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Clearwater Paper Corp
Form 10-Q
July 31, 2014

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

Form 10-Q
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014

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

Commission File Number: 001-34146

CLEARWATER PAPER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3594554
(I.R.S. Employer
Identification No.)

601 West Riverside, Suite 1100
Spokane, Washington
(Address of principal executive offices)
(509) 344-5900
(Registrant's telephone number, including area code)

99201
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of common stock of the registrant outstanding as of July 22, 2014 was 19,805,239.

CLEARWATER PAPER CORPORATION
Index to Form 10-Q

	Page Number
PART I. <u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>Consolidated Financial Statements</u>	
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013</u>	<u>3</u>
<u>Consolidated Balance Sheets at June 30, 2014 and December 31, 2013</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013</u>	<u>5</u>
<u>Condensed Notes to Consolidated Financial Statements</u>	<u>6 - 21</u>
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22 - 35</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
ITEM 4. <u>Controls and Procedures</u>	<u>36</u>
PART II. <u>OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	<u>37</u>
ITEM 1A. <u>Risk Factors</u>	<u>37</u>
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
ITEM 6. <u>Exhibits</u>	<u>38</u>
<u>SIGNATURES</u>	<u>39</u>
<u>EXHIBIT INDEX</u>	<u>40</u>

Part I

ITEM 1.

Consolidated Financial Statements

Clearwater Paper Corporation

Consolidated Statements of Operations

Unaudited (Dollars in thousands - except per-share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net sales	\$498,759	\$471,002	\$983,679	\$931,826
Costs and expenses:				
Cost of sales	(434,111)	(414,521)	(860,740)	(828,730)
Selling, general and administrative expenses	(31,565)	(26,767)	(65,079)	(60,899)
Impairment of assets	—	—	(4,259)	—
Total operating costs and expenses	(465,676)	(441,288)	(930,078)	(889,629)
Income from operations	33,083	29,714	53,601	42,197
Interest expense, net	(10,688)	(11,094)	(21,422)	(22,076)
Debt retirement costs	—	—	—	(17,058)
Earnings before income taxes	22,395	18,620	32,179	3,063
Income tax (provision) benefit	(9,942)	(6,962)	(13,500)	7,713
Net earnings	\$12,453	\$11,658	\$18,679	\$10,776
Net earnings per common share:				
Basic	\$0.61	\$0.52	\$0.91	\$0.48
Diluted	0.61	0.52	0.90	0.47

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

Clearwater Paper Corporation
 Consolidated Statements of Comprehensive Income
 Unaudited (Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net earnings	\$12,453	\$11,658	\$18,679	\$10,776
Other comprehensive income:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax of \$934, \$1,217, \$1,899, and \$2,923	1,479	1,872	3,008	4,496
Amortization of prior service (credit) cost included in net periodic cost, net of tax of \$(353), \$75, \$(382), and \$(32)	(559)	) 113	(604	) (50
Curtailments, net of tax of \$ -, \$303, \$ - and \$303	—	466	—	466
Other comprehensive income, net of tax	920	2,451	2,404	4,912
Comprehensive income	\$13,373	\$14,109	\$21,083	\$15,688

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

Clearwater Paper Corporation
Consolidated Balance Sheets
Unaudited (Dollars in thousands – except per-share amounts)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	\$22,481	\$ 23,675
Restricted cash	1,501	1,500
Short-term investments	59,000	70,000
Receivables, net	168,555	158,874
Taxes receivable	6,840	10,503
Inventories	264,874	267,788
Deferred tax assets	29,536	37,538
Prepaid expenses	8,085	5,523
Total current assets	560,872	575,401
Property, plant and equipment, net	873,284	884,698
Goodwill	229,533	229,533
Intangible assets, net	36,208	40,778
Pension assets	11,284	4,488
Other assets, net	9,374	9,927
TOTAL ASSETS	\$1,720,555	\$ 1,744,825
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$220,393	\$ 190,648
Current liability for pensions and other postretirement employee benefits	8,778	8,778
Total current liabilities	229,171	199,426
Long-term debt	650,000	650,000
Liability for pensions and other postretirement employee benefits	105,015	109,807
Other long-term obligations	50,212	52,942
Accrued taxes	2,694	2,658
Deferred tax liabilities	128,270	124,898
Stockholders' equity:		
Preferred stock, par value \$0.0001 per share, 5,000,000 authorized shares, no shares issued	—	—
Common stock, par value \$0.0001 per share, 100,000,000 authorized shares-24,030,815 and 24,007,581 shares issued	2	2
Additional paid-in capital	329,884	326,546
Retained earnings	485,318	466,639
Treasury stock, at cost, common shares-4,115,900 and 2,923,640 shares repurchased	(204,322)	(130,000)
Accumulated other comprehensive loss, net of tax	(55,689)	(58,093)
Total stockholders' equity	555,193	605,094
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,720,555	\$ 1,744,825
The accompanying condensed notes are an integral part of these consolidated financial statements.		

