natural gas, and we are required to purchase an annual minimum amount. We have experienced significant volatility and increases in natural gas prices. If prices continue to increase, or if we are unsuccessful in any actions to mitigate such price increases, our operating results could be adversely impacted.

We are subject to substantial costs and potential liability for environmental matters.

We are subject to various environmental laws and regulations that govern our operations, including discharges into the environment, and the handling and disposal of hazardous substances and wastes. We are also subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment.

To comply with environmental laws and regulations, we have incurred, and will continue to incur, substantial capital and operating expenditures. We anticipate that environmental regulation of our operations will continue to become more burdensome and that capital and operating expenditures necessary to comply with environmental regulations will continue, and perhaps increase, in the future. Because environmental regulations are not consistent worldwide, our ability to compete in the world marketplace may be adversely affected by capital and operating expenditures required for environmental compliance.

In addition, we may incur obligations to remove or mitigate any adverse effects on the environment, such as air and water quality, resulting from mills we operate or have operated. Potential obligations

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include compensation for the restoration of natural resources, personal injury and property damages. In connection with the sale of our Ecusta Division in 2001, we are incurring landfill closure costs and may incur additional environmental-related costs. We are also liable for the costs of clean-up related to the presence of polychlorinated biphenyls, or PCBs, in the lower Fox River on which our Neenah, Wisconsin mill is located. We have financial reserves for environmental matters but we cannot be certain that those reserves will be adequate to provide for future obligations related to these matters, that our share of costs and/or damages for these matters will not exceed our available resources, or that such obligations will not have a long-term, material adverse effect on our consolidated financial position, liquidity or results of operations.

Our environmental issues are complicated and should be reviewed in context; please see a more detailed discussion of these matters in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Environmental Matters and Business Environmental Matters included elsewhere in this prospectus.

We have operations in a politically and economically unstable location.

We own and operate a pulp mill in the Philippines where the operating environment is unstable and subject to political unrest. Our Philippine pulp mill produces abaca pulp, a significant raw material used by our Gernsbach, Germany and Scaër, France facilities in the production of our long fiber-based products. Our Philippine pulp mill is currently our sole 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.

We may not effectively implement our North American Restructuring Program.

The North American Restructuring Program, which we began to implement in the second quarter of 2004, is designed to improve operating results by enhancing product and service offerings in Printing & Converting Papers book publishing markets, reducing our workforce in Spring Grove, Pennsylvania by approximately 20%, and implementing revised sourcing strategies, end-to-end planning and scheduling processes.

The realization of financial benefits from these efforts is dependent on many factors, including, but not limited to, customer acceptance of streamlined product and service offerings, the ability to effectively revise and enhance our production planning and effective supply chain management. It is also possible that disruptions to our operations may occur during the implementation phase of the program. In addition, our anticipated cost savings are based upon certain estimates that may prove to be inaccurate. For example, if sales are lower than our expectations, our cost saving programs may not achieve the benefits we expect. In this case, we may be forced to take additional cost saving steps that could result in unforeseen charges and materially affect our ability to compete or implement our North American Restructuring Program. In the event that we do not effectively implement our North American Restructuring Program, we may not achieve the financial benefits we anticipate from such program and production costs could increase and production quality could be adversely affected.

We may be unable to maintain our relationships with organized labor unions.

Approximately 68% of our global workforce is represented by various labor unions. While we believe we enjoy satisfactory relationships with all of the labor organizations that represent our employees, we cannot guarantee that labor-related disputes will not arise. Labor disputes could result in disruptions in production and could also cause increases in production costs, which could harm our relationships with our customers and adversely affect our business and financial results. In addition, any labor disputes could adversely impact our ability to successfully implement the North American Restructuring Program.

We may be unable to achieve the expected financial benefits from the Neenah restructuring.

In September 2003, we announced a restructuring program designed to improve financial performance at Neenah which included the shutdown of the deinking pulp mill and one paper machine and a 50% workforce reduction at the facility. This restructuring program was expected to yield approximately $8 million to $11 million in annual pre-tax financial benefits. During the implementation of this program, we have experienced production costs in excess of our initial expectations due to delays and complications associated with the headcount reduction and related manufacturing process changes. While we have taken measures to improve our financial performance at Neenah, we may not achieve the financial benefits originally anticipated from the Neenah restructuring. In addition to the difficulties we have experienced in implementing our restructuring plan, increasing purchased pulp and natural gas prices have adversely affected our results at Neenah and may offset any financial benefits we ultimately realize from our restructuring actions. Continued underperformance as a result of complications with the implementation of the restructuring program or the impact of increasing purchased pulp and natural gas prices may require us to implement additional restructuring activities, which could result in unforeseen charges and may have an adverse impact on our operating results.

We may not be able to develop new products acceptable to our customers.

Our business strategy is market focused and includes investments in developing new products to meet the changing needs of our customers and to maintain our market share. Our success will depend in large part on our ability to develop and introduce new and enhanced products that keep pace with introductions by our competitors and changing customer preferences. If we fail to anticipate or respond adequately to these factors, then we may lose opportunities for business with both current and potential customers.

The success of our new product offerings will depend on several factors, including our ability to:

- anticipate and properly identify our customers needs and industry trends;
- price our products competitively;
- develop and commercialize new products and applications in a timely manner;
- differentiate our products from our competitors products; and
- invest in research and development activities efficiently.

Our inability to develop new products could adversely impact our business and ultimately harm our profitability.

If we fail to maintain satisfactory relationships with our larger customers, our business may be harmed.

We generally have not entered into long-term fixed quantity supply agreements with our customers. We regularly submit bids for new business or renewal of existing business. Due to competition or other factors we may lose business from our customers, either partially or completely. The loss of one or more of our significant customers, or a substantial reduction of orders by any of our significant customers, could harm our business and results of operations. Moreover, our customers may vary their order levels significantly from period to period, and customers may not continue to place orders with us in the future at the same levels as in prior periods. In the event we lose any of our larger customers, we may not be able to replace that revenue source, which could harm our financial results.

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

We have significant operations and assets located in Germany, France and the Philippines. Our international sales and operations are subject to a number of special risks, in addition to the risks of 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 obtaining distribution support, difficulty in managing widespread operations and political instability and unrest. These factors may adversely affect our future profits. Also, in some foreign jurisdictions we may be subject to laws limiting the right and ability of entities organized or operating therein to pay dividends or remit earnings to affiliated companies unless specified conditions are met. Any such limitations would restrict our flexibility in using funds generated in those jurisdictions.

Foreign currency exchange rate fluctuations could adversely affect our results of operations.

We own and operate paper mills in Germany and France, where the local currency is the Euro, and a pulp mill in the Philippines, where the local currency is the Peso. For the first six months of 2004, our operations in these countries generated approximately 33% of our sales and 32% of our operating expenses. The translation of results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates. Such changes will lead to fluctuations in our results of operations. Our ability to maintain our products price competitiveness for our operations based in Germany and France 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 ability to offer products in certain markets at acceptable prices or our results of operations.