Clearwater Paper Corporation
Consolidated Statements of Cash Flows
Unaudited (Dollars in thousands)

	Six Months Ended	
	June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$18,679	\$10,776
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	44,246	45,404
Equity-based compensation expense	6,910	5,581
Impairment of assets	4,259	—
Deferred tax provision (benefit)	9,857	(9,384)
Employee benefit plans	979	5,098
Deferred issuance costs and discounts on long-term debt	949	4,017
Disposal of plant and equipment, net	422	—
Changes in working capital, net	14,818	(43,805)
Changes in taxes receivable, net	3,663	11,918
Changes in non-current accrued taxes, net	36	(2,763)
Funding of qualified pension plans	(8,889)	(4,633)
Other, net	(1,016)	(237)
Net cash flows from operating activities	94,913	21,972
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in short-term investments, net	11,000	(60,000)
Additions to plant and equipment	(32,612)	(31,413)
Proceeds from sale of assets	619	—
Net cash flows from investing activities	(20,993)	(91,413)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	—	275,000
Repayment of long-term debt	—	(150,000)
Purchase of treasury stock	(74,322)	(59,984)
Payments for long-term debt issuance costs	—	(4,779)
Payment of tax withholdings on equity-based payment arrangements	(792)	(2,195)
Net cash flows from financing activities	(75,114)	58,042
Decrease in cash	(1,194)	(11,399)
Cash at beginning of period	23,675	12,579
Cash at end of period	\$22,481	\$1,180
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$19,547	\$16,326
Cash paid for income taxes	4,211	2,080
Cash received from income tax refunds	4,170	796
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Changes in accrued plant and equipment	\$(912)	\$7,269
The accompanying condensed notes are an integral part of these consolidated financial statements.		

Clearwater Paper Corporation
Condensed Notes to Consolidated Financial Statements
Unaudited

NOTE 1 Nature of Operations and Basis of Presentation

GENERAL

Clearwater Paper Corporation is a leading North American producer of private label tissue and paperboard products. We manufacture quality consumer tissue, away-from-home tissue, parent rolls (non-converted tissue product), machine-glazed tissue, bleached paperboard and pulp at 13 manufacturing locations in the U.S. and Canada. Our private label consumer tissue products - facial and bath tissue, paper towels and napkins - are used primarily at-home and are principally sold to major retailers and wholesale distributors, which include grocery, drug, mass-merchant and discount stores. Our paperboard is sold primarily in the high-end segment of the packaging industry, which demands high-quality construction and print surfaces for graphics.

On February 17, 2014, we announced the permanent and immediate closure of our Long Island, New York, tissue converting and distribution facility. As of June 30, 2014, we have incurred \$10.3 million of costs associated with the closure, of which \$1.8 million was incurred during the second quarter of 2014.

On March 6, 2013, we announced the planned permanent closure of our Thomaston, Georgia converting and distribution facility. The shutdown occurred gradually as converting lines were relocated and installed at our other facilities, with all operations at Thomaston ceasing at the end of 2013. As of June 30, 2014, we have incurred \$7.1 million of costs associated with the closure, of which \$0.4 million was incurred during the second quarter of 2014.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, the related Consolidated Statements of Operations and Comprehensive Income for the three months and six months ended June 30, 2014 and 2013, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013, have been prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. We believe that all adjustments necessary for a fair statement of the results of the interim periods presented have been included. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission, or SEC, on February 20, 2014.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Significant areas requiring the use of estimates and measurement of uncertainty include determination of net realizable value for deferred tax assets, uncertain tax positions, assessment of impairment of long-lived assets, goodwill and intangibles, assessment of environmental matters, equity-based compensation and pension and postretirement obligation assumptions. Actual results could differ from those estimates and assumptions.