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.

Our business is capital intensive and requires significant expenditures for equipment maintenance and new or enhanced equipment, for environmental compliance matters and to support our business strategies and research and development efforts. We expect to meet all of our near- and longer-term cash needs from a combination of operating cash flow, cash and cash equivalents, sale of timberlands, proceeds from insurance recoveries, our existing credit facility or other bank lines of credit 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 longer-term cash needs or make dividend payments.

We may be unable to fully realize the value of our deferred tax assets.

At December 31, 2003, we had approximately $60 million in deferred tax assets. We may be unable to generate sufficient taxable income to realize the benefits from these assets. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Risks Related to Our Common Stock

Our common stock price may be volatile, which could cause the value of an investment in our shares to decline.

The realization of any of the risks described in this Risk Factors section or other unseen risks could have an adverse effect on the market price of our common stock. As a result, investors who purchase shares of our common stock in this offering may experience a decrease, which could be substantial, in the value of those shares. In addition to factors affecting our business, securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock notwithstanding our operating performance. In addition, our operating results could be below the expectations of public analysts and investors, and, in response, the market price of our common stock could decrease significantly. Purchasers of our shares in this offering may be unable to resell such shares at or above the initial public offering price.

The sale of our shares in this offering or future sales of our shares could depress the market price of our common stock.

As of July 31, 2004, the number of shares of our outstanding common stock freely tradeable on the New York Stock Exchange and not owned by our officers, directors or other affiliates was approximately 29,030,407 shares. This offering will result in a substantial amount of previously unregistered shares of our common stock being registered and sold, which may depress the market price of our common stock. The market price of our common stock could also decline as a result of sales of a large number of shares of our common stock in the market after this offering or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

The selling shareholders in this offering are trusts created by or for the benefit of members of the Glatfelter Family as well as a member of the Glatfelter Family. Following this offering, the selling shareholders, together with other members of the Glatfelter Family who are not offering common stock in this offering, will, in our best estimate, own approximately 17% of our total shares of common stock outstanding (or 14% if the underwriters exercise their over-allotment option in full). Those persons will be able to sell their shares in the public market from time to time, subject to certain limitations on the timing, amount and method of those sales imposed by securities laws. The holders of substantially all of the shares of our common stock held by or for the benefit of the Glatfelter Family have agreed to a lock-up period with the underwriters, meaning that such shareholders may not, subject to certain exceptions, sell any of their shares without the prior consent of Credit Suisse First Boston LLC for 180 days after the date of this prospectus. If one or more members of the Glatfelter Family were to sell a large number of their shares, the market price of our stock could decline significantly. In addition, the perception in the public markets that sales by members of the Glatfelter Family might occur could also adversely affect the market price of our common stock.

In addition to the Glatfelter Family s lock-up period, sales of our common stock are also restricted by lock-up agreements that our directors and officers have entered into with the underwriters. The lock-up agreements restrict our directors and officers and certain non-selling members of the Glatfelter Family, subject to specified exceptions, from selling or otherwise disposing of any shares for a period of 180 days after the date of this prospectus without the prior consent of Credit Suisse First Boston LLC. Pursuant to the underwriting agreement among us, the underwriters and the selling shareholders, we will be restricted from selling or otherwise disposing of any shares for a period of 180 days after the date of this prospectus without the prior consent of Credit Suisse First Boston LLC. Credit Suisse First Boston LLC may, however, in its sole discretion and without notice, release all or any portion of the shares from the restrictions in the lock-up agreements.

In the future, we may issue our securities, including in connection with making new investments. The amount of our common stock issued in connection with an investment could constitute a material portion of our then outstanding common stock.

Certain anti-takeover provisions in state law and our Articles of Incorporation could make it more difficult to acquire us.

Our Articles of Incorporation, as amended, and the Pennsylvania Business Corporation Law of 1988, as amended, contain certain provisions which could delay or impede the removal of incumbent directors and could make a merger, tender offer or proxy contest involving us difficult or discourage a third party from attempting to acquire control of us. In particular, the classification of our Board of Directors, which makes it difficult for shareholders to change the composition of our Board of Directors in any one year, could have the effect of delaying a change in control. These anti-takeover provisions could, in some limited instances, impede the ability of our shareholders to benefit from a change in control or to change our management or Board of Directors.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this prospectus, including those under the captions Prospectus Summary, Risk Factors, Business, Management Discussion and Analysis of Financial Condition and Results of Operations and other sections of this prospectus that are not purely historical, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 or the Exchange Act, and Section 27A of the Securities Act of 1933, or the Securities Act. When used in this prospectus, the words or phrases expects, will continue, estimates, we believe and similar expressions are intended to identify forward-looking statements within the meaning of the Exchange Act and the Securities Act. Forward-looking statements include plans, commitments and objectives of management for future operations. These forward-looking statements involve risks and uncertainties and are based on assumptions that may not be realized. Actual results and outcomes may differ materially from those discussed or anticipated. Some of the forward-looking statements and associated risks relate to the following:

i. variations in demand for, or pricing of, our products;

ii. changes in the cost or availability of raw materials we use, in particular market pulp, pulp substitutes, abaca fiber, and changes in energy-related costs;

iii. our ability to develop new, higher-value-added Engineered Products and Long Fiber & Overlay Papers;

iv. the impact of competition, changes in industry paper production capacity, including the construction of new mills, the closure of mills and incremental changes due to capital expenditures or productivity increases;

v. our ability to execute our North American Restructuring Program, growth strategies and cost reduction initiatives;

vi. costs and other effects of environmental compliance, clean-up, damages, remediation or restoration, or personal injury or property damages related thereto, such as costs associated with the Notice of Violations issued by the Pennsylvania Department of Environmental Protection, the costs of natural resource restoration or damages related to the presence of PCBs in the lower Fox River on which our Neenah mill is located, and the costs of environmental matters at our former Ecusta Division mill;

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

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

ix. geopolitical events, including war and terrorism;

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

xi. adverse results in litigation;

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

xiii. our ability to realize the value of our timberlands;

xiv. the recovery of environmental-related losses under our insurance policies; and

xv. our ability to identify, finance and consummate future alliances or acquisitions.

See Risk Factors included elsewhere in this prospectus for a more complete description of the material risks related to our business and an investment in our common stock.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of our common stock offered by the selling shareholders or the additional shares to be sold by the selling shareholders if the underwriters exercise their over-allotment option.