SHORT-TERM INVESTMENTS AND RESTRICTED CASH

Our short-term investments are invested primarily in demand deposits, which have very short maturity periods, and therefore earn an interest rate commensurate with low-risk instruments. We do not attempt to hedge our exposure to interest rate risk for our short-term investments. Our restricted cash in which the underlying instrument has a term of greater than twelve months from the balance sheet date is classified as non-current and is included in "Other assets, net" on our Consolidated Balance Sheet. As of June 30, 2014 and December 31, 2013, substantially all restricted cash balances were classified as current and included in "Restricted cash" on our Consolidated Balance Sheets.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are stated at the amount we expect to collect. Trade accounts receivable do not bear interest. The allowance for doubtful accounts is our best estimate of the losses we expect will result from the inability of our customers to make required payments. We generally determine the allowance based on a combination of actual

historical write-off experience and an analysis of specific customer accounts. As of June 30, 2014 and December 31, 2013, we had allowances for doubtful accounts of \$2.0 million and \$1.9 million, respectively.

6

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, including any interest costs capitalized, less accumulated depreciation. Depreciation of buildings, equipment and other depreciable assets is determined using the straight-line method. Assets we acquire through business combinations have estimated lives that are typically shorter than the assets we construct or buy new. Accumulated depreciation totaled \$1,508.4 million and \$1,476.4 million at June 30, 2014 and December 31, 2013, respectively.

Consistent with authoritative guidance, we assess the carrying amount of long-lived assets with definite lives that are held-for-use and evaluate them for recoverability whenever events or changes in circumstances indicate that we may be unable to recover the carrying amount of the assets. During the first quarter of 2014, we permanently closed our Long Island converting and distribution facility. As a result of this closure, we considered an outside third party's appraisal in assessing the recoverability of the facility's long-lived plant and equipment based on available market data for comparable assets sold through private party transactions. Based on this assessment, we determined the carrying amounts of certain long-lived plant and equipment related to the Long Island facility exceeded their fair value. As a result, we recorded a \$3.0 million non-cash impairment charge to our accompanying Consolidated Statement of Operations. There were no other such events or changes in circumstances that impacted our remaining long-lived assets.

STOCKHOLDERS' EQUITY

On February 5, 2014, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to \$100.0 million of our common stock. The repurchase program authorizes purchases of our common stock from time to time through open market purchases, negotiated transactions or other means, including accelerated stock repurchases and 10b5-1 trading plans in accordance with applicable securities laws and other restrictions. We have no obligation to repurchase stock under this program and may suspend or terminate the program at any time. In total, we have repurchased 1,192,260 shares of our outstanding common stock as of June 30, 2014, of which 733,676 shares were repurchased during the second quarter of 2014 at an average price of \$61.32 per share, pursuant to this repurchase program. As of June 30, 2014, we had \$25.7 million of authorization remaining for this stock repurchase program.

On January 17, 2013, we announced that our Board of Directors had approved a stock repurchase program authorizing the repurchase of up to \$100.0 million of our common stock, which was completed in 2013. On March 1, 2013, we entered into an accelerated stock buyback, or ASB, agreement with a major financial institution to repurchase an aggregate of \$50.0 million of our outstanding common stock. In total, 1,039,513 shares of our outstanding common stock were delivered under the ASB agreement at an average repurchase price of \$48.10 per share. In addition to the ASB agreement, we also made repurchases of 1,030,657 shares of our outstanding common stock on the open market at a total cost of \$50.0 million, representing an average price of \$48.51 per share.

DERIVATIVES

We had no activity during the six months ended June 30, 2014 and 2013 that required hedge or derivative accounting treatment. To help mitigate our exposure to market risk for changes in utility commodity pricing, from time to time we have used firm price contracts to supply a portion of the natural gas requirements for our manufacturing facilities. As of June 30, 2014, these contracts covered approximately 50% of our expected average monthly natural gas requirements for the remainder of 2014. Historically, these contracts have qualified for treatment as "normal purchases or normal sales" under authoritative guidance and thus required no mark-to-market adjustment.

NOTE 2 Recently Adopted and New Accounting Standards

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update, or ASU, 2014-09, Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, such as service revenue and contract modifications, and clarify guidance for multiple-element arrangements. This standard is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption prohibited. The standard may be applied under either a retrospective or

cumulative effect adoption method. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

7

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends and raises the threshold of a disposal transaction that qualifies as a discontinued operation, as well as requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. This standard is effective prospectively for all disposals of components that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years, with early adoption permitted. We are currently evaluating the impact, if any, this guidance will have on our consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU only changes existing presentation requirements but does not require new recurring disclosures and is prospective for annual and interim reporting periods beginning after December 15, 2013. This guidance did not impact our consolidated financial statements.

We reviewed all other new accounting pronouncements issued in the period and concluded that they are not applicable to our business.

NOTE 3 Inventories

Inventories at the balance sheet dates consist of:

(In thousands)	June 30, 2014	December 31, 2013
Pulp, paperboard and tissue products	\$180,146	\$182,715
Materials and supplies	73,702	69,836
Logs, pulpwood, chips and sawdust	11,026	15,237
	\$264,874	\$267,788

NOTE 4 Intangible Assets

Intangible assets at the balance sheet dates are comprised of the following:

(Dollars in thousands, lives in years)	June 30, 2014			
	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	\$53,957	\$(20,230)	\$33,727
Trade names and trademarks	10.0	3,393	(1,188)	2,205
Non-compete agreements	2.5 - 5.0	1,189	(913)	276
		\$58,539	\$(22,331)	\$36,208

(Dollars in thousands, lives in years)	December 31, 2013			
	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	\$53,957	\$(17,234)	\$36,723
Trade names and trademarks	10.0	5,300	(1,590)	3,710
Non-compete agreements	2.5 - 5.0	1,674	(1,329)	345
		\$60,931	\$(20,153)	\$40,778

As a result of the closure of our Long Island converting and distribution facility, we performed an assessment of the recoverability of our intangible assets by utilizing the income approach, which discounts projected future cash flows based on management's expectations of the current and future operating environment. It was determined that the carrying amounts of certain trade names and trademarks related to the Long Island facility were exceeding their fair value. As a result, in the first quarter of 2014 we recorded a \$1.3 million non-cash impairment charge in our accompanying Consolidated Statement of Operations. In addition, fully amortized non-compete agreements related to the Long Island facility were also disposed. There were no other such events or changes in circumstances that

impacted our remaining definite-lived intangible assets.

8

NOTE 5 Income Taxes

Consistent with authoritative guidance, our estimated annual effective tax rate is used to allocate our expected annual income tax provision to interim periods. The rate is the ratio of our estimated annual income tax provision to our estimated pre-tax ordinary income, and excludes "discrete items," which are significant, unusual or infrequent items reported separately net of their related tax effect. The estimated annual effective tax rate is applied to the current interim period's ordinary income to determine the income tax provision allocated to the interim period. The income tax effects of discrete items are then determined separately and recognized in the interim period in which the income or expense items arise.

For the three and six months ended June 30, 2014 and 2013, the effective tax rates attributable to continuing operations were as follows:

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2014	2013	2014	2013
Statutory federal income tax rate	35.0	% 35.0	% 35.0	% 35.0
State taxes, net of credits	0.9	1.3	0.9	1.3
Change in valuation allowances	1.6	2.9	2.5	2.9
Federal manufacturing deduction	(1.7)	—	(1.7)	—
Increase in uncertain tax positions	—	—	—	15.9
Interest accrued on uncertain tax positions	0.1	2.2	0.1	28.7
Cellulosic Biofuel Producer Credit conversion	—	—	—	(318.7)
Federal credits and audit adjustments	(0.1)	(1.8)	(1.4)	(1.8)
State rate adjustments	4.6	0.3	3.2	(2.0)
Return to provision adjustments	4.1	(2.1)	3.1	(13.9)
Other	(0.1)	(0.4)	0.3	0.8
Effective tax rate	44.4	% 37.4	% 42.0	% (251.8)%

Our estimated annual effective tax rate for 2014 is approximately 35%, compared with approximately 38% for 2013. The decline in the effective tax rate is due to an increase in the benefit from the federal manufacturing deduction and an increase in the benefits from state income tax rates, offset by the reduction in federal credit benefits.

During the quarter ended June 30, 2014, we recognized the effects of enacted New York state law changes. As part of the analysis, we identified that, in prior years, we had not applied the proper apportionment factor when certain New York state net operating loss carryforwards were generated, which resulted in a \$2.9 million overstatement that was corrected in the period and is included as a discrete item within state rate adjustments due to immateriality.

Additionally, return to provision adjustments, including amended returns, generated expense of 7.4%, which was offset by other state return to provision adjustments benefit of 3.3%.

During the fourth quarter of 2012, the Internal Revenue Service, or IRS, commenced an audit of our tax returns for the tax years ending December 31, 2008 through December 31, 2012. This audit has moved into final review stages with the Joint Committee on Taxation. We expect to receive final approval with no additional changes from the Committee in 2014. As a result, we have recognized an additional deferred tax asset of \$1.5 million and a tax benefit of the same amount. We have also estimated the state impact for these changes and presented this within the results above.

During the second quarter of 2013, the IRS commenced an audit of our wholly-owned subsidiary, Cellu Tissue Holdings, Inc., or Cellu Tissue, and its subsidiaries for the year ended December 27, 2010, the period immediately before our acquisition of Cellu Tissue. During the first quarter of 2014, we successfully closed the audit of Cellu Tissue. The estimated state effect for federal audit changes has been reflected in the quarterly results.