PRICE RANGE OF OUR COMMON STOCK AND OUR DIVIDEND POLICY

Our common stock is listed on the New York Stock Exchange and trades under the symbol GLT. The following table is based upon the information available to us and sets forth the range of the high and low sales prices for our common stock for the following periods during 2002, 2003 and 2004, based upon quotations on the New York Stock Exchange:

	Price Per Share		Dividend Per Share
	High	Low	
2002			
First Quarter	$18.84	$14.65	$.175
Second Quarter	19.35	16.32	.175
Third Quarter	18.94	11.50	.175
Fourth Quarter	14.05	10.22	.175
2003			
First Quarter	$14.15	$ 9.65	$.175
Second Quarter	15.05	10.70	.175
Third Quarter	15.45	11.67	.09
Fourth Quarter	13.29	11.70	.09
2004			
First Quarter	$12.93	$10.44	$ .09
Second Quarter	14.09	10.45	.09
Third Quarter (through September 21, 2004)	14.23	11.55	.09

On September 21, 2004, the closing sale price of our common stock as reported on the New York Stock Exchange was $11.94 per share. At August 31, 2004, there were 2,168 holders of record of our common stock, based on the shareholders list maintained by our transfer agent.

We paid quarterly dividends on our common stock as set forth in the table above. Our Board of Directors determines what, if any, dividends will be paid to our shareholders. Dividend payment decisions are based upon then-existing factors and conditions and, therefore, historical trends of dividend payments are not necessarily indicative of the amount or frequency of any future payments.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2004. We have not provided an adjusted capitalization table because we will not receive any of the proceeds from this offering. This table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes and other financial information included elsewhere in this prospectus.

Dollars in thousands, except share amounts	As of June 30, 2004
Cash and cash equivalents	$ 11,097
Short-term debt	$ 4,500
Long-term debt:	
Revolving credit facility, due June 2006[1]	27,528
6 7/8% Notes, due July 2007	150,000
Note payable SunTrust, due March 2008	34,000
Other notes, various	794
Total long-term debt	212,322
Shareholders equity:[2]	
Preferred stock, $50 par value; authorized 40,000 shares; issued and outstanding 0 shares	
Common stock, $.01 par value; authorized 120,000,000 shares; issued 54,361,980 shares (including treasury shares 10,498,150 shares)	544
Additional paid in capital	42,181
Retained earnings	511,497
Deferred compensation	(1,581)
Accumulated other comprehensive loss	(308)
Treasury stock	(156,355)
Total shareholders equity	395,978
Total capitalization	$ 612,800

(1) Borrowings of up to $125 million are available at any one time under our revolving credit facility. This facility permits us to make borrowings for time periods between one day and six months. We incur interest on this facility at an interest rate based on the domestic prime rate or a Eurocurrency rate, at our option, plus a margin ranging from 0.525 to 1.05 basis points.

(2) Shareholders equity includes the number of shares of our common stock outstanding as of June 30, 2004. This table does not reflect 2,262,422 shares of our common stock issuable upon exercise of outstanding stock options, 279,620 shares of our common stock issuable upon the vesting of restricted stock awards and restricted stock units and 1,115,255 shares of our common stock reserved for future issuance under our 1992 Key Employee Long-Term Incentive Plan.

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the selected consolidated financial data set forth below in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus, including the documents incorporated by reference. The selected consolidated financial data for the years ended December 31, 2001, 2002 and 2003 and as of December 31, 2002 and 2003 is derived from our audited financial statements included elsewhere in this prospectus. In July 2003, we completed the sale of our Wisches, France subsidiary and, in accordance with accounting principles generally accepted in the United States of America, the consolidated financial data for all periods presented in this Selected Consolidated Financial Data has been adjusted to reflect this subsidiary as a discontinued operation. As a result of this adjustment, the selected consolidated financial data for the years ended December 31, 1999 and 2000 and as of December 31, 1999, 2000 and 2001 is unaudited. The selected consolidated financial data for the six months ended June 30, 2003 and 2004 is unaudited. The historical results are not necessarily indicative of our future results of operations or financial performance.

Dollars in thousands,	Year Ended December 31,					Six Months Ended June 30,	
except per share amounts	**1999**	**2000**	**2001**	**2002**	**2003**	**2003**	**2004**
Income Statement Data:							
Net sales	$702,377	$721,945	$632,602	$540,347	$533,193	$271,906	$261,106
Energy sales net	9,176	9,243	9,661	9,814	10,040	5,052	5,308
Total revenues	711,553	731,188	642,263	550,161	543,233	276,958	266,414
Cost of products sold	578,639	589,149	501,142	423,880	463,687	228,832	229,873
Gross profit	132,914	142,039	141,121	126,281	79,546	48,576	36,541
Selling, general and administrative expenses	55,932	59,905	60,225	53,699	59,146	29,771	30,513
Restructuring charges				4,249	6,983		867
Unusual items		3,336	60,908	(2,008)	11,501		
Gains on disposition of plant, equipment and timberlands, net	(4,076)	467	(2,015)	(1,304)	(32,334)	(31,401)	(33,430)
Gains from insurance recoveries							(25,500)
Operating income	81,058	78,331	22,003	71,645	34,250	50,206	64,091
Other nonoperating income (expense)							
Interest expense	(18,277)	(16,281)	(15,628)	(15,103)	(14,269)	(7,054)	(6,695)
Interest income	1,994	3,820	3,589	1,571	1,820	687	896
Other net	(11)	1,759	1,558	1,016	(1,385)	(1,043)	(58)
Total other income (expense)	(16,294)	(10,702)	(10,481)	(12,516)	(13,834)	(7,410)	(5,857)
Income from continuing operations before income taxes	64,764	67,629	11,522	59,129	20,416	42,796	58,234
Income tax provision	23,591	24,262	4,693	21,492	7,430	15,425	23,604
Income from continuing operations	41,173	43,367	6,829	37,637	12,986	27,371	34,630

Discontinued operations							
Income (loss) from discontinued operations	388	974	198	(64)	(513)	(513)	
Income tax provision (benefit)	136	341	69	(22)	(188)	(188)	
Income (loss) from discontinued operations	252	633	129	(42)	(325)	(325)	
Net income	$ 41,425	$ 44,000	$ 6,958	$ 37,595	$ 12,661	$ 27,046	$ 34,630

Dollars in thousands, except per share amounts	Year Ended December 31, 1999	2000	2001	2002	2003	Six Months Ended June 30, 2003	2004
Basic earnings per share							
Income from continuing operations	$ 0.97	$ 1.02	$ 0.16	$ 0.87	$ 0.30	$ 0.63	$ 0.79
Loss from discontinued operations	0.01	0.02			(0.01)	(0.01)	
Net income	$ 0.98	$ 1.04	$ 0.16	$ 0.87	$ 0.29	$ 0.62	$ 0.79
Diluted earnings per share							
Income from continuing operations	$ 0.97	$ 1.02	$ 0.16	$ 0.86	$ 0.30	$ 0.63	$ 0.79
Loss from discontinued operations	0.01	0.02			(0.01)	(0.01)	
Net income	$ 0.98	$ 1.04	$ 0.16	$ 0.86	$ 0.29	$ 0.63	$ 0.79
Weighted average shares outstanding (in thousands)							
Basic	42,173	42,342	42,577	43,396	43,731	43,699	43,820
Diluted	42,431	42,483	42,846	43,791	43,760	43,729	43,939
Cash dividends declared per common share	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.53	$ 0.35	$ 0.18
Cash Flow Data:							
Cash provided (used by continuing operations):							
Operating activities	$81,054	$103,067	$64,437	$77,706	$46,996	$31,953	$16,830
Investing activities	(29,105)	(29,054)	(30,536)	(49,610)	(62,367)	(44,468)	22,987
Financing activities	(26,264)	(36,798)	(48,710)	(84,605)	(2,462)	6,639	(43,968)
Depreciation, depletion and amortization	47,578	45,931	44,815	45,003	56,029	25,153	26,380
Capital expenditures	24,044	29,197	47,805	51,108	66,758	45,548	11,121