NOTE 6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at the balance sheet dates consist of:

(In thousands)	June 30, 2014	December 31, 2013
Trade accounts payable	\$136,104	\$108,192
Accrued wages, salaries and employee benefits	41,112	38,563
Accrued interest	9,664	9,691
Accrued discounts and allowances	8,268	6,410
Accrued utilities	7,796	8,309
Accrued taxes other than income taxes payable	6,761	6,322
Other	10,688	13,161
	\$220,393	\$190,648

NOTE 7 Debt

ISSUANCE OF \$300 MILLION SENIOR NOTES DUE 2025 AND REDEMPTION OF \$375 MILLION SENIOR NOTES DUE 2018

On July 29, 2014, in an event subsequent to the close of our quarter ended June 30, 2014, we sold \$300 million aggregate principal amount of senior notes, which we refer to as the 2014 Notes. The 2014 Notes mature on February 1, 2025, have an interest rate of 5.375% and were issued at their face value. The issuance of these notes generated net proceeds of approximately \$298 million after deducting offering expenses. We elected to redeem all of our \$375 million aggregate principal amount of senior notes sold on October 22, 2010, which we refer to as the 2010 Notes, using the net proceeds from the 2014 Notes along with company funds and \$37 million from our senior secured revolving credit facility. We irrevocably deposited sufficient funds with the trustee under the indenture governing the 2010 Notes to redeem these notes.

The 2010 Notes had a maturity date of November 1, 2018, and an interest rate of 7.125%. We elected to redeem all of the 2010 Notes at a redemption price equal to 100% of the principal amount of \$375 million and a “make whole” premium of approximately \$18 million plus accrued and unpaid interest of approximately \$9 million, for an aggregate amount of approximately \$401 million. The make whole premium and a portion of the unpaid interest, as well as an approximate \$5 million non-cash charge relating to the unamortized deferred issuance costs associated with the 2010 Notes, will be recorded as components of debt retirement costs and included in the Consolidated Statement of Operations in the third quarter of 2014.

The 2014 Notes are guaranteed by all of our direct and indirect domestic subsidiaries. The 2014 Notes will also be guaranteed by each of our future direct and indirect domestic subsidiaries that do not constitute an immaterial subsidiary under the indenture governing the 2014 Notes. The 2014 Notes are equal in right of payment with all other existing and future unsecured senior indebtedness and are senior in right of payment to any future subordinated indebtedness. The 2014 Notes are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our secured revolving credit facility, which is secured by certain of our accounts receivable, inventory and cash. The terms of the 2014 Notes limit our ability and the ability of any restricted subsidiaries to incur certain liens, engage in sale and leaseback transactions and consolidate, merge with, or convey, transfer or lease substantially all of our or their assets to another person.

We may, on any one or more occasions, redeem all or a part of the 2014 Notes, upon not less than 30 days nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the 2014 Notes redeemed, plus the applicable premium as of, and accrued and unpaid interest, if any, to the date of redemption. Unless we default in the payment of the redemption price, interest will cease to accrue on the 2014 Notes or portions thereof called for redemption on the applicable redemption date. In addition, we may be required to make an offer to purchase the 2014 Notes upon the sale of certain assets and upon a change of control.

\$275 MILLION SENIOR NOTES DUE 2023

On January 23, 2013, we sold \$275 million aggregate principal amount of senior notes, which we refer to as the 2013 Notes. The 2013 Notes mature on February 1, 2023, have an interest rate of 4.5% and were issued at their face value.

The 2013 Notes are guaranteed by all of our direct and indirect domestic subsidiaries, and will also be guaranteed by each of our future direct and indirect domestic subsidiaries that we do not designate as an unrestricted subsidiary under the indenture governing these notes. The 2013 Notes are equal in right of payment with all other existing and future unsecured senior indebtedness and are senior in right of payment to any future subordinated indebtedness. In addition, they are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our secured revolving credit facility, which is secured by certain of our accounts receivable, inventory and cash. The terms of the notes limit our ability and the ability of any restricted subsidiaries to borrow money; pay dividends; redeem or repurchase capital stock; make investments; sell assets; create restrictions on the payment of dividends or other amounts to us from any restricted subsidiaries; enter into transactions with affiliates; enter into sale and lease back transactions; create liens; and consolidate, merge or sell all or substantially all of our or their assets.

REVOLVING CREDIT FACILITY

On November 26, 2008, we entered into a \$125 million senior secured revolving credit facility with certain financial institutions. The amount available to us under the revolving credit facility is based on the lesser of 85% of our eligible accounts receivable plus approximately 65% of our eligible inventory, or \$125 million. The revolving credit facility has been subsequently amended and expires on September 30, 2016.

As of June 30, 2014, there were no borrowings outstanding under the credit facility, but approximately \$6.9 million of the credit facility was being used to support outstanding standby letters of credit. Loans under the credit facility bear interest (i) for LIBOR loans, LIBOR plus between 1.75% and 2.25% and (ii) for base rate loans, a per annum rate equal to the greater of (a) the prime rate for such day; (b) the federal funds effective rate for such day, plus 0.50%; or (c) LIBOR for a 30-day interest period as determined on such day, plus between 1.25% and 1.75%. The percentage margin on all loans is based on our fixed charge coverage ratio for the most recent four quarters. As of June 30, 2014, we would have been permitted to draw approximately \$118.1 million under the credit facility at LIBOR plus 1.75%, or base rate plus 1.25%.

A minimum fixed charge coverage ratio is the only financial covenant requirement under our credit facility and is triggered when there are any commitments or obligations outstanding and availability falls below 12.5% or an event of default exists, at which time the minimum fixed charge coverage ratio must be at least 1.0-to-1.0. As of June 30, 2014, the fixed charge coverage ratio for the most recent four quarters was 3.4-to-1.0.

Our obligations under the revolving credit facility are secured by certain of our accounts receivable, inventory and cash. The terms of the credit facility contain various provisions that limit our discretion in the operations of our business by restricting our ability to, among other things, pay dividends; redeem or repurchase capital stock; create, incur or guarantee certain debt; incur liens on certain properties; make capital expenditures; enter into certain affiliate transactions; enter into certain hedging arrangements; and consolidate with or merge with another entity. The revolving credit facility contains usual and customary affirmative and negative covenants and usual and customary events of default.

NOTE 8 Other Long-Term Obligations

Other long-term obligations at the balance sheet dates consist of:

(In thousands)	June 30, 2014	December 31, 2013
Long-term lease obligations, net of current portion	\$24,632	\$24,815
Deferred compensation	12,909	14,149
Deferred proceeds	10,217	11,205
Other	2,454	2,773
	\$50,212	\$52,942

NOTE 9 Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, is comprised of the following:

(In thousands)	Foreign Currency Translation Adjustments ¹	Pension and Other Post Retirement Employee Benefit Plans Adjustments	Total
Balance at December 31, 2013	\$(874	) \$(57,219	) \$(58,093)
Other comprehensive income, net of tax ²	—	2,404	2,404
Balance at June 30, 2014	\$(874	) \$(54,815	) \$(55,689)

(In thousands)	Foreign Currency Translation Adjustments ¹	Pension and Other Post Retirement Employee Benefit Plans Adjustments	Total
Balance at December 31, 2012	\$(874	) \$(114,819	) \$(115,693)
Other comprehensive income, net of tax ²	—	4,912	4,912
Balance at June 30, 2013	\$(874	) \$(109,907	) \$(110,781)

¹ This balance consists of unrealized foreign currency translation adjustments related to the operations of our Canadian subsidiary before its functional currency was changed from Canadian dollars to U.S. dollars in 2012.

For the six months ended June 30, 2014 and 2013, net periodic costs associated with our pension and other postretirement employee benefit, or OPEB, plans included in other comprehensive income and reclassified from accumulated other comprehensive loss includes \$4.9 million and \$7.4 million, respectively, of actuarial loss

² amortization, \$1.0 million and \$0.1 million, respectively, of prior service credit amortization, net of tax of \$1.5 million and \$3.2 million, respectively, and none and \$0.8 million, respectively, of curtailments. These accumulated other comprehensive loss components are included in the computation of net periodic pension and OPEB costs in Note 10, "Pension and Other Postretirement Employee Benefit Plans."

NOTE 10 Pension and Other Postretirement Employee Benefit Plans

The following table details the components of net periodic cost (benefit) of our company-sponsored pension and OPEB plans for the periods presented:

(In thousands)	Three Months Ended June 30,			
	2014	2013	2014	2013
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	\$340	\$384	\$109	\$70
Interest cost	3,724	3,329	980	1,047
Expected return on plan assets	(5,083	) (4,608) —	—
Amortization of prior service cost (credit)	51	58	(963	) 130
Amortization of actuarial loss (gain)	2,555	3,545	(142	) (456)
Curtailments	—	769	—	—
Net periodic cost (benefit)	\$1,587	\$3,477	\$(16	) \$791
(In thousands)	Six Months Ended June 30,			
	2014	2013	2014	2013
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	\$695	\$869	\$226	\$276

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Interest cost	7,412	6,688	2,282	2,365
Expected return on plan assets	(10,098)	(9,176)	—	—
Amortization of prior service cost (credit)	103	169	(1,089)	(251)
Amortization of actuarial loss (gain)	5,049	7,419	(142)	—
Curtailments	—	769	—	—
Net periodic cost (benefit)	\$3,161	\$6,738	\$1,277	\$2,390

We are required to make contributions to our qualified pension plans. During the six months ended June 30, 2014, we contributed \$8.9 million to these pension plans. In July 2014, we contributed an additional \$4.5 million, and we expect to make additional contributions totaling approximately \$4 million in the remainder of 2014.