Dollars in thousands	As of December 31, 1999	2000	2001	2002	2003	As of June 30, 2004
Balance Sheet Data:						
Cash and cash equivalents	$ 75,879	$ 110,403	$ 95,407	$ 32,219	$ 15,566	$ 11,097
Working capital[(1)]	137,202	169,177	32,213	88,140	59,232	58,777
Total assets	1,003,780	1,023,325	966,604	953,202	1,027,019	1,024,125
Total debt	329,770	306,822	277,755	220,532	254,275	216,822
Shareholders equity	358,124	372,703	353,469	373,833	371,431	395,978

(1) Working capital is defined as current assets less current liabilities.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with Selected Consolidated Financial Data and the consolidated financial statements and related notes thereto, included elsewhere in this prospectus, including the documents incorporated by reference herein. This discussion contains forward-looking statements that we based on our current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under Cautionary Note Regarding Forward-Looking Statements and elsewhere in this prospectus.

Overview

We manufacture, both domestically and internationally, a wide array of specialty papers and engineered products. Substantially all of our revenue is earned from the sale of our products to customers in numerous markets, including book publishing, food and beverage, decorative laminates for furniture and flooring, and certain other highly technical niche markets.

Our industry has been adversely impacted by an imbalance between supply and demand for certain of our products. In this environment, during 2003 we experienced declining sales volumes and lower average selling prices, primarily in our more commodity-like products offered by our Printing & Converting Papers business unit.

Results of Operations

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Introduction

A number of events occurred that impacted our results of operations and financial condition in the first six months of 2004, including:

Unit volumes in Engineered Products increased by 10.4% and in Long Fiber & Overlay Papers by 12.0% when compared with the same period a year ago.

Pricing in our Printing & Converting Papers business declined throughout 2003 and, as a result, was significantly lower in the first half of 2004 compared to the same period of 2003.

Approximately 57% of total sales were from products developed, enhanced or improved in the last five years.

We completed $30.3 million in sales of timberlands and successfully negotiated the receipt of $25.5 million in insurance recoveries related to the Fox River environmental matter, thereby strengthening our balance sheet.

We reduced our long-term debt outstanding by approximately $37 million since the end of 2003.

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The following table sets forth summarized results of operations:

Dollars in thousands, except per share amounts	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Net sales	$261,106	$271,906
Gross profit	36,541	48,576
Operating income	64,091	50,206
Income from continuing operations	34,630	27,371
Loss from discontinued operations		(325)
Net income	34,630	27,046
Earnings per diluted share from continuing operations	0.79	0.63
Earnings per diluted share	0.79	0.62

The consolidated results of operations for the six months ended June 30, 2004 and 2003 include the following significant items:

Dollars in thousands, except per share amounts	After-tax Income (loss)	Earnings Per Share
2004		
Timberland sales	$18,103	$0.41
Insurance recoveries	15,402	0.35
Corporate aircraft sale	1,543	0.04
Restructuring charge	(524)	(0.01)
2003		
Timberland sales	$19,965	$0.46
Write-off of certain papermaking equipment	(654)	(0.02)

The above items increased earnings from continuing operations by $34.5 million, or $0.79 per diluted share, in the first six months of 2004 and by $19.3 million, or $0.44 per share, in the comparable period of 2003. The decline in earnings before the items discussed above was primarily due to lower selling prices in our Printing & Converting Papers business unit and, to a lesser extent, in the Engineered Products and Long Fiber & Overlay Papers business units.

Business Units

We manage our organization along separate business units: Engineered Products, Long Fiber & Overlay Papers and Printing & Converting Papers, as well as Tobacco Papers, which were sold pursuant to a supply agreement that expired at the end of July 2004. Effective January 1, 2004, we implemented organizational changes and as a result we realigned and reclassified the presentation of certain product offerings of the business units. All segment data herein for prior periods has been restated to give effect to the further refinement of our organizational structure discussed above.

The following table sets forth operating profit (loss) by business unit and the composition of consolidated income from continuing operations before income taxes:

Dollars in millions	Six Months Ended June 30, 2004	2003
Business Unit		
Engineered Products	$(3.3)	$ 1.0
Long-Fiber & Overlay Papers	6.9	7.3
Printing & Converting Papers	(11.3)	(0.7)
Tobacco Papers	(0.2)	(2.8)
Total Business Unit	(7.9)	4.8
Energy sales, net	5.3	5.0
Pension income, net	8.7	9.0
Restructuring charge	(0.9)	
Gain on dispositions of plant, equipment and timberlands	33.4	31.4
Gain on insurance recoveries	25.5	
Total operating income	64.1	50.2
Interest expense	(6.7)	(7.1)
Other income (expense), net	0.8	(0.3)
Income from continuing operations before income taxes	$58.2	$42.8

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. Costs to produce products sold are allocated to the respective business unit based on standard costs and a proportion of manufacturing variances. The costs incurred by support areas not directly aligned with a business unit are allocated primarily based on an estimated utilization of support area services.

Management evaluates results of operations before energy sales, non-cash pension income, restructuring related charges, unusual items and effects of asset dispositions because it believes this is a more meaningful representation of the operating performance of its core papermaking businesses, the profitability of business units and the extent of cash flow generated from core operations. This presentation is closely aligned with the management and operating structure of our Company. It is also on this basis that the Company s performance is evaluated internally and by our Board of Directors.

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Sales and Costs of Products Sold

The following table sets forth information with respect to net sales, costs of products sold and gross profit:

	Six Months Ended June 30,		
Dollars in thousands	**2004**	**2003**	**Change**
Net sales	$261,106	$271,906	$(10,800)
Energy sales net	5,308	5,052	256
Total revenues	266,414	276,958	(10,544)
Cost of products sold	229,873	228,382	1,491
Gross profit	$ 36,541	$ 48,576	$(12,035)
Gross margin as a percent of net sales	14.0%	17.9%	

The decline in net sales was primarily attributable to lower sales volumes totaling $3.6 million primarily related to the fourth quarter of 2003 shutdown of a papermaking machine at our Neenah, Wisconsin facility, which primarily served our Printing & Converting Papers business unit. In addition, average selling prices declined, on a constant currency basis, an aggregate of $12.7 million, primarily in the Printing & Converting Papers business unit and, to a lesser extent, in Engineered Products and Long Fiber & Overlay Papers. Pricing for Printing & Converting Papers products improved in the second quarter of 2004 relative to the first quarter of 2004 and prices for certain of the unit s product offerings are expected to increase further during the third quarter of this year.