During the six months ended June 30, 2014, we made contributions of approximately \$0.3 million to our company-sponsored non-qualified pension plan, and we estimate contributions will total approximately \$0.5 million in 2014. We do not anticipate funding our OPEB plans in 2014 except to pay benefit costs as incurred during the year by plan participants.

During the three and six months ended June 30, 2014, \$1.0 million and \$3.3 million, respectively, of net periodic pension and OPEB costs were charged to cost of sales, and \$0.6 million and \$1.1 million, respectively, were charged to selling, general and administrative expenses in the accompanying Consolidated Statements of Operations. During the three and six months ended June 30, 2013, \$3.4 million and \$7.5 million, respectively, of net periodic pension and OPEB costs were charged to cost of sales, and \$0.8 million and \$1.6 million, respectively, were charged to selling, general and administrative expenses in the accompanying Consolidated Statements of Operations.

NOTE 11 Earnings per Common Share

Basic earnings per share are based on the weighted average number of shares of common stock outstanding. Diluted earnings per share are based upon the weighted average number of shares of common stock outstanding plus all potentially dilutive securities that were assumed to be converted into common shares at the beginning of the period under the treasury stock method.

The following table reconciles the number of common shares used in calculating the basic and diluted net earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic average common shares outstanding ¹	20,256,137	22,279,056	20,614,305	22,574,300
Incremental shares due to:				
Restricted stock units	78,508	61,192	73,692	53,208
Performance shares	182,026	217,602	181,612	205,927
Diluted average common shares outstanding	20,516,671	22,557,850	20,869,609	22,833,435
Basic net earnings per common share	\$0.61	\$0.52	\$0.91	\$0.48
Diluted net earnings per common share	0.61	0.52	0.90	0.47
Anti-dilutive shares excluded from calculation	210,771	36,212	248,429	150,492

¹ Basic average common shares outstanding include restricted stock awards that are fully vested, but are deferred for future issuance.

We evaluated the derivative contracts associated with the ASB agreement discussed in Note 1, "Nature of Operations and Basis of Presentation," which could have resulted in the issuance of shares to the engaged financial institution at the settlement date, and determined there was no impact on earnings per share or anti-dilutive shares for the three and six months ended June 30, 2013.

NOTE 12 Equity-Based Compensation

We recognize equity-based compensation expense for all equity-based payment awards made to employees and directors, including restricted stock units, performance shares and stock options, based on estimated fair values.

EMPLOYEE AWARDS

Employee equity-based compensation expense was recognized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2014	2013	2014	2013
Restricted stock units	\$587	\$489	\$1,032	\$864
Performance shares	1,474	1,449	2,555	2,387
Stock options	407	—	543	—
Total employee equity-based compensation	\$2,468	\$1,938	\$4,130	\$3,251

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During the first quarter of 2014, 38,319 previously deferred RSU shares were distributed. All of these shares were settled in prior years but distribution had been deferred to preserve tax deductibility for the company in the respective years because distribution of these shares would have resulted in certain executive compensation being above the Internal Revenue Code section 162(m) threshold for those years. After adjusting for minimum tax withholdings of the deferred shares, a net 23,234 shares were issued during the first quarter of 2014. The minimum tax withholdings payment made in 2014 in connection with the issued shares was \$0.8 million.

13

In addition to RSUs and performance shares, in 2014 stock options were granted to certain employees. As of June 30, 2014 total stock options of 163,137 shares were granted with a weighted-average exercise price of \$66.86 and a fair value, estimated under the Black-Scholes valuation model, of \$22.99 per share underlying the option.

The following table summarizes the number of share-based awards granted under the Clearwater Paper Corporation 2008 Stock Incentive Plan during the six months ended June 30, 2014 and the grant-date fair value of the awards:

	Six Months Ended June 30, 2014	
	Number of Shares Subject to Award	Average Fair Value of Award Per Share
Restricted stock units	31,567	\$ 66.33
Performance shares	54,379	105.08
Stock options	163,137	22.99

DIRECTOR AWARDS

Annually, each outside member of our Board of Directors receives deferred equity-based awards that are measured in units of our common stock and ultimately settled in cash at the time of payment. Accordingly, the compensation expense associated with these awards is subject to fluctuations each quarter based on mark-to-market adjustments at each reporting period in line with changes in the market price of our common stock. As a result of the mark-to-market adjustment, we recorded benefits from director equity-based compensation of less than \$0.1 million and \$1.1 million for the three months ended June 30, 2014 and 2013, respectively. For the six months ended June 30, 2014 and 2013, we recorded director equity-based compensation expense of \$2.8 million and \$2.3 million, respectively.

As of June 30, 2014, the liability amounts associated with director equity-based compensation included in "Other long-term obligations" and "Accounts payable and accrued liabilities" on the accompanying Consolidated Balance Sheets were \$11.9 million and \$1.2 million, respectively. At December 31, 2013, all liability amounts associated with director equity-based compensation, totaling \$13.2 million, were included in "Other long-term obligations."

NOTE 13 Fair Value Measurements

The estimated fair values of our financial instruments at the dates presented below are as follows:

(In thousands)	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, short-term investments and restricted cash (Level 1)	\$83,013	\$83,013	\$95,206	\$95,206
Long-term debt (Level 1)	650,000	660,988	650,000	651,313

Accounting guidance establishes a framework for measuring the fair value of financial instruments, providing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, or "Level 1" measurements, followed by quoted prices of similar assets or observable market data, or "Level 2" measurements, and the lowest priority to unobservable inputs, or "Level 3" measurements.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should seek to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 14 Segment Information

The table below presents information about our reportable segments:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Segment net sales ¹ :				
Consumer Products	\$299,130	\$289,708	\$585,638	\$574,610
Pulp and Paperboard	199,629	181,294	398,041	357,216
Total segment net sales	\$498,759	\$471,002	\$983,679	\$931,826
Operating (loss) income:				
Consumer Products	\$12,705	\$14,815	\$12,182	\$24,939
Pulp and Paperboard	33,635	24,772	70,411	42,325
	46,340	39,587	82,593	67,264
Corporate	(13,257)	(9,873)	(28,992)	(25,067)
Income from operations	\$33,083	\$29,714	\$53,601	\$42,197
Depreciation and amortization:				
Consumer Products	\$15,071	\$17,030	\$30,561	\$33,122
Pulp and Paperboard	6,019	5,778	12,289	11,437
Corporate	925	445	1,396	845
Total depreciation and amortization	\$22,015	\$23,253	\$44,246	\$45,404

In 2013, pulp not utilized internally was sold by the Pulp and Paperboard segment to external customers resulting in net sales of \$0.9 million and \$2.1 million, respectively, during the three and six months ended June 30, 2013.

Commencing in 2014, the majority of excess pulp is sold by the Consumer Products segment and totaled \$0.7 million, of which \$0.3 million was sold during the second quarter.

NOTE 15 Supplemental Guarantor Financial Information

All of our directly and indirectly owned, domestic subsidiaries guarantee the 2013 Notes and the 2010 Notes on a joint and several basis. As of June 30, 2014, the 2013 Notes and 2010 Notes were not guaranteed by Interlake Acquisition Corporation Limited, a foreign subsidiary. There are no significant restrictions on the ability of the guarantor subsidiaries to make distributions to Clearwater Paper, the issuer of the 2013 Notes and 2010 Notes. The following tables present the results of operations, financial position and cash flows of Clearwater Paper and its subsidiaries, the guarantor and non-guarantor entities, and the eliminations necessary to arrive at the information for Clearwater Paper on a consolidated basis.

Clearwater Paper Corporation

Consolidating Statement of Operations and Comprehensive Income (Loss)

Three Months Ended June 30, 2014

(In thousands)	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Eliminations	Total
Net sales	\$383,697	\$112,676	\$ 7,809	\$(5,423)	\$498,759
Cost and expenses:					
Cost of sales	(323,733)	(109,818)	(5,983)	5,423	(434,111)
Selling, general and administrative expenses	(25,907)	(5,320)	(338)	—	(31,565)
Total operating costs and expenses	(349,640)	(115,138)	(6,321)	5,423	(465,676)
Income (loss) from operations	34,057	(2,462)	1,488	—	33,083
Interest expense, net	(10,681)	(7)	—	—	(10,688)
Earnings (loss) before income taxes	23,376	(2,469)	1,488	—	22,395
Income tax provision	(7,272)	(5,675)	(390)	3,395	(9,942)
Equity in (loss) income of subsidiary	(7,046)	1,098	—		