The impact of the decline in selling prices and the Neenah shutdown was partially offset by a 10.4% and 12.0% unit volume increase in our Engineered Products and Long Fiber & Overlay Papers business units, respectively. In addition, the favorable effect of a weaker U.S. dollar on translated results of international operations increased reported net sales by approximately $8.5 million. However, the weaker U.S. dollar relative to the Euro adversely affected the price competitiveness of Long Fiber & Overlay Papers products in certain geographic markets.

The following tables set forth net sales information by business unit:

	Six Months Ended June 30,		Percent of Total	
Dollars in millions	**2004**	**2003**	**2004**	**2003**
Business Unit				
Engineered Products	$ 55.1	$ 51.9	21.1%	19.0%
Long-Fiber & Overlay Papers	97.3	79.7	37.3	29.3
Printing & Converting Papers	107.9	134.0	41.3	49.4
Tobacco Papers	0.8	6.3	0.3	2.3
Total	$261.1	$271.9	100.0%	100.0%

Costs of products sold increased $1.5 million in the comparison. The increase was primarily due to a $6.5 million unfavorable effect of foreign currency translation adjustments, a $5.0 million increase in costs due to higher purchased fiber and energy costs at the Neenah facility and transition-related operating inefficiencies related to the 2003 Neenah restructuring, partially offset by $7.8 million of lower production costs related to the decline in sales volumes. During the second quarters of 2004 and 2003, we completed the annually scheduled maintenance shutdown of our Spring Grove facility. These shutdowns result in increased maintenance spending and reduced production leading to unfavorable manufacturing variances that increase costs of products sold. The Spring Grove maintenance shutdown had an estimated impact on gross profit of approximately \$5.5 million in the first six months of 2004 and \$6.1 million in the comparable period a year ago.

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Non-Cash Pension Income

Non-cash pension income results from the considerably over-funded status of our plans. The amount of pension income recognized each year is determined using various actuarial assumptions and certain other factors, including the fair value of our pension assets as of the beginning of the year. The following summarizes non-cash pension income for each quarter:

	Six Months Ended June 30,		
Dollars in thousands	**2004**	**2003**	**Change**
Recorded as:			
Costs of products sold	$7,978	$7,884	$ 94
Selling, general and administrative expense	705	1,114	(409)
Total	$8,683	$8,998	$(315)

Non-cash pension income for the full year of 2004 is expected to approximate amounts recognized in 2003.

Operating Expenses

	Six Months Ended June 30,		
Dollars in thousands	**2004**	**2003**	**Change**
Selling, general and administrative expenses	$ 30,513	$ 29,771	$ 742
Restructuring charges	867		867
Gains on dispositions of plant, equipment and timberlands	(33,430)	(31,401)	(2,029)
Gains from insurance recoveries	(25,500)		(25,500)

Selling, General and Administrative

Selling, general and administrative expenses increased during the first six months of 2004 compared to the same period of 2003 primarily due to higher legal fees associated with $25.5 million of insurance recoveries, costs associated with implementing the North American Restructuring Program, and the unfavorable impact of foreign currency translation adjustments.

Restructuring Charges

Restructuring charges in the first six months of 2004 totaled $0.9 million for severance and related benefits associated with the elimination of approximately 25 non-union positions in connection with the North American Restructuring Program and for increases to the 2003 Neenah restructuring accrual.

As discussed elsewhere in this prospectus, we expect to record, in the third quarter of 2004, a restructuring charge associated with the North American Restructuring Program of between approximately $13 million and $20 million. The charge is primarily for enhanced pension benefits, post-retirement medical benefits and other related employee severance costs associated with the reduction of our Spring Grove facility workforce. The workforce reduction is expected to be completed by the end of 2004. Pension related charges will be recorded as a reduction of the prepaid pension benefit costs. The cash required to complete the Spring Grove facility workforce reduction is expected to total approximately $3 million to $7 million.

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Gains on Dispositions of Plant, Equipment and Timberlands

During the first six months of 2004 and 2003, we completed sales of timberlands and, in 2004, the corporate aircraft. The following table summarizes these transactions.

	Six Months Ended June 30,					
	2004			2003		
Dollars in thousands	**Acres**	**Proceeds**	**Gain**	**Acres**	**Proceeds**	**Gain**
Timberlands	2,332	$30,283	$29,972	25,500	$37,850	$31,234
Corporate aircraft	n/a	2,861	2,554			
Other	n/a	964	904	n/a	1,080	167
Total		$34,108	$33,430		$38,930	$31,401

All property sales completed in the first six months of 2004 were sold for cash. As consideration for the Timberlands sold in the first six months of 2003, we received a 10-year note from a subsidiary of The Conservation Fund in the principal amount of $37.9 million, which is included in Other assets in our condensed consolidated balance sheet as of June 30, 2004 and December 31, 2003 included elsewhere in this prospectus.

Gains from Insurance Recoveries

During the first six months of 2004, we reached successful resolution of certain claims under insurance policies related to the Fox River environmental matter. Insurance recoveries included in the results of operations for the first six months of 2004 totaled $25.5 million and were received in cash prior to June 30, 2004.

On August 6, 2004, we received an additional $7.3 million of insurance recoveries related to the Fox River environmental matter that will be recorded in the third quarter of 2004. We continue to pursue legal actions against certain other insurers that we believe are liable under similar policies related to the Fox River environmental matter.

Income Taxes

Our provision for income taxes for the first six months of 2004 and 2003, totaled $23.6 million and $15.4 million, respectively, and the effective tax rate in the same periods was 40.5% and 36.0%, respectively. The increase in the effective tax rate was due to the effect of changes in certain German tax laws that limited the deductibility of interest expense based on the ratio of debt to equity and other factors. In the first six months of 2004, substantially all of our income from operations, excluding gains from sales of property and insurance recoveries, was generated overseas where our effective tax rate was 46%. Based on interpretations recently issued by German taxing authorities and our tax planning initiatives, we expect our effective tax rate for international operations to be approximately 46% for the 2004 fiscal year.

Foreign Currency

We own and operate paper and pulp mills in Germany, France and the Philippines. The local currency in Germany and France is the Euro, while in the Philippines the currency is the Peso. These operations generated approximately 33% of our sales and approximately 32% of our operating expenses during the first six months of 2004. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

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The following table summarizes the effect from foreign currency translation on reported results compared to the first six months of 2003:

Dollars in millions	Six Months Ended June 30, 2004
	Favorable (unfavorable)
Net sales	$ 8.5
Costs of products sold	(6.5)
Selling, general and administrative expenses	(0.8)
Income taxes and other	(0.1)
Net income	$ 1.1

The above table only presents the financial reporting impact of foreign currency translations. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in a global, multi-currency environment. The strengthening of the Euro relative to certain other currencies, in the first six months of 2004 compared to the same period of 2003, adversely affected average selling prices of products sold by our Long Fiber & Overlay Papers business unit that is based in Germany.

Discontinued Operations

In July 2003, we sold our Wisches, France subsidiary for approximately $2.0 million and the assumption of approximately $1.1 million of debt owed to us by our subsidiary. At closing, we received $1.7 million and the remaining amount is to be paid in annual installments, the first of which was received in July 2004. The financial results of this subsidiary are reported as discontinued operations for all periods presented. Revenue included in determining results from discontinued operations totaled $2.6 million for the first six months of 2003. The financial results of this operation were previously reported in the Engineered Products business unit.

North American Restructuring Program

The North American Restructuring Program, which we began to implement during the second quarter of 2004, is a comprehensive series of initiatives designed to improve financial performance by focusing on:

Improving product and service offerings in Printing & Converting Paper s book publishing markets;

Growing revenue from uncoated specialty papers;

Achieving a Spring Grove workforce reduction targeted at approximately 20%;

Reducing our costs to produce by implementing improved and expanded sourcing strategies and redesigning end-to-end planning and scheduling processes; and

Reducing selling, general and administrative costs.

The financial benefits from these efforts will begin to phase-in during the latter part of 2004, and are expected to approximate $15 million to $20 million annually, pre-tax, beginning in 2006. During the second quarter of 2004, we eliminated 25 positions not represented by labor unions. Further, we negotiated a new labor agreement that enables us to reduce workforce levels at our Spring Grove, Pennsylvania facility by approximately 20%. The union membership at this location ratified the agreement on July 20, 2004. In accordance with this agreement, we offered a voluntary early retirement program to eligible union employees. Based on this contract and the extent of acceptance through August 31, 2004 by members of the union workforce of certain voluntary benefit enhancements, we expect to record, in the third quarter of 2004, a restructuring charge of between approximately $13 million and $20 million, substantially all of which is for enhanced pension benefits, post-retirement medical benefits and other related employee severance costs. See Risk Factors Risks Related to Our Business We may not effectively implement

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our North American Restructuring Program included elsewhere in this prospectus for a discussion of some of the difficulties we may face in implementing this Program.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

The following table sets forth summarized results of operations:

	Year Ended December 31,	
Dollars in thousands, except per share amounts	**2003**	**2002**
Net sales	$533,193	$540,347
Gross profit	79,546	126,281
Operating income	34,250	71,645
Income from continuing operations	12,986	37,637
Net loss from discontinued operations	(325)	(42)
Net income	12,661	37,595
Earnings per diluted share from continuing operations	0.30	0.86
Earnings per diluted share	0.29	0.86

The consolidated results of operations for the years ended December 31, 2003 and 2002 include the following significant items:

Dollars in thousands, except per share amounts	**After-tax Income (loss)**	**Earnings Per Share**
2003		
Gain on sale of timberlands	$19,965	$ 0.46
Restructuring related charges	(8,582)	(0.20)
Ecusta related reserves	(7,315)	(0.17)
Asset write downs	(2,124)	(0.05)
2002		
Escrow settlement	$ 2,315	$ 0.05
Restructuring charges	(2,719)	(0.06)
Environmental matters	(1,500)	(0.03)

The above items increased earnings from continuing operations by $1.9 million, or $0.04 per diluted share, in 2003, and decreased earnings from continuing operations in 2002 by $1.9 million, or $0.04 per share. The decline in earnings was primarily due to lower sales volumes and selling prices in the Printing & Converting Papers business unit and higher costs of products sold, primarily due to lower non-cash pension income, higher raw material prices and increased market-related down time.

Business Units

We manage our organization along separate business units: Engineered Products, Long Fiber & Overlay Papers and Printing & Converting Papers, as well as Tobacco Papers, which are sold pursuant to a supply agreement that expires at the end of July 2004. In the latter part of 2002, we completed the implementation of a new information system to provide, among other things, more complete business unit reporting. However, we are unable to provide detailed business unit profitability reporting for periods prior to the system implementation, including full-year 2002.

Effective January 1, 2004, we implemented organizational changes and as a result we reclassified the presentation of certain product offerings of the business units. The following segment data for prior periods has been restated to give effect to such reclassification. The following table sets forth operating profit

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(loss) by business unit and the composition of consolidated income from continuing operations before income taxes:

	Year Ended December 31, 2003	
Dollars in thousands	Operating Profit (Loss)	Operating Margin
Business Unit		
Engineered Products	$ (3,902)	(3.6)%
Long Fiber & Overlay Papers	17,882	10.8
Printing & Converting Papers	(8,500)	(3.4)
Tobacco Papers	(5,758)	(58.7)
Total Business Unit	(278)	(0.1)
Energy sales, net	10,040	
Pension income, net	17,149	
Restructuring charges Costs of products sold	(6,511)	
Restructuring charges Selling, general and administrative	(6,983)	
Unusual items	(11,501)	
Gains on dispositions of plant, equipment and timberlands	32,334	
Total operating income	34,250	
Interest expense	(14,269)	
Other income (expense), net	435	
Income from continuing operations before income taxes	$ 20,416	

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.

Management evaluates results of operations before energy sales, non-cash pension income, restructuring related charges, unusual items and effects of asset dispositions because it believes this is a more meaningful representation of the operating performance of its core papermaking businesses, the profitability of business units and the extent of cash flow generated from core operations. This presentation is closely aligned with the management and operating structure of our Company. It is also on this basis that our performance is evaluated internally and by our Board of Directors.

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Sales and Costs of Products Sold

Dollars in thousands	Year Ended December 31, 2003	2002	Change
Net sales	$533,193	$540,347	$ (7,154)
Energy sales net	10,040	9,814	226
Total revenues	543,233	550,161	(6,928)
Costs of products sold	463,687	423,880	39,807
Gross profit	$ 79,546	$126,281	$(46,735)
Gross profit as a percent of net sales	14.9%	23.4%	

The decline in net sales in 2003 was primarily due to a $19.8 million net sales volume-related decline as lower volumes in our Printing & Converting Papers and Tobacco Papers more than offset sales volume growth in our Engineered Products and Long Fiber & Overlay Papers business units. In addition each business unit experienced lower average selling prices, in constant currency rates, aggregating $13.3 million. The impact of lower sales volumes and selling prices was partially offset by a $27.9 million favorable effect of a weaker U.S. dollar on translated international results.

The following tables set forth net sales information by business unit:

Dollars in thousands	Year Ended December 31, 2003	2002
Business Unit		
Engineered Products	$108,489	$ 99,900
Long Fiber & Overlay Papers	165,389	135,715
Printing & Converting Papers	249,500	284,884
Tobacco Papers	9,815	19,848
Total	$533,193	$540,347

	Percent of Total 2003	2002
Business Unit		
Engineered Products	20.4%	18.5%
Long Fiber & Overlay Papers	31.0	25.1
Printing & Converting Papers	46.8	52.7
Tobacco Papers	1.8	3.7
Total	100.0%	100.0%

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Costs of products sold increased $39.8 million in 2003 due to the following significant items:

Dollars in millions	Year Ended December 31, 2003
	(Favorable) unfavorable
Foreign currency	$ 19.8
Lower pension income	11.9
Higher raw material and energy prices	10.4
Restructuring related	6.5
Lower sales volume	(17.9)
Other	9.1
Total	$ 39.8

In the preceding table, other primarily consisted of depreciation, market-related downtime and asset write-offs.

The market price of natural gas is a significant component of our Neenah facility s production costs as the cost of the facility s steam is dependent on natural gas market prices. During 2003 we experienced increases in natural gas market prices. Based on expected production levels and contractual obligations, a $1 per decatherm increase in the cost of natural gas is expected to increase the cost of operating our Neenah facility by approximately $1.4 million per year.

Non-Cash Pension Income

Non-cash pension income results from the considerably over-funded status of our plans. The amount of pension income recognized each year is determined using various actuarial assumptions and certain other factors, including the fair value of our pension assets as of the beginning of the year. Because the value of our plan assets as of January 1, 2003, was lower than the previous year and, due to changes in actuarial assumptions, the amount of non-cash pension income recognized in 2003 was less than 2002. The following summarizes non-cash pension income for each year.

	Year Ended December 31,		
Dollars in thousands	2003	2002	Change
Recorded as:			
Costs of products sold	$15,007	$26,900	$(11,893)
Selling, general and administrative expense	2,142	5,748	(3,606)
Total	$17,149	$32,648	$(15,499)

Non-cash pension income in 2004 is expected to approximate amounts recognized in 2003.

Operating Expenses

Dollars in thousands	Year Ended December 31, 2003	2002	Change
Selling, general and administrative expenses	$ 59,146	$ 53,699	$ 5,447
Restructuring charge	6,983	4,249	2,734
Unusual items	11,501	(2,008)	13,509
Gains on dispositions of plant, equipment and timberlands	(32,334)	(1,304)	(31,030)

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Selling, General and Administrative

Selling, general and administrative expenses increased $5.4 million during 2003 compared to 2002. During 2003, a weaker U.S. dollar resulted in a $2.6 million increase in translated selling, general and administrative expenses for our international operations. The remaining increase was primarily due to a lower benefit from non-cash pension income and higher depreciation, primarily attributable to an information technology system implemented in the latter part of 2002.

Restructuring Charge

In September 2003, we announced the decision to permanently shut down a paper making machine and the deinking process at our Neenah, Wisconsin facility. The abandoned machines and processes had been primarily supporting our Printing & Converting Papers business unit. The Neenah restructuring was initiated to allow us to reallocate resources to more fully support opportunities in higher growth, more profitable specialty markets. These initiatives have resulted in the elimination of approximately 190 positions. The results of operations include related pre-tax charges of approximately $13.5 million, of which $6.5 million are reflected in the consolidated income statements as components of costs of products sold, and $7.0 million are reflected as restructuring charges.

The following table sets forth information with respect to Neenah restructuring charges:

Dollars in thousands	**Year Ended December 31, 2003**
Depreciation on abandoned equipment	$ 5,974
Severance and benefit continuation	1,874
Pension and other retirement benefits	4,878
Other	768
Total	$ 13,494

Additional charges may be required in 2004 depending on the resolution of certain contractual matters.

In 2002, we recorded a $4.2 million charge related to a workforce reduction at our corporate and Spring Grove locations.

Unusual Items

Unusual items during 2003 reflect a charge of $11.5 million related to our former Ecusta Division, which was sold in 2001 to a group of related buyers. Under the Ecusta Division acquisition agreement, we are indemnified for certain liabilities that have been assumed by the buyers. We had previously accrued liabilities related to certain post-retirement benefits, workers compensation claims and vendor payables and established a corresponding receivable due from the buyers. We paid the portion of these liabilities that became due and sought reimbursement from the buyers, which, to date, they have refused. The 2003 charge includes $5.5 million to fully reserve such receivables and an additional $6.0 million related to contingent landfill closure costs at the Ecusta facility. In 2002, we recognized a $3.5 million gain from the settlement of an escrow account with the previous owners of our Schoeller & Hoesch subsidiary. This was partially offset by a $1.5 million charge for certain environmental matters related to actions by the Pennsylvania DEP.

Gains on Dispositions of Plant, Equipment and Timberlands

During 2003, we recognized a net gain from the sale of plant, equipment and timberlands of $32.3 million. This primarily includes a $31.2 million pre-tax gain from the March 2003 sale of approximately 25,500 acres of timberlands in Maryland to a subsidiary of The Conservation Fund, a non-profit land conservation fund, who we refer to throughout this prospectus as the Timberland Buyer.

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Foreign Currency

We own and operate paper and pulp mills in Germany, France and the Philippines. The local currency in Germany and France is the Euro, and in the Philippines the local currency is the Peso. These operations generated approximately 31% of our sales and operating expenses for the year ended December 31, 2003. The translation of the results from these international operations into U.S. dollars is subject to changes in foreign currency exchange rates.

The following table summarizes the effect from foreign currency translation on reported results compared to 2002:

Dollars in thousands	**Year Ended December 31, 2003**
	Favorable (unfavorable)
Net sales	$ 27,869
Costs of products sold	(19,776)
Selling, general and administrative expenses	(2,648)
Income taxes and other	(1,278)
Net income	$ 4,167

The above table only presents the financial reporting impact of foreign currency translations. It does not present the impact of certain competitive advantages or disadvantages of operating or competing in a global, multi-currency environment. In 2003, the strengthening of the Euro relative to certain other currencies adversely affected average selling prices, in the functional currency, of products sold by our Schoeller & Hoesch GmbH & Co. KG subsidiary.

Discontinued Operations

In July 2003, we sold our subsidiary in Wisches, France for approximately $2.0 million and the assumption by the buyer of approximately $1.1 million of debt owed to us by our subsidiary. At closing, we received $1.7 million and the remaining amounts are to be paid in annual installments over two years beginning July 2004. The financial results of this subsidiary are reported as discontinued operations for all periods presented. Prior to the sale, the underlying assets were recorded at the lower of carrying amount or fair value less costs to sell. Accordingly, loss from discontinued operations for the year ended December 31, 2003, includes a charge of $0.5 million, after tax, to write-down the carrying value of the assets prior to the sale. Revenue included in determining results from discontinued operations totaled $2.6 million and $3.5 million for 2003 and 2002, respectively. The financial results of this operation were previously reported in the Engineered Products business unit.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

The following table sets forth our summarized results of operations:

	Year Ended December 31,	
Dollars in thousands	**2002**	**2001**
Net sales	$540,347	$632,602
Gross profit	126,281	141,121
Operating Income	71,645	22,003
Income from continuing operations	37,637	6,829
Net gain (loss) from discontinued operations	(42)	129

Earnings per diluted share from continuing operations	0.86	0.16
Earnings per diluted share	0.86	0.16

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For the year ended December 31, 2002, net income totaled $37.6 million, or $0.86 per diluted share, compared with $7.0 million and $0.16 per diluted share in 2001. Unusual items discussed in detail below affect the comparison of reported results.

Net Sales

Net sales decreased $92.3 million in 2002 compared with 2001. The decline was substantially due to the Ecusta divestiture in 2001. Excluding Ecusta Division net sales in 2001, net sales declined $1.5 million, or 0.2%. On this basis, the decline was primarily due to the effect of a 3.5% decrease in average net selling price partially offset by the effect of a 2.1% increase in net sales volume. The decline in average net selling price was also mitigated by the effect of a stronger Euro relative to the U.S. dollar resulting in an increase of approximately $6.4 million in translated net sales in 2002 versus 2001.

During 2002, sales volume for our Engineered Products business unit increased by approximately 12% compared to 2001, offset somewhat by lower average selling prices. Our Long Fiber & Overlay Papers business unit experienced increased sales volume for its products that more than offset adverse pricing pressures it experienced during the year. In the Printing & Converting Papers business unit, our net sales volume was substantially the same as the prior year at lower average selling prices. During the fourth quarter of 2002, our Printing & Converting Papers business unit experienced declining prices, reversing favorable pricing trends that were seen during the third quarter of 2002.

Costs of Products Sold and Gross Profit

Costs of products sold declined $77.3 million, or 15.4%, in the year-to-year comparison. Excluding the Ecusta Division, cost of products sold increased $1.8 million, or 0.3%. The increase in costs of products sold is primarily due to the increase in net sales volume. Costs of products sold is approximately $4.3 million higher in 2002 than in 2001 due to the weakening of the U.S. dollar compared to the Euro and the resulting impact on translated international results. These factors more than offset the effect of a decrease in the unit cost of pulp and benefits of our cost control initiatives. As a percent of sales, our gross margin increased to 23.0% for the full year 2002 from 22.3% in 2001. Excluding the Ecusta Division, our gross margin was slightly lower in 2002 than in 2001.

Our gross margin includes net non-cash pension income resulting from the overfunded status of our defined benefit pension plans. Cost of products sold was reduced for such income by $26.9 million in 2002 and by $24.4 million in 2001. Partially offsetting this benefit was expense attributable to other post-retirement benefits totaling $4.6 million and $2.9 million in 2002 and 2001, respectively. The primary cause of the increase in other-post retirement benefits was a change in our estimate of liability based upon recent claims history.

Selling, General and Administrative

Selling, general and administrative expenses declined $6.5 million, or 10.8%, in the year-to-year comparison due to the Ecusta divestiture together with disciplined cost control initiatives. Excluding the Ecusta Division, expenses declined 1.4%. Selling, general and administrative expense is approximately $0.7 million higher in 2002 than in 2001 due to the weakening of the U.S. dollar compared to the Euro, and the resulting impact on translated U.S. dollar results. Costs incurred in 2002 include resources dedicated to implementing our strategic initiatives, including depreciation expense and increased service fees related to implementing information technology. Selling, general and administrative expenses were also lower in 2002 compared with 2001 due to a decrease in compensation expense related to certain stock awards that varies with the price of our common stock. Our common stock price declined during 2002.

Net non-cash pension income reduced reported selling, general and administrative expenses by $5.7 million in 2002 and by $6.3 million in 2001. Post-retirement expense included in selling, general and administrative expenses was $1.0 million and $0.5 million in 2002 and 2001, respectively. The primary cause of the increase in post-retirement expense was a change in our estimate of liability based upon recent claims history.

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Gains on Sales of Plant, Equipment and Timberlands

During 2002, we recorded $1.3 million gain from the sale of certain fixed assets compared with a gain of $2.0 million in 2001. The gain in 2001 primarily resulted from the sale of a 413-acre tract of land from which we recognized a $1.7 million gain. There were no significant sales of properties completed in 2002.

Unusual Items

Unusual items totaled a gain of $2.0 million and a charge of $60.9 million in 2002 and 2001, respectively. Amounts recorded in 2002 included a $3.5 million one-time, pretax gain for the settlement of certain escrow claims, including interest and associated liabilities related to the 1998 acquisition of our Schoeller & Hoesch GmbH & Co. KG subsidiary. The gain was partially offset by a $1.5 million liability related to actions by the Pennsylvania DEP.

On August 9, 2001, we completed the sale of the Ecusta Division, consisting of our Ecusta paper-making facility and two of its operating subsidiaries, including plant and equipment, inventory, accounts receivable and essentially all other operating assets and certain other receivables related to our Tobacco Papers business. As part of this transaction, the buyer assumed certain liabilities related to the operation of the Ecusta Division. Our total charge to earnings associated with the sale was $58.4 million, including a $50.0 million impairment charge recognized during the second quarter of 2001. We also recognized a $2.5 million pretax charge in the second quarter of 2001 due to the settlement of an environmental matter in connection with the Spring Grove, Pennsylvania facility s wastewater discharge permit.

Liquidity and Capital Resources

Our business is capital intensive and requires significant expenditures for new or enhanced equipment, for environmental compliance matters and to support our business strategy and research and development efforts. Liquidity is provided by cash generated from operations, monetization of non-strategic or undervalued assets, such as timberlands, and borrowings under our $125 million revolving credit facility.

The following table summarizes cash flow information for each of the periods presented:

	Six Months Ended June 30,		Year Ended December 31,	
Dollars in millions	2004	2003	2003	2002
Cash and cash equivalents at beginning of period	$ 15.6	$ 32.2	$ 32.2	$ 87.9
Cash provided by (used for)				
Operating activities	16.8	32.0	47.0	77.7
Investing activities	23.0	(44.5)	(62.3)	(49.6)
Financing activities	(44.0)	6.6	(2.5)	(84.6)
Discontinued operations		(0.3)	(0.3)	0.3
Effect of exchange rate changes on cash	(0.3)	1.4	1.5	0.5
Net cash used	(4.5)	(4.8)	(16.6)	(55.7)
Cash and cash equivalents at end of period	$ 11.1	$ 27.4	$ 15.6	$ 32.2

Operating Activities

Cash generated from operations in the first six months of 2004 decreased $15.2 million when compared with the first six months of 2003 primarily due to the use of $26.5 million of cash to fund payments pursuant to the Consent Decree we entered into with the various government agencies related to the remediation of Operable Unit 1 of the lower Fox River, a $12.0 million decline in gross profit and changes in working capital, which decreases were partially offset by a $25.5 million gain from insurance recoveries related to claims associated with the Fox River environmental matter. The recoveries were fully received in cash during the first six months of 2004 and were used to reduce long-term debt.

Cash generated from operations for the year ended December 31, 2003 declined $30.7 million when compared with the year ended December 31, 2002 primarily due to a decline in earnings primarily attributable to lower sales volumes and selling prices in the Printing & Converting Papers business unit in the year-over-year comparison.